The Incorporation of Real Estate into the Corporate Strategy: The Ghanaian Experience (Part 2)

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Abstract
Any business enterprise ceteris paribus is in it to make profits and minimise losses, save a charity. Hence, the activities and the management of the people are directed towards an end, towards meeting certain goals (Mullin, 1999). However the organisation's real estate decisions would be plausible if such are geared towards supporting the overall business objectives of the organisation in question. In that regard, objectives could be realised if conscious effort is made to understand how real estate strategy supports corporate strategy and the sub-strategies for component elements of the organisation, then subsequently, how specific real estate operating decisions support the real estate strategy. It is, therefore, imperative that an organisation ensures that its corporate business goals consciously align with its real estate, construction and facilities programme. It is then that the above goals would be realised.

Management of Real Estate
Following from Part one of this study, real estate management is continuous by nature (Nkansah-Asamoah, 1997). The process is iterative. It changes in response to factors internal and external. Therefore, it is risky and the future frightening to step out of the reactive framework. Weatherhead, M. (1996) noted, though it takes considerable time it reduces impediments. This is illustrated diagrammatically below:

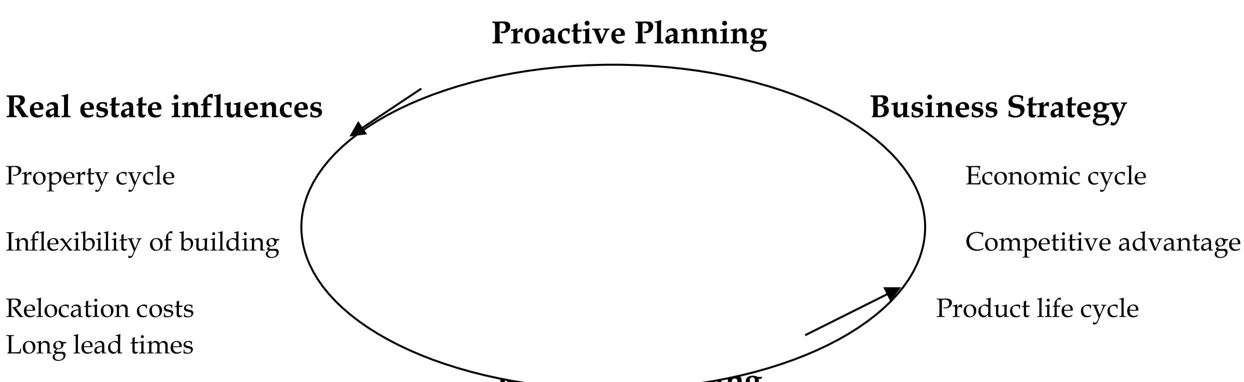

Fig. the iterative process of developing a corporate strategy incorporating real estate

Finally, selecting the strategy should be based on the proposals that produce the highest net present value using the discounted cash flow techniques. It involves a complex financial evolution combining the various choices and their probable outcomes. (ibid, 1996)

Incorporating Real Estate into Corporate Strategy

Bodrozic, J. (2005) postulates that in order to effectively align real estate programs behind the highest level of corporate objectives; organizations must evaluate projects and programmes from multiple business perspectives:

1. What it takes to run the existing business
2. What it takes to grow the existing business
3. What it takes to transform the business to a new model

When organizations look at running their existing business, it means that hundreds and thousands of facilities filled with millions of assets must be properly maintained and operated. If these facilities operate inefficiently and assets constantly malfunction, the existing lines of business are not generating maximum revenues. Ongoing facilities maintenance expenses are rising because it always costs more to repair an asset once it breaks, than to prevent it from breaking down in the first place. If an organization wants to grow or transform their existing business, it requires large capital expenditures to plan and build the new infrastructure that will generate new revenue sources. These new facilities are treated as critical projects and are managed for the duration of the planning and building phase. Once these projects are completed, they are added to the existing pool of facilities as assets that must be maintained and operated (ibid)

Additionally, as organizations mature with hundreds and thousands of facilities, business strategy often requires major refurbishment on a large scale to support re-branding or new service model initiatives. These large scale refurbishments are treated as a capital program or project. A simple examination of the operational needs of an organization's real estate and facilities teams, further illustrates this alignment dynamic. ILM solutions manage all of the following examples in one enterprise solution (ibid)

Need	Cost Impact	Business Objective
1. Change the filter on an existing air conditioning unit: a preventative work order is issued and linked to an existing asset.	Usually an operating expense	Run the business
2. Fix an air conditioning unit that has failed: a work order package that requires multiple scopes of work to be performed as a small project	Usually an operating expense	Run the business

3. Replace an existing air conditioning unit that has failed: a work order package that requires multiple scopes of work to be performed as a small project	Could be an operating expense or a capital expenditure	Run the business
4. Replace 200 air conditioning units at 100 different facilities along with the existing roofs: a refurbishment program that requires upfront planning and reconstruction.	Usually a capital expenditure programme	Run the business
5. Build a brand new facility: a new project that goes through rigorous planning and building processes before completion, and then is turned over to O & M.	Capital expenditure programme	Grow the business
6. Build 100 new facilities in a fiscal year to support a new service offering: a large scale capital programmes with many smaller projects that requires significant oversight and management	Significant capital programme	Transform the business

Source: Bodrozic, J. (2005)

The particular strategy that an enterprise elects determines what resources will be required to implement that strategy. Nourse (1993) notes that as real resources are integral to the realization of business purpose, a real estate strategy cannot be crafted without careful consideration of the implication of the real estate requirement of the primary business strategy. Nourse (1993) notes the basic business strategy to be:

1. What contribution of real estate makes as an input to the production and service delivery function of the business?
2. Is real estate central to the distribution of the company's products such as in retail food business, or is it ancillary, such as in a business that sells its goods and products through indirect channels and does not directly relate to the customers.
3. What role does geography play in a business? If business is defined by the markets in which it is located, such as a bank chartered to operate in a geographical region, then geography is critical. This geographic determination is in contrast to a business whose product is intangible, or one that has a high value relative to its mass, or whose use is not related to close physical proximity, or which delivers an intangible uninfluenced by geographic considerations.
4. How important is interpersonal interactions between workers within the organisations. For those to whom interaction is critical, proximity is important, whereas it is much less a concern for individuals who interact on a face-to-face only infrequently.

5. What amount of space per worker is required for the type of work done by that function? The appropriate space per worker requirement can be influenced significantly by standards established by what competitors allow, which standards may have little to do with what space is optimal or necessary, with the result that the standard can be much less space than it is really appropriate.
6. What message does the company want to send by the image, external appearance and internal ambiance of its space to workers, suppliers and customers, the financial markets, and the broader community in which the business is based?

He summed ʹʹ answers to these…are a function of both strategy pursued which provides a certain set of parameters from which appropriate answers follow, modified by the corporation's particular emphasis on generic means of implementing such strategiesʹʹ Porter (1985a) buttresses the above generic strategies to include cost minimisation, quality differentiation, service leadership. The particular approach employed by the company as reflected by its culture and values, provides further definition to the uniqueness of the enterprise strategy.

Table 3
Alternative Real Estate Strategies

1. **Occupancy Cost Minimisation**
   - Explicit lower cost providers strategy
   - Signal to critical constituencies of cost consciousness
   - Flexibility
2. **Accommodate changing organisational space requirements**
   - Manage variability/risk associated with dramatic escalation/compression space needs
   - Favour facilities that can readily adapted to multiple uses by corporation and others
3. **Promote Human Resources Objectives**
   - Provide efficient environment to enhance productivity
   - Recognise that environments are important elements of job satisfaction and therefore compensation
   - Seek locations convenient to employees with preferred amenities (transportation, shopping reference and entertainment)
4. **Promote Marketing Message**
   - Symbolic statement of substance or some other value
   - Form of physical institutional advertising
   - Control of environment of interaction with company's products/service offering
5. **Promote Sales and Selling Process**
   - High traffic location to attract customers
   - Attractive environment to support/enhance sale
6. **Facilitate and Control Production, Operations, Service Delivery**

- Seek/design facilities facilitate making company products/delivering company's services
- Favour locations and arrangement that are convenient to customers
- Select locations and layouts that are convenient to suppliers

7. **Facilitate Managerial Process and Knowledge Work**
   - Emphasise knowledge work setting over traditional industrial paradigm
   - Recognise changing character, tools used in, and location of work
8. **Capture the Real Estate Value Creation of Business**
   - Real Estate impacts resulting from demand created by customers
   - Real Estate impacts resulting from demand created by employees
   - Real Estate impacts resulting from demand created by suppliers

Real Estate Linkage to Corporate Strategy

According to the Nourse (1993) depicting from the linkage relationships, a real estate strategy that makes sense of one type of business may be totally inapplicable for another type of business. Critically, he purports ''the tendency for the literature and practice … to emphasise generalised approaches, rather than strategic-specific approaches, is misdirected and can lead to the selection of real estate that frustrates rather than promotes realisation of corporate objectives. Particularly significant is the dominant orientation of minimising occupancy costs, a strategy that is really of secondary or tertiary priority for six of the nine driving forces identified''.

The driving force is the particular product or service offered: architecture, construction and development of particular types of building, property management, marketing, valuation financing, and management of real property portfolios. However, operating decisions about these products or services can be moulded in a variety of ways to serve different user needs. In discussing real estate operating decisions, (Nourse, 1993) logically underlines fourteen critical distinct decisions namely; (1) location, (2) quantity, (3) tenancy duration, (4) identity/signage, (5) building size/character, (6) building amenities, (7)exterior quality, (8) company space, (9) mechanical system, (10) information/communication systems, (11) ownership rights, (12) financing, (13) control and (14) risk management.

Flowing from the diversity, breadth and complexity of the operating decisions enumerated supra, a plethora of different alternatives could be considered. It is imperative that these decisions are guided to correspond with the enterprise real estate strategy. Moreover, the decisions may be made that are unrelated and absurd to the enterprise overall business strategy if it usurped of an explicit real estate strategy. Nourse (1993) observed that in practice few companies are explicit in articulating their real estate strategy; hence their real estate operating decisions tend to be made in a vacuum. The end result is dismal as such decisions are inappropriate, leading to frustration for those working in the space and financial disappointment.

Independent of which strategy (s) the company elects to pursue, there are common considerations that drive the determination of the appropriate approach to real estate operating decisions. Specific considerations that should be addressed in implementing real estate decisions include (ibid).

1. The changing role of real estate in business:
2. Market conditions concerning relative availability of the quantity, pricing and type of space a company might seek;
3. The importance of a special or unique real estate environment for company operations.

Dominant Consideration Linking Real Property

Real estate strategies	Location	Quantity	Tenancy duration	Identity /sign-age	Building size/character	Building amenities	Exterior quality
1. Occupancy cost minimisation	Remote, less popular regions and sites	Minimum space per worker	-	-	General purpose building	Less important	Less important
2. Flexibility	Less prime location	-	Short term leases-options	-	-	-	-
3.Promote Human Res. objectives	Accessible to where workers live/want to live	More space per employee	long term	-	-	High priority	-
4.Promote marketing message	Prestige and high visibility: very important	-	Own or long term lease	critical	Land mark structure	-	Very important
Real estate strategies	Location	Quantity	Tenancy duration	Identity /sign-age	Building size/character	Building amenities	Exterior quality
5.Promote sales and selling process	Prestige and/or high traffic location	-	Lease for flexibility	critical	-	-	Cons-ider selling
6. Facilitate and control prod. operations And service delivery	Access to customers and suppliers	-	Own or long term lease	-	Appropriate for primary purposes	-	-
7.Facilitate knowledge work	-	Sufficient to promote effective work	-	-	Important	Contribute it effective work	-
8. Capture the real estate	Consider impacts on	Secure more	Longer terms	-	Dominant tenant	-	-

value creation of the business	demand of location decision	space/land than needed for more use					

Source: Nourse, (1993)

For practitioners to implement real estate decisions in a context of markets realities, it must have a clear understanding of the circumstances in a broader real estate markets and those that apply in the markets. The litmus test therefore in the implementation of the real estate operating decisions viewing from the background of real estate strategy, is not only the compliance with the company's real estate strategy and at large the business strategy but much as well in consonance with the other critical component strategies such as human resources, operations, marketing, finance and information. The reverse is true.

There is no doubt that implementing real estate decisions involves negotiations between multiple parties with different agenda, resources, challenges and priorities. Lawrence (1967) perceived that the decisions become the focus of inside managers of marketing, operations finance and personnel as well as the outside developers and real property specialists with whom the firm is negotiating. Thus real estate executives have an integrative function – integrating across the functional areas of business and across real estate market. Lax and Sebenius (1986) give a vivid description of negotiation tactics and methods in assisting managers in the middle. Parties must identify their real interests which become the yardstick for measuring whether or not the deals meet the needs of all the parties concerned.

Hence the strategy becomes a consistent network of linked agreements.

Ghanaian Experience on Property Strategy

In the recent past, Ghana has been experiencing a radical change in the way in which real estate is owned, occupied and managed. In order to attract foreign direct investment into the country the Government has put in place some incentives under Act 478. The enabling environment has propelled companies and organisations to acquire and expand their existing real estate portfolio for increased production. They are used as collateral for loans to expand their business and real estate is part and parcel of their corporate agenda. William Ofori & Co. in Ghana is a firm of Valuers, Estate/Facilities Managers, Property Development and Tax Consultants, and Project Managers with many years' experience in advising clients on property related issues. It is registered under the GhIS. In developing a property strategy for the company recently it required the collation of certain essential and basic information concerning the assets according to (Balch, 1994). They include:

1. What do you own?
2. What it its purpose?
3. What is its utilization?
4. What is its functional suitability?
5. What does it cost to run?
6. What is its opportunity cost?
7. What is its value?

8. What is its condition?
9. What is its energy performance?

The information supra was supported with the appropriate documentation, legal agreements, contract information and drawings.

Strategy Elements

1. line with (Balch, 1994) the property strategy was considered as an adjunct to the overall strategy for the organization .The property strategy addressed the following:
2. What is the property objective?
3. What difficulties are there that needs to be overcome to achieve that objective?
4. What opportunities are there to be exploited?
5. How can the property requirements be funded?
6. Over what timescale can the objectives be achieved?

There was a stated strategy document addressing those issues should ensure that there was a coherent framework against which all future property decisions can be taken. Decisions on property acquisition, relocation, accommodation standards, tenure, estate management, facilities and maintenance must be consistent and rational. This will not only facilitate planning, but also enable the property resource to be used to its ultimate. Property can then become a key indicator of business performance in its own right.

Strategy Implementation

With property having a value, it is essential to carry out regular valuations to determine that value and monitor changes. The lack of adequate management and maintenance can seriously impact on the value.

- Mechanisms can be put in place to encourage people to respect and value the property which they occupy. For example, notional rents can be brought in whereby different departments are charged for the cost of the space they occupy.
- There is the potential for introducing variable charging systems to even out peaks of demand. For example, in the use of conference facilities, or other highly specialist and, therefore, expensive areas variable pricing structures could encourage more general usage.
- The benefits of such devices are proved. Parts of organizations which have insisted on certain space requirements frequently find that when they are directly charged for it they can manage with less! Depending on the nature of the organization and business, desk sharing can be introduced to minimize overall accommodation requirements.
- Space standards can be introduced to ensure that employees only use the amount of space they actually require. In many organizations, both in the private and public sector, space is linked to status and such notions need to be dispelled.
- It may be necessary to introduce some form of incentive to encourage such changes. This can most readily be achieved when notional rents are charged against departments which are thus able to reduce their costs.

- The introduction of planned maintenance programmes for building fabric, mechanical and electrical services and other facilities is an aid to control of costs and cash flow, as well reducing risks and liabilities.

The prime purpose of such mechanisms is to ensure that property as an asset is being used effectively and that this financial resource is used to best advantage. It should not be forgotten that however property is viewed, whether as a resource, a liability or an asset, it can be quantified and measured in financial terms and this commercial approach is healthy for the organization.

Roles and Responsibilities

Flowing from the above (Balch, 1994) draws attention to the differing roles and responsibilities between the estate manager, the property manager, and the facilities manager. The estate manager, we suggest, is primarily concerned with the process of controlling and planning the property assets in a strategic sense and the property or facilities manager will usually be more concerned with the day-to-day servicing, maintenance and occupation of the buildings and the financial control of the costs.

However, although we have separated the roles, they should not be seen as mutually exclusive since the product of one has a clear bearing on the direction and activities of the other and vice versa. An integrated approach is needed and it is surprising how frequently this is not achieved. Part of the problem results from the delegation of responsibility to occupying departments, or indeed its further extension into outsourcing non-core business activities. This is not, however, to suggest that such delegation or outsourcing is wrong in itself since it is an obvious and sensible means in today's competitive market for businesses to save costs while still retaining access to the range of skills and knowledge required, but which cannot be justified in-house.

The problems can be overcome by a well-defined strategy, clear instructions, carefully defined roles and responsibilities and good communications. They can be significantly improved by seeking an integrated response for facilities, property and strategic estate management services. How then to define those roles and responsibilities which can satisfactorily be outsourced and those that should be retained as a core business activity? Having established enormous contributions and financial or costs implications of real estate to business, its imperative to develop into corporate strategy for its success. Weatherhead, M. (1996) stressed that those who divorce it from corporate strategy are likely to find that corporate plans are hindered by unforeseen real estate considerations. As a multi-stage process it involves bridging the corporate finance/operations management divide.

Second, it requires that the role of real estate in the business is understood by all and sundry. This is just the beginning without which it would be impossible to open up the next stage. The approach here is to wed the corporate strategy to the corporate real estate. Third, matching real estate holdings to financial and time-scale requirements. An example is British Telecom (BT) where real estate is now on the main agenda. A new policy was drawn and audit and strategy plan prepared. It established an in-house real estate development company to redevelop its surplus sites and buildings and also placed a disposal programme in which it sold surplus land and buildings for conversion to alternative uses. The net effect is that there has been a reduction in the size of BT's estate since 1992 of 250,000 m2 to 300,000 m2 per annum and decline in estate expenditure by £220 million between 1990/91- when real estate became part of the corporate strategy. (White, D. A. 1995)

In Ghana, Swanzy Real Estate Company Limited (subsidiary of Unilever Ghana Limited) holds a large real estate portfolio countrywide. As part of her corporate strategy is disposing off these properties and concentrating on her core business -manufacturing (UGL, 2001, 2002). Moreover, it helps a business to greater profitability even when real estate is rented or outsourced. British American Tobacco Company Limited (BAT) sold her head office complex and relocated to its production site in Takoradi, (BAT, 2000). It in-turn, rented a building in Accra for her area office where it takes responsibility for repairs and insurance and other outgoings. These decisions have had the capacity to make significant difference to profitability. There has also been a significant cut in real estate costs and increases in profits as the savings has cut fixed costs (BAT, 2000). Besides, to highlight the role of variable and fixed costs into the corporate strategy. It is only then that operating costs are allocated to each of the business activities that it is possible to see what value the activities are adding to the whole business venture.

Performing these strategies is not a panacea for success. It is a means to an end as the strategist knows the core business and its industry, its drivers and its environment. In that regard, Cochrane P. (1995) says… 'the change we are about to witness will overshadow the impact of the printed word, the industrial revolution and physical transport'. Finally, requiring risk factors to be assessed before a strategy is implemented. There are significant disadvantages, risks, and uncertainties associated with real estate management though.

Conclusions

It is clear that business should seek to profit from the contribution of real estate and mangers should be gaining the competitive edge. Real estate portfolio could be locked down a significant portion of financial resources. Not only that, but if it's not matched to one's company's requirements it could be crippling expansion or standing in the way of downsizing. (Real Estate Ltd.). Coupled with the fact that in a perfect world you'd be working at 100% utilization of one's real estate resources, with no space lying idle or overcrowded, and no land or buildings that reflect poorly on your business. But achieving this level of accuracy is more than a full time job. In fact it's more than a complete department can achieve; strictly speaking it's an impossibility to see the entire picture, all the time (ibid).

Given that perfection is unattainable – after all, businesses change, markets evolve and there are always unexpected events just over the horizon – it's important to build flexibility into your real estate strategy. As a specialist field of management the players must acquire skills through further training. The importance of this knowledge development cannot be underestimated especially if real estate is to gain its rightful place within the corporate agenda.

Whether you are a local, national or international occupier faced with challenges associated with rapid growth, rationalisation or dealing with legacy portfolios, incorporation of real estate strategy to develop real estate plans that align with your corporate objectives is imperative in. Enhancing operational efficiency, realising savings and achieving cost efficiencies and optimising the return on capital deployed in real estate (DTZ)

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