An investigation of the operation of corporate real estate decision-making

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An Investigation of the Operation of Corporate Real Estate Decision-Making

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• Early Conclusions
Introduction

Research into CRE decision-making is limited. What there is looks at:

- Acquisition process (Haynes & Nunnington, 2011)
- Property acquisition (Greenhalgh, 2008)
- Location choice (Rothe et al, 2015)
- Lease versus Own (Barkham & Park, 2011)
- Alignment (Gibler & Lindholm, 2012)
- Link between change in the business environment & the CRE portfolio (Cooke et al, 2019)

However, the overall CRE decision-making process has not been examined

This research aims to examine the ‘black box’ of CRE decision-making
Methodology

- Decisions require an evaluation process
- Previous experience provides choice preferences
- Individuals construct a mental map, a Mental Representation (MR)
- Causal Network Elicitation Technique (CNET) uses semi-structured interviews to determine preferences using Decision Networks, an extension of Bayesian Belief Network methodology.
- Scenario set for the Corporate Real Estate Managers is on the realignment of a portfolio:

The business environment in which your company operates has changed leading to the adoption of a new business strategy. Along with the longer-term trend to use space more efficiently, there is a need to significantly reduce the CRE commitment, both square metres and annual cost, in the short term. Consequently, the leased CRE portfolio needs to be realigned to meet these new requirements.
Methodology
Mental Representation: Components of a Decision Problem

A crucial element of our conceptualization is that an MR is tailored to the task and situational setting at hand. Task and situational variables generally determine which variables of a system are given and which are available for choice, which needs are activated, and what the consequences of certain actions are. As a consequence, different situations-tasks tend to trigger different selections of variables and links. In the city-trip example, for instance, the activated needs and causal knowledge will depend strongly on such situational settings as the length of the trip and whether or not other persons are joining (e.g., the spouse of the person). To use an MR in an active mode, it should be held in working memory. This means that the amount of information that can be represented is limited by the capacity of working memory. The combination of situation-dependent relevance, on one hand, and capacity constraints, on the other, means that a change in situational setting may cause a drastic change of the MR which the individual would experience as a cognitive switch, that is, a sudden change in the view on the problem. For instance, in the city-trip example, if the spouse would be joining instead of staying at home, the MR of the person may switch to view the problem in terms of a completely different set of variables.

(Arentze et al 2008, Fig 1, p 848)
Classification of Decision Problem Variables and Directions of Causal Relationships

Figure 3 Adapted from Arentze et al 2008 (p852)
Methodology

Terminology

• Decision variables – The options chosen (e.g. surrender a lease)
• Situational variable – External factors outside the control of the decision-maker (e.g. the property market)
• Attribute variable – An observable impact of the decision made (e.g. reduced rent commitment)
• Benefit variable – For each attribute there is a benefit, an ‘end value’ (e.g. improved profitability of the company)
• Utility Weights – assesses the importance of the individual benefits

Current Position

• 9 interviews held and transcribed
• Decision Networks being created for each
• Utility weights to be obtained
• Composite Decision Network to be created
Cooke et al 2019: Corporate Real Estate Decision Making
Early Conclusions

- Consistency of responses across property sectors
- CRE strategy flows from business strategy, not vice versa:
  
  "Corporate real estate teams and people who operate in that space, they are not decision makers they are enablers. They are an enabling function that is all they ever are and ever will be."

- CRE impact seen through tactical approach to strategy implementation
- Key considerations identified for CRE strategy
  - Risk, in particular risk mitigation
  - Accounting regulations, impact of change yet to be fully seen
  - Consequences of any action for P&L and Balance Sheet
  - The factors that operate on a CREM’s decision-making process are a lot more complicated than simply an increase in Shareholder Value.
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