Agency Risks in Outsourcing Corporate Real Estate Functions

Authors Karen M. Gibler and Roy T. Black

Abstract

Firms outsource business functions to focus on core competencies and cut operating expenses. However, companies must consider agency costs in determining the optimal staffing/outsourcing balance. Analysis of the views of corporate real estate managers and real estate service providers indicate that although they share a common vision of the role of corporate real estate, providers focus more on traditional real estate tasks than on corporate business strategy. The optimum balance of staffing/outsourcing may consist of a corporate real estate staff that understands the overall corporate strategy and devotes its resources to strategic planning, program development, contracting and monitoring outsourced tasks.

Introduction

Throughout the 1990s, management experts preached the need for businesses to focus on their core competencies, relegating support functions nonessential to their competitive differential to outside service providers. The reasoning is that specialists can provide such services in a more cost-effective manner than corporate staff can. One area that most companies consider non-core is real estate. All companies require space to house employees, goods and productive processes; however, most corporations do not specialize in real property. They must choose between whether to maintain a corporate real estate staff to manage real property, outsource all real estate and facilities management activities, or hire a core real estate staff to handle critical strategic and managerial decisions while overseeing the outsourcing of specific real estate tasks to service providers.

The decision of whether and how to outsource can have major financial impact. The return of firms to specialization follows research that indicates that firms operating in multiple lines of business tend to have lower values than portfolios of focused firms (Berger and Ofek, 1995; Lang and Stulz, 1994; Comment and Jarrell, 1995; Servaes, 1996; and Aggarwal and Samwick, 2003) and that spinning off unrelated units increases the value of the parent firm (Daley, Mehrotra and Sivakumar, 1997; and Desai and Jain, 1999). Commercial real estate accounts for at least 30% of real estate assets in the United States and corporations control approximately one-fifth of U.S. real estate (DiLuia, Shlaes and Tapajna, 1991). In some industries, real estate may comprise up to three-fourths of the firm's assets (Johnson and Keasler, 1993). Outsourcing of real estate and other services has grown to at least a $340 billion dollar industry in the U.S. according to the Outsourcing Institute (2000).

While outsourcing may produce an increase in short-term returns, it also may result in lower investment in development of internal skills necessary for the firm's long-term competitive advantage. Internal cross-functional integration is not possible when tasks are performed outside the firm. Once a firm limits or ceases investment in any competence, it may be difficult and time consuming to renew that competence. Prolonged extensive outsourcing may denigrate the firm's existing skill set and, thereby, its long-term competitiveness. Reliance on outside providers decreases the company's operational control. Thus, short-term savings reflected in financial measures may not reflect all the long-term strategic costs of the outsourcing decision (Lei and Hitt, 1995).

For outsourcing to assist in achieving corporate goals, the client/principal must work closely with provider/agent to ensure that the interests of each party are being fulfilled. Companies need to find loyal, reliable vendors who can be trusted and who share a common vision with the client company (Dess, Rasheed, McLaughlin and Priem 1995). The client must effectively communicate the company's objectives and expectations to the provider to ensure understanding. In addition, the provider must agree to support the client's objectives and assist the client in using real estate to achieve the corporation's goals. A danger exists that the service provider will either not understand the client's objectives or behave in a self-serving manner that reduces the benefits to the client from outsourcing. Any misunderstanding between the two parties can lead to inefficient decisions that subvert rather than support the client's goals.

One possible cause of a mismatch in expectations and outcomes is a provider's lack of understanding of the corporate culture and history. The service provider does not benefit from the informal communication and indoctrination that occurs inside a company and is, therefore, limited in understanding the subtleties of corporate culture. Practices and procedures that are appropriate for one client may not be successful with another.

Another possible source of problems is a lack of agreement between the client and service provider. Service providers may believe superior specialist knowledge enables them to better evaluate the client's needs and make decisions accordingly. Such a belief could lead to the service provider either pursuing actions not preferred by the client, arguing with the client to explain "what is best," or attempting to go over the contracting employee's head to a superior to get permission for the supplier's preferred actions.

Much research on outsourcing and the problems related thereto has focused on manufacturing and the interface between manufacturers and their suppliers (Burt and Doyle, 1993), but little has examined the delivery of services such as real estate. Procurement models designed for the supply of commodities may not be appropriate for the delivery of complex knowledge-based services. As Roberts (2001) suggests, client interface designs in the real estate service industry need study because real estate outsourcing trends appear to mirror swings in the economy (Ernst & Young, 2002).

The purpose of this research is to examine whether the views and objectives of real estate service providers are similar to those of corporate real estate managers. If both groups share similar opinions about the role and responsibilities of corporate real estate, then corporations can confidently delegate real estate services to outside providers, expecting to receive similar results to those they would receive if the corporate real estate function were entirely internalized. A significant difference in the views of corporate real estate managers and outside service providers would indicate that non-real estate companies must be cautious in their use of outsourcing. Otherwise, they risk hiring agents who will not provide services that support corporate objectives as well as an in-house real estate staff would.

Agency Theory and Outsourcing

Agency theory is based on the relationship between a principal/client and an agent who is delegated authority to act on the principal's behalf. As Eisenhardt (1989) notes, agency theory deals with relationships between a principal and an agent who are engaged in cooperative behavior, but have different goals and attitudes toward risk. A concern is that the agent will maximize self-interest at the expense of the client. To address informational asymmetry and anticipated agent opportunism, agency theorists recognize that principals must contend with providing incentives for desired behavior and monitoring to ensure the agent is behaving in the client's best interest. However, incentives, up-front communication, evaluation and monitoring cannot control for all possible slippage between the goals of the principal and agent, so absent bonding from the agent, the client must bear the residual agency cost, which is the reduction in welfare experienced by the principal due to this divergence (Jensen and Meckling, 1976).

When hiring outside professionals such as real estate service providers, the firm is hiring the agent's knowledge as well as labor to complete a task. This knowledge asymmetry is distinct from the informational asymmetry with which much of the agency literature is concerned (Sharma, 1997). The service provider is perceived as an expert with superior specialist knowledge that corporate staff does not possess. Such knowledge agents pose a particular problem for communication, monitoring and control by non-specialist corporate staff. Principals who do not possess the task-related knowledge of real estate also do not know what standards of practice to apply to accomplish and evaluate the task. The client may hire the service provider not only to execute a specific task, but also to define the scope of work and set the client's expectations. The client may ask the agent to determine what needs to be done, how to do it and the standards that should be used to evaluate performance (Freidson, 1983). Because of the corporate principal's lack of specialist knowledge, the cost of monitoring is high.

The principal may not understand the tasks the agent undertakes. This leads to ambiguity about the contribution the agent's efforts make to the observed outcomes. Such ambiguity makes control through behavior- and outcome-based metrics difficult (Sharma, 1997).

Corporate Real Estate and Outsourcing

One area that requires research to understand the risks and costs associated with outsourcing is corporate real estate management. As the business environment continuously changes, influences such as restructuring, globalization and information technology affect the way firms conduct business, encouraging them to find ways to be flexible and responsive. Firms must consider how these trends alter their real property and service needs (Gibson and Lizieri, 2001) as well as their real estate staffing requirements. The topic of how best to provide real estate services to the firm is still relatively undeveloped (Manning and Roulac, 2001), including whether to maintain in-house real estate staff or outsource real property-related services to meet strategic challenges (Manning, Rodriguez and Roulac, 1997). These corporate real estate questions need rigorous theory-led research (Lizieri, 2003).

The general philosophy behind outsourcing is that firms should focus their energy and resources on their core competencies to achieve preeminence and provide unique value to customers. Thus, executives must determine which areas of the business to focus on to develop a competitive advantage. They must identify, cultivate and exploit the firm's core competencies (Prahalad and Hamel, 1990). The firm needs to design a strategy that makes the most effective use of these core resources and capabilities. Designing a strategy around the most critically important resources and capabilities to support a sustainable competitive advantage implies that the firm limits its strategic scope to those activities where it possesses a clear competitive advantage while designing alliance and outsourcing strategies to supply peripheral services.

Careful outsourcing of supporting or tangential activities may help firms concentrate resources to build core skills. Outsourcing noncore activities allows the firm to increase managerial attention and resource allocation to those tasks that it does best where it holds a competitive advantage. This heightened focus on core competencies may greatly enhance firm performance by allowing the firm to become more innovative and agile in its core domain, enabling it to quickly respond to environmental shifts (Dess, Rasheed, McLaughlin and Priem, 1995).

Outsourcing can decrease costs while allowing flexibility because of reduced capital investment in overhead and technology. As work becomes more complex, a firm may find it cannot match the performance and cost of a specialized service provider in non-core areas. Instead, the firm may obtain the ''best in the business'' from specialized firms (Dess, Rasheed, McLaughlin and Priem, 1995). Specialist organizations, by focusing their attention on a very narrow set of functions, may perform them much more successfully than could the outsourcing firm. Thus, the firm may then outsource to reduce costs, free up capital resources, access world-class specialists and share risks (Johnson, 1997; and Glagola, 1999).

Outsourcing may entail hiring external providers to accomplish designated jobs or duties or employing an outside firm to manage an entire function formerly carried on inside the company. The corporate staff's role is then to determine functions to be performed, manage quality control, coordinate with internal procedures and systems, integrate activities into the corporate mission, evaluate contractors' activities, use information provided in internal decision-making processes and explain the impact of the work to senior management (Carn, Black and Rabianski, 1999). In such arrangements, the corporate real estate department becomes a corporate knowledge center that aligns internal real estate resources and capabilities and coordinates external relationships with service providers (Krumm, 2001).

Alternatively, a firm may choose to form a long-term alliance with external suppliers to exploit complementary skills in pursuing common strategic objectives. Unlike traditional outsourcing, in which the client firm maintains full strategic control, alliances are often characterized by participating firms giving up part of their control (Dess, Rasheed, McLaughlin and Priem, 1995). The underlying logic of a strategic alliance is that combining the distinctive capabilities of two or more companies enables each participant to obtain greater productivity from its skills and resources while sharing external risks and uncertainties. In addition, alliances help firms minimize transaction costs, cope with uncertain environments, reduce their dependence on resources outside of their control and successfully reposition themselves in dynamic markets (Ireland, Hitt and Vaidvanath, 2002). In fact, Chan, Kensinger, Keown and Martin (1997) found that such non-equity sharing alliances for marketing, product development, research, technology and licensing agreements among high-tech firms add value to the firm.

However, many more strategic alliances fail than survive. Partners sometimes act opportunistically. Managers are unable to build relationships with partners who share compatible goals and values and provide the temporary organization with the right balance of freedom and control (Dess, Rasheed, McLaughlin and Priem, 1995). In addition, excessive reliance on a partner sometimes introduces a dependency that hampers a firm's future competitiveness (Lei and Hitt, 1995).

Because real estate planning, acquisition, management and disposal are not core competencies for most firms, it is natural to consider outsourcing property-related activities to some extent. In addition, most firms do not have a real estate strategy tied to overall corporate strategy (Nourse and Roulac, 1993). Thus, many corporate decision makers may not realize the importance of real property decisions to the success of the firm. Previous research on the role of corporate real estate managers finds that they generally are not properly placed in the organization, nor have sufficient communication and direct contact with top decision makers to effectively influence corporate strategy (Avis, Gibson and Watts, 1989; Pittman and Parker, 1989; Arthur Andersen & Co., 1993; Carn, Black and Rabianski, 1999; and Gibler, Black and Moon, 2002). Thus, the corporate real estate function would be especially vulnerable to outsourcing because the corporate real estate staff has not demonstrated its strategic value to the firm.

However, the extent of real estate services outsourcing is difficult to gauge. Researchers have defined real estate functions differently among studies, at times including real estate acquisition and sale, leasing, property management and/or facilities management, leading to widely varying reported levels of real estate outsourcing. In addition, researchers have surveyed employees at various levels within the firm with a range of responsibilities regarding real estate in different industries and countries. Some have specifically focused on the details of outsourcing while others have only touched the surface of the topic as a part of a larger strategic management study. However, the range of previous studies that have examined the outsourcing of real estate functions in some manner are helpful in establishing the importance of the topic of outsourcing and some of the issues that require further examination.

In a study devoted to outsourcing, more than half (53%) of the 47 corporate real estate managers surveyed by Kimbler and Rutherford (1993) reported using more outside service providers in recent years. Valuation, brokerage, environmental engineering and disposition marketing were the functions most commonly outsourced. The researchers cite complaints from corporate real estate managers that service providers do not understand the company or culture; they do not provide thorough, correct, work on time; and they do not communicate with progress reports in a timely manner. On the other hand, the 53 real estate service providers surveyed complain that real estate managers do not have clear objectives, do not provide honest feedback during the proposal stage, nor allow enough lead time for effective implementation.

When the International Facilities Management Association surveyed North American facilities managers about outsourcing in 1993, 24% reported their firms were planning to increase their outsourcing of real estate activities in the 1990s (Kleeman, 1994). By the end of the 1990s, almost half (49%) of the 539 North American facilities managers surveyed expected an increase in outsourcing of facilities management functions in the future. Some 85% report outsourcing at least one specific function and 12% report outsourcing to a full-service, single source vendor to provide a package of services, a 5% increase since 1993. The 1999 IFMA survey indicates many companies hire an outside provider for specific functions such as architectural design (86%), trash removal (7%), housekeeping (77%), facilities systems design (70%), landscape maintenance (70%) and property appraisals (69%). Once again, the specific functions targeted for outsourcing vary by industry, firm's staff size, size of company's real estate portfolio and whether a firm owns or rents its facilities. The most important reasons for outsourcing reported by facilities managers are to obtain specialist skills (97% very or somewhat important), reduce or control costs (96%), focus on core competencies (93%), obtain specialty tools/equipment (91%), adjust to work fluctuations (88%), improve quality (87%) and improve customer satisfaction (86%). At least two-thirds report savings due to outsourcing; however, there is some dissatisfaction with outsourcing as evidenced by the 22% of facilities managers who had brought previously outsourced services back in-house because of issues with service quality (65%), costs (53%), control (49%) and dissatisfaction with providers (45%). In addition, in the 1993 survey, one-half of facilities managers reported that these contract employees were less company-oriented.

McDonagh and Hayward's (2000) survey of almost 200 organizations in New Zealand finds that outsourcing real property services had become more common for almost half (43%) of the respondents over the previous five years, especially among firms with larger property holdings, a strategic real estate plan and a separate corporate real estate unit. The functions most commonly outsourced are valuations, building design and fit-out. However, the specific functions targeted for outsourcing vary depending on such factors as public/private ownership, firm's staff size, size of company's real estate portfolio and whether a firm owns or rents its facilities. The organizations primarily outsource real estate functions to access skills, technology and best practices not available within the organization and because real estate is not their core business. New Zealand respondents rate their success with outsourcing at 3.73 on a 5-point scale. Those who are satisfied identify many factors important to contributing to the success of outsourcing, including quality service, quality personnel, responsiveness, business understanding, clear objectives and communications. However, some New Zealand organizations report difficulties with outsourcing real estate functions. In fact, 12% of the firms had taken functions that had previously been outsourced back in-house.

An Ernst & Young (2002) and Columbia University survey of CoreNet Global member corporate real estate professionals finds transaction management, project management, facilities management, and space planning/moves and changes most often outsourced. More than one-fourth (27%) expected to increase their outsourcing of project management and 22% facilities management in the upcoming year. The highest priority in deciding to outsource was to increase shareholder value (by reducing expense), cited as a high priority by 83% of respondents, followed by cost reduction (76%), focus on core competency (64%) and improved service quality (59%). A large majority (80%) of those who had outsourced real estate functions had achieved at least the cost reduction they had expected and 83% had experienced significant improvement in quality service at or above expectations.

Results from a number of other surveys that included questions regarding outsourcing of real estate functions offer some additional insight into the extent of outsourcing and which functions are most commonly outsourced. An Arthur Andersen (1993) survey of 726 senior executives and 141 corporate real estate professionals in the U.S. and Canada found that only about 16% of senior executives reported outsourcing some real estate management in the previous three years, whereas 30% of corporate real estate executives did. It seems the upper level executives were not fully aware of the outsourcing taking place within their real estate divisions. Finance and service industry firms were most likely to report outsourcing. A small number (6% of top executives and 10% of real estate executives) were planning to increase their outsourcing of real estate activities in the 1990s. Gibson (1998) found that facilities management, maintenance, security, catering and cleaning were the most commonly outsourced functions for 45 large U.K. firms. Meanwhile, acquisition and disposal of properties were the most commonly outsourced functions by 27 large retailers (Gibson and Barkham, 2001). More than half (60%) of the real estate executives surveyed by *Site Selection* anticipated increased outsourcing of brokerage in 1997; 48% anticipated more outsourcing in design/construction, 40% architectural services and 36% site selection (Lyne, 1997).

Thus, a growing number of firms are hiring outside specialists to provide various real estate services with varying degrees of success and satisfaction with the arrangement. It can be difficult for the firm to determine whether the service provider is efficiently supporting the company's objectives. A mismatch between the firm's objectives and the actions of the service provider will lead to agency costs to the firm from outsourcing. However, if service providers share the corporate real estate staff's views about the role of real estate in the firm, then agency costs are less likely.

Methodology

This study analyzed data collected in 2000 by Ranko Bon and Rachel Luck in the Corporate Real Estate Management Research Unit (CREMRU) at the University of Reading and Roy Black at Georgia State University, working in conjunction with the International Performance Management Unit at Johnson Controls Inc., to determine if corporate real estate providers and corporate real estate managers in non-real estate companies differ in their views. Earlier research conducted by Harvard Real Estate (Zeckhauser and Silverman, 1983), MIT (Veale, 1989) and the University of Reading (Avis, Gibson and Watts, 1989) provided the foundation for the questions they developed for this survey. This annual survey was inaugurated in 1993, but had been preceded in part by the 1991 CREMRU survey of corporate real estate officers and chairmen from the top 100 EC organizations. The main objective of the researchers who conducted the data collection was to facilitate interorganizational comparisons to promote more rapid diffusion of best corporate real estate practices. The survey initially targeted chief real estate officers with the support of what were then the International Development Research Council (IDRC) and the International Association of Corporate Real Estate Executives (NACORE). It has been conducted jointly with Johnson Controls, Inc. since 1997. In 1998, the scope was expanded to include chief corporate real estate officers, non-chief real estate officers within corporate real estate organizations and corporate real estate management service providers (Bon, 1998; and Johnson Controls, Inc. and University of Reading, 2000). While questions have been added to the questionnaire over the years to reflect changing technology, the core has been maintained to allow longitudinal comparisons. In 2000, a total of 190 chief real estate officers, real estate executives and real estate service providers from around the world responded. This analysis focuses on the 187 respondents who provided sufficient information to be classified as a corporate real estate manager or service provider. Of these, 129 were corporate real estate personnel and 58 were real estate service providers.

As a part of the broader survey described above, respondents were presented with a list of 11 possible roles for corporate real estate and asked to indicate whether they believed each statement was characteristic of organizations using a scale of 1 to 5, with 1 representing ‘‘strongly disagree’’ and 5 representing ‘‘strongly agree.’’ The responses were used to measure their opinions about the role of corporate real estate in their organizations.

The respondents were also asked to rate the future importance to corporate real estate management of 38 knowledge and skill areas, using a scale from 1 ‘‘least important’’ to 5 ‘‘most important.’’ The respondents’ opinions on these questions as well as eight factors identified among these questions were used to measure their expectations about the role corporate real estate employees will play in the future.

The hypothesis is that the opinions and expectations of corporate real estate staff are the same as the opinions and expectations of real estate service providers. The responses of service providers and corporate real estate managers were compared to determine if staff and the service providers share the same vision of the role of corporate real estate, indicating no associated agency costs to the firm from outsourcing. Significant differences in the mean responses by the two groups were determined using *t*-tests to test for significance.

Results

Exhibits 1 through 6 present a summary of the respondents. Responses came from around the world; however, a majority were from the U.S. and U.K. (44% from North America and 19% from the U.K.). Most of the respondents are quite educated and experienced, with 71% holding at least a college degree and 49% having 15 years or more corporate real estate experience. While it can be difficult to compare job titles across firms and industries, director is the most common job title among real estate service providers who responded to the survey. At least one-third of the respondents working in non-real estate firms classify themselves as a director of real estate or property and another third are managers of real estate, facilities management or similar functions. The majority of the corporate real estate respondents are executives, but not the most senior real estate officer

Exhibit 1 | Respondents' Location

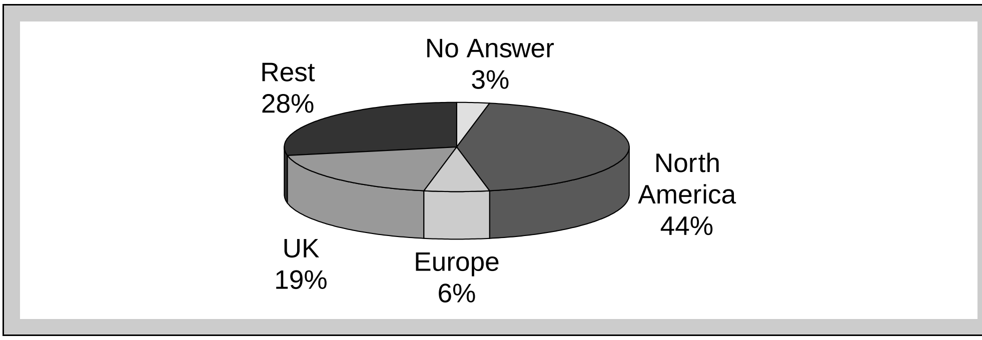


Exhibit 2 | Respondents' Educational Attainment

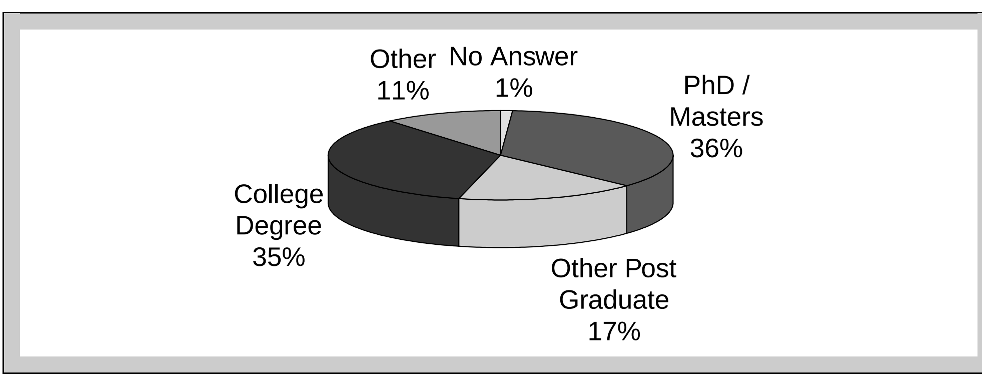


Exhibit 3 | Respondents' Experience in Corporate Real Estate

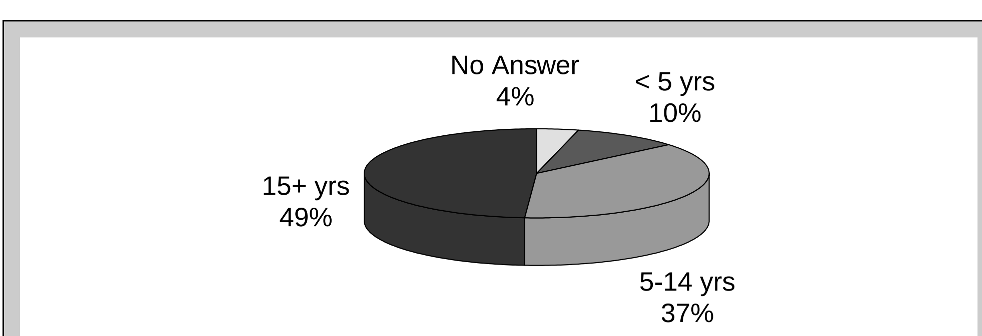


Exhibit 4 | Non-Real Estate Firms' Main Industry

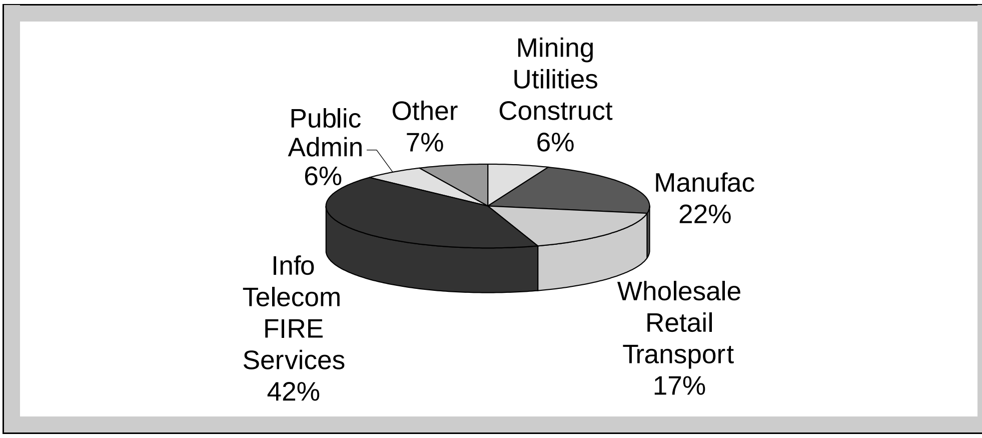


Exhibit 5 | CREM Staff in Non-Real Estate Firms

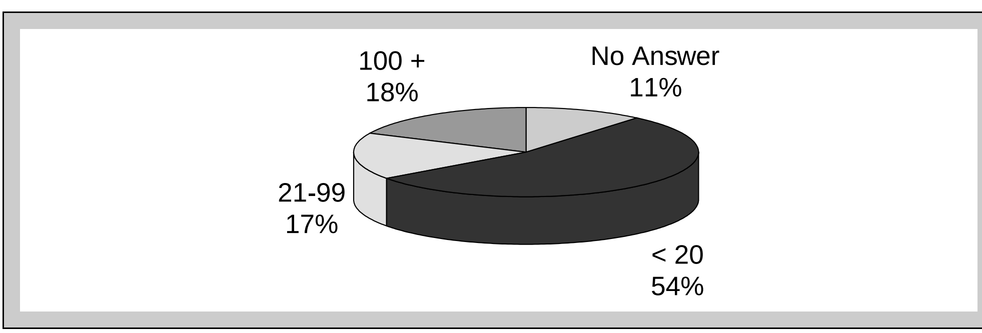
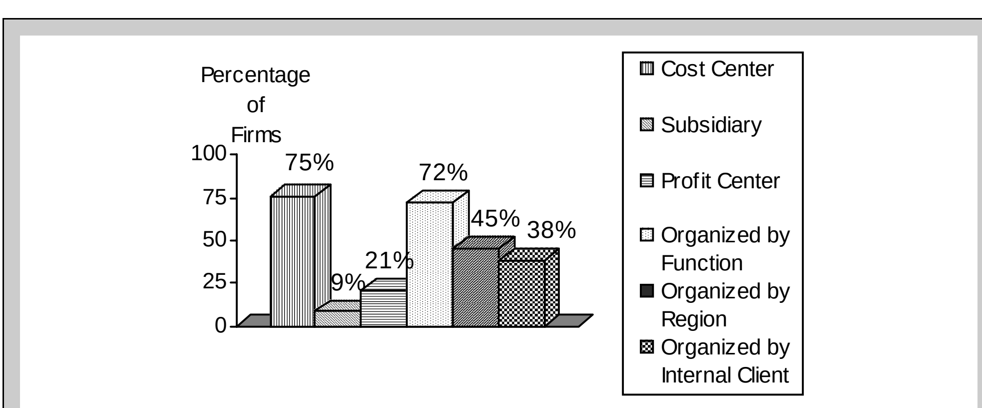


Exhibit 6 | CRE Organization in Non-Real Estate Firms



in the organization. They represent a range of industries, with the largest number of responses from information, telecommunications, FIRE and other services (42%) as well as manufacturing (22%). Among the non-real estate company managers, most (54%) supervise fewer than 20 real estate employees in a corporate real estate office organized by function (72%) rather than by region or internal client. Most also are classified as cost centers (75%) rather than profit centers or separate subsidiaries.

Corporate real estate managers in non-real estate companies and real estate service providers agree on the two most representative statements in this survey about the role of corporate real estate as evidenced by the highest mean ratings in Exhibit 7. Those items are (1) the primary aim of real estate is to provide appropriate working environments for the least overall cost and (2) real estate is only a part of the working environment an organization requires. They do not believe that real estate executives take the lead in integrating all aspects of workplace delivery, including IT, human resources, finance, etc. Nor do they think that real estate executives have a responsibility for enhancing workforce productivity, as evidenced by average ratings below 3.00. While greater variance exists among the opinions of real estate service providers on some items, real estate managers and service providers generally share the view that corporate real estate continues to fill a basic role in providing work space at low cost. Neither group believes that corporate real estate managers are in the forefront, leading organizations in changing the way they think about space and its relationship to productivity and profitability beyond the cost of leasing or purchasing needed space.

The respondents' ratings shown in Exhibit 8 indicate their opinion that the organization's business, real estate portfolio management, strategic planning, customer relations, and negotiation and deal making are the most crucial knowledge and skills for corporate real estate managers in the future. Both groups rated these items at 3.97 or higher and there were no significant differences in their ratings. The respondents agree that foreign language, tax management, management accounting and international finance/economics are among the least important knowledge and skills corporate real estate managers require, as evidenced by low mean ratings by both groups. Thus, both real estate managers and service providers believe the future success of corporate real estate depends on strategic and management skills rather than narrow technical or financial skills, similar to the Andersen (1993) study that indicated understanding the company's business, negotiating and deal-making, and strategic planning skills as crucial to corporate real estate success. This is also similar to the strategic thinking and deal making capabilities senior managers believe are required to be a successful leader when outsourcing (Useem and Harder, 2000). While these results may appear to be somewhat in conflict with Carn, Black and Rabianski's (1999) findings that corporate real estate officers of the future need business, engineering and technological abilities, their study measured these three skill areas as one item. Thus, a respondent could not rate business abilities as a very important skill while rating technological abilities as unimportant. Their respondents did rate broad management skills as important.

Exhibit 7 | Perceived Role and Characteristics of Corporate Real Estate

Role / Characteristic	Respondent Firm Type	*n*	Mean Rating	Std. Dev.	*p*	Proportion Rating (%)				
						1	2	3	4	5
Primary aim of real estate in organizations is to provide appropriate working environments for the least overall cost	RE Firm	52	3.88	0.90	0.58	0	8	23	42	27
	Non-RE Firm	116	3.97	0.96		0	6	21	44	29
Real estate is only part of the working environment organizations require	RE Firm	52	3.77	0.94	0.72	4	4	23	50	19
	Non-RE Firm	116	3.83	0.96		3	4	23	46	24
Real estate is an important capital asset the return on which organizations seek to maximize	RE Firm	51	3.24	1.07	0.11	8	34	40	12	6
	Non-RE Firm	115	3.50	0.81		8	17	49	21	5
Real estate is recognized as a key corporate asset in organizations	RE Firm	50	3.06	1.04	0.30	4	28	36	22	10
	Non-RE Firm	115	3.22	0.62		3	13	49	31	4
Real estate executives are regularly briefed about corporate goals and strategies	RE Firm	51	2.92	0.98	0.19	4	33	35	22	6
	Non-RE Firm	115	3.12	0.69		2	10	62	25	1
Real estate executives generally have a responsibility for enhancing workforce productivity	RE Firm	51	2.88	1.14	0.66	10	31	29	20	10
	Non-RE Firm	114	2.96	0.86		5	20	50	22	3
Real estate executives generally take the lead in integrating all aspects of workplace delivery	RE Firm	51	2.61	1.04	0.33	10	43	31	8	8
	Non-RE Firm	115	2.76	0.84		5	33	44	16	2

Note: Mean responses on a scale of 1 to 5 with 1 representing "strongly disagree" and 5 representing "strongly agree."

Exhibit 8 | Knowledge and Skills Perceived as Crucial to CREM in the Future

Knowledge / Skill	Respondent Firm Type	*n*	Mean Rating	Std. Dev.	*p*	Proportion Rating (%) 1	2	3	4	5
Organization's business or activity	RE Firm	54	4.19	0.83	0.36	0	0	26	30	44
	Non-RE Firm	126	4.06	0.82		1	2	18	47	32
Real estate portfolio management	RE Firm	54	4.11	0.72	0.54	0	4	9	59	28
	Non-RE Firm	127	4.19	0.89		0	6	13	37	44
Customer relations	RE Firm	54	4.11	0.86	0.35	0	4	9	59	28
	Non-RE Firm	127	3.97	0.96		0	6	13	37	44
Strategic planning	RE Firm	54	4.09	0.92	0.18	0	6	20	33	41
	Non-RE Firm	127	4.28	0.77		0	2	12	41	45
Negotiation and deal making	RE Firm	53	4.00	1.02	0.36	2	6	22	30	40
	Non-RE Firm	125	4.14	0.78		1	2	14	49	34
Information technology	RE Firm	54	3.96	0.78	0.01*	0	4	20	52	24
	Non-RE Firm	127	3.61	0.87		2	6	32	47	13
Performance measurement	RE Firm	54	3.94	0.71	0.59	0	0	28	50	22
	Non-RE Firm	127	3.87	0.85		1	5	23	48	23
Information management	RE Firm	54	3.85	0.81	0.16	0	4	30	44	22
	Non-RE Firm	127	3.66	0.85		2	3	39	39	17
Risk management	RE Firm	54	3.72	0.81	0.99	0	4	39	39	18
	Non-RE Firm	127	3.72	0.98		3	6	28	41	22
E-business	RE Firm	54	3.72	0.86	0.11	0	6	37	37	20
	Non-RE Firm	127	3.46	1.07		5	13	28	38	16
Performance benchmarking	RE Firm	54	3.69	0.93	0.99	2	7	30	43	18
	Non-RE Firm	127	3.69	0.93		2	6	31	42	19
Investment appraisal	RE Firm	54	3.67	0.93	0.02*	2	7	32	41	18
	Non-RE Firm	127	3.28	1.03		5	14	39	30	12

Exhibit 8 | (continued)

Knowledge and Skills Perceived as Crucial to CREM in the Future

Knowledge / Skill	Respondent Firm Type	*n*	Mean Rating	Std. Dev.	*p*	Proportion Rating (%) 1	2	3	4	5
Value management	RE Firm	54	3.65	0.87	0.83	0	11	28	46	15
	Non-RE Firm	126	3.68	1.02		4	6	30	38	22
General business administration	RE Firm	54	3.65	0.78	0.40	0	4	42	39	15
	Non-RE Firm	127	3.54	0.83		1	8	40	39	12
Total quality management	RE Firm	54	3.61	0.90	0.53	0	7	45	28	20
	Non-RE Firm	126	3.52	0.95		2	13	31	40	14
Real estate development	RE Firm	54	3.59	0.92	0.08	0	11	37	33	19
	Non-RE Firm	126	3.29	1.07		6	18	29	36	11
Corporate finance	RE Firm	54	3.57	0.84	0.54	0	11	32	46	11
	Non-RE Firm	127	3.48	0.99		3	12	34	36	15
Facilities management	RE Firm	54	3.54	0.93	0.64	2	13	26	48	11
	Non-RE Firm	127	3.61	1.05		1	15	27	34	23
Workplace design	RE Firm	54	3.54	0.77	0.72	0	7	41	43	9
	Non-RE Firm	126	3.59	1.01		3	13	21	47	16
Project management	RE Firm	54	3.52	0.77	0.09	0	8	43	41	8
	Non-RE Firm	128	3.77	0.97		2	8	23	44	23
Environmental management	RE Firm	54	3.52	0.93	0.65	0	13	39	31	17
	Non-RE Firm	127	3.59	0.98		2	10	32	38	18
Personnel management	RE Firm	54	3.50	0.88	0.89	0	9	43	31	17
	Non-RE Firm	127	3.54	0.93		1	15	28	43	13
Marketing	RE Firm	54	3.44	0.96	0.02*	0	19	33	33	15
	Non-RE Firm	127	3.06	0.99		7	18	43	26	6

Exhibit 8 | (continued)

Knowledge and Skills Perceived as Crucial to CREM in the Future

Knowledge / Skill	Respondent Firm Type	*n*	Mean Rating	Std. Dev.	*p*	Proportion Rating (%)				
						1	2	3	4	5
Community relations	RE Firm	54	3.39	0.90	0.44	0	15	44	28	13
	Non-RE Firm	127	3.28	0.91		3	14	43	32	8
Scenario planning	RE Firm	54	3.35	1.07	0.10	4	18	31	32	15
	Non-RE Firm	126	3.63	1.04		4	9	26	40	21
Alliance management	RE Firm	52	3.33	0.90	0.22	4	9	44	35	8
	Non-RE Firm	125	3.53	1.03		2	15	32	31	20
Governmental regulation	RE Firm	54	3.33	1.01	0.79	4	13	44	24	15
	Non-RE Firm	127	3.38	1.02		4	13	39	29	15
Security and safety management	RE Firm	54	3.30	0.92	0.35	0	22	35	34	9
	Non-RE Firm	127	3.44	0.96		2	13	39	31	15
Globalized services	RE Firm	54	3.26	1.17	0.54	11	7	43	22	17
	Non-RE Firm	126	3.14	1.14		10	18	32	28	12
Corporate infrastructure resource management	RE Firm	53	3.23	0.99	0.02*	4	19	38	30	9
	Non-RE Firm	125	3.60	0.95		1	9	37	34	19
International finance / economics	RE Firm	54	3.20	1.02	0.17	5	17	39	30	9
	Non-RE Firm	124	2.95	1.15		12	23	32	24	9
Management accounting	RE Firm	54	3.15	0.86	0.58	0	24	43	28	5
	Non-RE Firm	128	3.24	0.97		5	14	43	29	9
Construction management	RE Firm	54	3.02	0.90	0.04*	2	29	43	22	5
	Non-RE Firm	127	3.35	1.00		4	15	35	34	12

Exhibit 8 | (continued)

Knowledge and Skills Perceived as Crucial to CREM in the Future

Knowledge / Skill	Respondent Firm Type	*n*	Mean Rating	Std. Dev.	*p*	Proportion Rating (%)				
						1	2	3	4	5
Tax management	RE Firm	54	3.02	1.16	0.28	9	22	41	13	15
	Non-RE Firm	127	2.83	1.05		11	27	36	21	5
Contract management and law	RE Firm	54	2.93	1.04	0.01*	6	29	43	11	11
	Non-RE Firm	126	3.40	0.93		3	13	32	44	8
Process re-engineering	RE Firm	54	2.93	1.08	0.01*	7	32	30	24	7
	Non-RE Firm	125	3.39	1.08		7	9	37	32	15
Design management	RE Firm	54	2.89	0.88	0.03*	4	31	39	24	2
	Non-RE Firm	126	3.22	0.98		5	17	38	32	8
Foreign languages	RE Firm	54	2.48	1.02	0.51	16	39	26	17	2
	Non-RE Firm	127	2.36	1.13		27	32	24	13	4

Note: Mean responses on a scale of 1 to 5 with 1 representing "strongly disagree" and 5 representing "strongly agree."
*Significantly different at .05 level.

Real estate managers and service providers do have some differences in opinions. Corporate real estate managers place greater emphasis than service providers do on the need for knowledge and skills in the areas of corporate infrastructure resource management (3.60 vs. 3.23), construction management (3.35 vs. 3.02), contract law and management (3.40 vs. 2.93), process re-engineering (3.39 vs. 2.93) and design management (3.22 vs. 2.89). Service providers place greater importance on skills in information technology (3.96 vs. 3.61), investment appraisal (3.67 vs. 3.28) and marketing (3.44 vs. 3.06). This may reflect the service provider's perspective that design and construction are specialties that corporate real estate managers do not need to master; rather they should be outsourced. Service providers do not share the corporate managers' view that successful real estate staff need to understand process re-engineering and the integration implicit in corporate infrastructure resource management, placing greater emphasis on technology than these management and corporate integration skills.

This study employs the knowledge and skill factors identified by Gibler, Black and Moon (2002) on this same survey data to explore more general themes. In that analysis, an exploratory factor analysis employing principal component extraction and varimax rotation with a selection criterion of minimum eigenvalue >1 produced eight factors containing factor loadings greater than .500 and coefficient alpha measures of internal consistency greater than .600. This analysis uses these factors. The first factor consists of strategic management skills and is comprised of the following items:

- Scenario planning,
- Alliance management,
- Process re-engineering,
- Corporate infrastructure resource management,
- Strategic planning,
- Value management and
- Performance measurement.

The second factor is comprised of the following physical property skills:

- Construction management,
- Design management,
- Facilities management,
- Workplace design,
- Project management and
- Security and safety management.

Knowledge to protect against the following external threats comprises the third factor:

- Government regulation,
- Environmental management,
- Risk management,
- Contract management and law and
- Total quality management.

The fourth factor represents globalization:

- International finance/economics,
- Globalized services and
- Foreign languages.

The fifth factor consists of the following financial measurement skills:

- Investment appraisal and
- Performance benchmarking.

The following technology-related skills make up the sixth factor:

- Information management,
- Information technology and
- E-business.

The following traditional business function areas make up factor seven:

- Management accounting,
- Corporate finance,
- Marketing and
- Tax management.

The last factor is comprised of the following interpersonal skills:

- Personnel management,
- General business administration and
- Community relations.

Respondents' scores on these eight factors were used to explore differences in opinions among corporate staff and service providers, as shown in Exhibit 9.

Corporate real estate professionals believe strategic management, physical development and business functional area knowledge to be more important to success in corporate real estate than service providers (mean factor ratings significantly different at the .05 level). Those on the inside foresee a need for corporate real estate staff to develop skills and knowledge that will allow them to contribute to developing and implementing real estate strategies that support

Exhibit 9 | Knowledge / Skill Factor Importance

	Real Estate Firm	Non-Real Estate Firm	
Factor	Mean Rating	Mean Rating	*p*
Strategic management skills	−0.32	0.19	0.00*
Physical property skills	−0.26	0.14	0.03*
Knowledge to protect against external threats	0.00	0.00	0.84
Globalization	0.00	0.00	0.52
Financial measurement skills	0.16	0.00	0.25
Technology skills	0.20	0.00	0.11
Traditional business functional areas	0.25	0.00	0.05*
Interpersonal skills	0.00	0.00	0.75

Note: Real Estate Firms: $n = 45$; Non-Real Estate Firms: $n = 101$.
*Means are significantly different at the .05 level.

overall business goals. Outside service providers do not recognize a need to develop these general business skills, focusing instead on traditional real estate tasks. In such cases, a company relying on real estate service providers may have difficulty getting the consultants to buy into the company's strategic plans as a partner. The service providers may behave in a more traditional, task-oriented approach to real estate problems rather than helping firms make strategic real estate decisions.

Conclusion

As firms consider outsourcing of corporate real estate functions, they are looking for service providers who will deliver cost effective quality real estate services. A successful relationship requires that the client and the service provider ''be on the same page,'' with the contract worker assisting the client in using real estate to support the corporation's core business strategies. However, several dangers exist that could prevent an efficient principal-agent real estate outsourcing arrangement.

The service provider may not understand the client's corporate culture or objectives, resulting in actions that are inconsistent with the firm's policies and procedures. The contractor may understand, but disagree with the client's objectives and strategies. Service providers may believe that superior specialist knowledge gives them the right and responsibility to do what they think is best for the client firm despite what the corporate staff may want. Corporate staff with little real estate knowledge may have trouble in communicating, monitoring and controlling contract real estate service providers. The contractor may then behave in a self-serving manner that reduces the benefits to the client from outsourcing.

A firm choosing between an in-house staff and an outside service provider faces less agency risk associated with outsourcing if the views and objectives of real estate service providers are similar to those of corporate real estate staff. If they share similar belief structures, then service providers are more likely to understand corporate goals and strategies, are less likely to disagree with client objectives and are more likely to work in the client's best interest. A significant difference in the views of corporate real estate managers and outside service providers would warn non-real estate companies to be cautious in their use of outsourcing. Otherwise, they risk hiring agents who will not provide services that support the corporate objectives as well as an in-house real estate staff would.

The results of a comparison of the views of corporate real estate managers and real estate service providers indicate that they agree on many more subjects than they disagree. Most real estate managers and service providers share a common view of the primary role of the real estate function within the firm. Both believe that corporate real estate continues to fill a basic role in providing work space at low cost. Both real estate managers and service providers believe the future success of corporate real estate depends on staff developing strategic and management skills rather than narrow technical or financial skills. However, corporate real estate managers place greater emphasis than service providers do on the need for knowledge and skills in strategic management, physical development and business finance. Corporate staff members perceive a greater need to understand process re-engineering and contract law and management, indicating an insider's position that staff must understand the entire restructuring, outsourcing and monitoring process.

The areas of disagreement relate more to specific task areas that corporate real estate managers want to develop in-house, but that service providers do not consider essential. Perhaps this is a way of supporting their own survival as specialists in construction management, design management, information technology and appraisal.

Thus, a firm must still be cautious in determining the appropriate level of outsourcing for real estate services. Although service providers appear to share a common vision of the role of corporate real estate, they appear more focused on traditional real estate tasks than on corporate business strategy. The optimum level of outsourcing may require a core corporate real estate staff that understands the overall corporate strategy and devotes much of its resources to strategic planning, process management, contracting and monitoring. Complete outsourcing of all real estate services may create an agency problem that reduces the efficiency and productivity that the firm hoped to achieve through outsourcing.

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Karen M. Gibler, Georgia State University, Atlanta, GA 30302-4020 or kgibler@gsu.edu.

Roy T. Black, Georgia State University, Atlanta, GA 30302-4020 or rblack@gsu.edu.