

## **An Expert Review on Corporate Real Estate Strategies for Hotel Industry in Sri Lanka**

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### **Abstract**

Corporate Real Estate (CRE) is the fifth corporate resource after the capital, people, technology, and information. As per the views of the industry experts CRE is identified as the second most expensive cost after labor in many occurrences. The contribution of CRE for overall business activities cannot be restricted to one specific business function where inter-functional use is evident in the overall business setting. To this end, CRE is identified as a diversified resource. The academic discussion on CRE began with scholarly works of Zeckhauser and Silverman (1983) and later CRE developed as a strategic business discipline with the pioneering erudite work on strategic CRE of Nourse and Roulac (1993), De Jonge, (1996) and Lindholm and Leväinen (2006). However, all these CRE strategies were tested and reviewed in the European context ignoring the diversity of Asian business practices, nature of the industry and the level of CRE holding. Thus, adopted CRE strategies are required for contemporary management applications in the Asian region. In this context, the aim of this study is to review expert opinion on CRE strategies for hotel industry in Sri Lanka. The expert opinion used to evaluate possible CRE strategies and its dimensions for Sri Lankan hotel industry. The expert panel includes senior and middle-level managers of hotels, senior academics specializing in the hotel industry, representatives of Sri Lanka Tourist Development Authority and retired veterans of the hotel industry. The Analytic Hierarchical Model (AHP) was used as the main analytical tool to identify criteria weights of identified CRE strategies for hotel industry in Sri Lanka. The finding contributes CRE literature of hotel industry in Sri Lanka and makes empirical validation of CRE strategies for hotels in real world scenario.

**Keywords: Corporate Real Estate, Strategies, Hotel, Expert Review**

## INTRODUCTION

Real estate holding of business organization is known as Corporate Real Estate (CRE). Krumm (2001) defined CRE as real property used by business organizations for its operational activities. This is an extension on Manning and Roulac (1999) who defined CRE as a property, which houses productive activities of a traditional corporation. The holistic definition on CRE was given by Hiang Liow and Ooi (2004), as both operational and non-operational (investment) properties of a non-real estate corporation. The difficulty on demarcating operational and non-operational nature of real estate in the context of the business activities mainly because of once an investment real estate can later become an operation and vice-versa which make the inclusion of both operational and non-operational properties for the definition.

The business activities in early 20th century were not demanded extra space for operations due to the small scale in nature. Most of the businesses were carried out within the part of owners' accommodation in a detached or attached building. Thus, real estate requirement of a business is not a significant issue. However, post-industrial exponential economic growth, industrialized economies, and the rapid globalization during late 20th century and early 21st century demanded business organization to expand their scale of the business and the geographical presence. On the other hand, globalization redefined how business visualized and operationalized across the world with multinational presence. In this context, 21<sup>st</sup> century businesses required a significant amount of real estate compared to the early 20<sup>th</sup> century business to smooth functioning of business activities. Further, business organizations acquire real estate as a strategy of wealth accumulation. The outcome is the possession of a substantial level of a real estate portfolio.

Despite the changes happened within the business environment and gradual increase of real estate, organizations do not give significant attention to the management of real estate. It is evident that the effective and efficient management of real estate is poor in many business organizations including multinational companies (Avis et al, 1989; Veale, 1989; Teoh, 1993; and Andersen, 1995). Many executives believe that real estate is a supportive function and this leads to passive attention on the management of CRE. According to Kaluthanthri, (2009, 2010), the passive management practice is clearly evident in Sri Lankan context and this leads to somnolent management function of real estate is as same as early the 20th century in many organizations in Sri Lanka. On the contrary, Apgar (1995) argued that effective

management of the real estate of business organisation makes savings and profit for the organization by linking real estate function to the business function with examples of \$1.4bn savings of IBM, \$500mm cost reduction of AT&T. Also in 2015 it is evident that Tesco, a UK based retailer makes biggest lost ever in its history due to sinking value of its property portfolio and stock (Butler and Farrell, 2015). Bini and Penman (2015) confirmed that market value of real estate is lower than to book value of many companies in Europe compared to the US which makes a considerable impact to overall performance and the market capitalization of business organizations. Therefore, strategic management of real estate is an essential requirement for the success of a business organization.

A generic business strategy is identified as a programme, set of actions or plans to accomplish specified objectives and goals of the organization within the dynamic business environment. The dynamic nature of the business environment requires organizations to identify, assess and implements business strategies to achieve stated objectives of the organization. However, it is noted that many organization focused on functional areas like production, finance, marketing and human resource while no attention given to real estate holding of the organization despite real estate represents the large portion of its total asset. This makes a fundamental argument on the necessity of Real Estate Strategy for a business organization. O'Mara (1999) identified three generic real estate strategies, namely incremental strategy, value based strategy and standardization strategy for active management for its real estate. The incremental strategy focused on maximum use of important information on real estate before making a commitment. The value base strategy focused on how to align real estate decision with the strategic direction of the business. On the contrary, standardization strategy focused on operational efficiencies of real estates of the organization with the intention of cost reduction (O'Mara, 1999). Thus the strategic direction of real estate can focused on, information based investment, alignment of real estate decisions with corporate strategy and cost reduction.

The alignment of real estate strategy with business strategy was discussed in the 1980s, by Zeckhauser and Silverman (1983) and later Veale (1989). Then Rutherford and Stone (1989); Kimbler and Rutherford (1993); Manning, and Roulac (1997); Hartmann, et.al (2010) discussed the importance of strategic alignment of real estate with the corporate business plan of the organization. In the late 1990s, the strategic importance of CRE is taken at the board level of business organization and importance of CRE as a strategic resource discussed at

many forums. However, it is evident that discussion was limited to Europe and America while partial attention was taken place in the Asian context.

### **Tourism and Corporate Real Estate Management of Sri Lanka**

According to the Report of Travel and Tourism Economic Impact 2016 – Sri Lanka, the total contribution of the Travel and Tourism industry to Gross Domestic Production (GDP) of Sri Lanka was LKR 1,107.1bn or 10.6 per cent of GDP in 2015. The same report confirmed that direct contribution of the industry was around LKR 478.2bn with a 4.6 per cent of GDP in 2015 (World Travel and Tourism Council, 2016). According to the Sri Lanka Tourist Development Authority (SLTDA), (2015) the official receipt of the industry is grown by 41.71 per cent in the year 2014 compared to 2013 with the total receipts of \$ 2,431.1mm in the year 2014. This highlighted the value addition of the sector to GDP of the country.

The industry negatively affected in 2004 by Tsunami and then during the 2007-2009 country's 30 years long war. The conclusion of thirty years war in 2009 opened a new era for Sri Lankan tourism. During the period of 2011-2015, the industry had tremendous growth and it recorded highest tourist arrival in 2014 as 1.5mm and then in 2015 as 1.8mm (SLTDA 2015). The growth of tourist arrivals and the total receipts influence the local and foreign investment for the travel and tourism industry in Sri Lanka. On account of this, the hotel industry which is a subset of the travel and tourism industry, and the main service provider of lodging and accommodation was influenced by the growth. The boom in the hotel industry absorbs investments for new hotels, renovations, and additions to the existing hotel stock of Sri Lanka. It is evident that the local and foreign investment during the period of 2011-2015, contributes to increase the total number of hotels to 1,763 with 19,376 rooms (SLTDA, 2015).

The important feature of the hotel industry is the ownership and/or holding of a significant amount of real estate to carry out their business. The review of real estate holding of three major hotel groups in Sri Lanka, namely Jetwings Hotels PLC, Aitken Spence Hotels PLC, and John Keels Hotels PLC depicted that during the financial periods of 2009/10-2014/15 the real estate holding of these hotels increased from 41 per cent to 58 per cent of total asset which underlined the importance of management of CRE holding for effective performance. This establishes the fundamental argument for an effective strategic management of CRE for successful achievement of the strategic objective of hotels. The argument highlighted the

importance of the strategic real estate management and the application of CRE strategies to achieve stated objectives of hotels in Sri Lanka. However, due to non-availability of a critical discussion on CRE strategies, the strategic management of CRE become neglected or ignored management activity in decision-making at the strategic level of the organization. Further, Hartmann et.al (2010) confirmed that there is no evidence of “best practices” or CRE strategies for a specific organization or situation.

The management of CRE should be an integral part of the strategic plan of a hotel. Thus hotel needs to effectively utilize its operational and investment real estate to maximize the value of the organization. It is the duty of the management of the hotel to analysis the risk and return of its real estate holding and effectively utilizes the resource in a strategic way to create maximum value to the hotel and the shareholder.

In this context, the study argued that effective management of corporate real estate is an important value addition contributor for the performance of the hotel. However, non-availability of empirical investigation on suitable CRE strategies for the overall strategic plan of the hotel hinders effective use of CRE strategies within hotel industry in Sri Lanka. For this reason, the study envisages the importance the review on suitable CRE strategies for hotels in Sri Lanka. This makes the logical reason for the review of CRE strategies of hotels in Sri Lanka where the study aims to analysis the expert view on CRE strategies on hotels in Sri Lanka.

## **LITERATURE REVIEW**

Lundstrom (1993), and Nourse and Roulac (1993), are pioneers of scholarly discussions on CRE strategy and business strategy. CRE decision is dual in nature because service of CRE is common to all functional departments of the organization. Therefore at any given time there is a dual reporting structure on CRE decision by the head of real estate/property division and by the relevant functional head of the respective department. Thus CRE decision has a nature of strategic and functional perspective. Even though there is a dual reporting and decision-making structure, as per the Roulac (2001) integration of CRE strategy as a business strategy is a rare occurrence in the strategic plan of many organizations.

The strategic model on CRE was first discussed in 1993 by Nourse and Roulac (1993), and later De Jonge, (1996). Gibson (2000); Gibson and Louargand (2001); Pfnür (2002); Krumm and de Vries (2003), are other scholars who discussed different perspectives of CRE as a

physical, functional and financial asset which contribute as cost saver or revenue generator. Later Lindholm and Leväinen (2006) recognize the strategic importance of institutionalization and alignment of CRE in business organizations.

### **Strategic Perspective of Corporate Real Estate**

The strategic CRE focused on how to add value to business. The term “Value” or “Add Value” is used in CRE literature synonymously. According to Nourse and Roulac (1993), “Added Value” means real estate decisions which contribute to achieve organization’s objectives. This argument validated by De Vries et al. (2008), emphasized “Value Addition” as the impact of real estate decision on business performance. Jensen et al. (2012) define “Real Estate Value Addition” as the trade-off between real estate costs, risk of real estate intervention with realized benefit by the organization. To this end, it is the value for money and outcome of CRE strategy.

Nourse and Roulac (1993) introduced eight CRE strategies known as “*Alternative Real Estate Strategies (ARES)*”. The important feature of ARES is that unlike of earlier studies of Zeckhauser and Silverman (1983) and Veale (1989) who focused on financial perspective or cost minimization, ARES focused on strategic perspective and holistic nature of real estate. The eight ARES are (a) Occupancy cost minimization, (b) Flexibility, (c) Promote human resource objectives, (d) Promote marketing message, (e) Promote sales and selling process, (f) Facilitate and control production operation and service delivery, (g) Facilitate managerial process and knowledge work and (h) Capture real estate value creations.

In 2001, Roulac highlighted the strategic contribution of management of space (technically real estate) for the overall performance of the business. This review was based on ARES model and confirmed that CRE is a value creator by being a strategic resource of the organization. According to Roulac (2001) the CRE contributes to create value in a form of different perspectives including (a) creating and holding customers, (b) attract and retaining best employees by making a learning culture, (c) stimulate innovation within the organization, (d) facilitating smooth functioning of operation (including manufacturing), promoting business value and the culture of the organization. The end result of CRE value becomes a catalyst for the competitive advantage of the business organization and ultimately contributes to achieve strategic objectives of the organization.

De Jonge (1996) introduced seven “*Elements of Added Value of Real Estate*” or a framework which focused on value adding areas namely (a) Increasing productivity, (b) Cost reduction, (c) Risk control, (d) Increase of value, (e) Increase of flexibility, (f) Changing the culture, and (g) PR and marketing. This seven element framework cited by scholars including Krumm and de Vries, (2003); Scheffer, Singer, and Van Meerwijk, (2006); Lindholm, Gibler and Leväinen, (2006), in their studies and emphasize the ways and means of value addition of CRE on business functions. The important feature of the *Elements of Added Value of Real Estate* is that it reformulates Nourse and Roulac (1993) model into productivity increase model rather than to facilitator/operational model. Thus the model confirmed the strategic application of real estate for added value to the organization.

Another perspective on strategic CRE was discussed in 2006 with the introduction of the Model called “*Identifying the Added Value of Corporate Real Estate Management*” of Lindholm and Leväinen (2006). This model identifies seven strategic levels of CRE which add value to the business to maximize shareholder wealth. The model identifies seven strategic contributors of CRE to the wealth of the organization in way of growth of Revenue or Profit. Real estate strategies for revenue growth are (a) Increase value of the assets, (b) Promote marketing and sales, and (c) Increase innovation (Lindholm and Leväinen, 2006). Increased productivity, Increase flexibility and Reduce cost identified as profitability growth real estate strategies (Lindholm and Leväinen, 2006). The CRE strategy “Increase employee satisfaction” plays a dual role as a contributor to profitability and revenue growth and identified as the seventh strategy in the model. Lindholm and Leväinen, (2006) argued that the contribution of CRE for the wealth of the organization happens in form of tangible and intangible way and highlighted the importance of linking strategic decision making with CRE decision of the organization to ensure revenue and profitability growth. Further, Lindholm and Leväinen (2006) emphasized the ability of real estate staff to conceptualize core business of the organization to link the real estate strategy to business strategy to harvest maximum contribution of real estate to end product of the organization. Lindholm and Leväinen (2006) model was updated by Gibler and Lindholm (2012) introducing “Supporting Environmental Sustainability”. Gibler and Lindholm (2012), argued that applying the sustainable real estate practices within the organization contribute to cost saving and improve the image of the organization. Therefore directly contributes to financial return, productivity, and employee satisfaction. However, the same concept is operationalized under the CRE strategies namely “Promote marketing and sales”, “Increase productivity”, “Reduce cost”, and “Increase

employee satisfaction”. Thus, the study does not consider “Supporting Environmental Sustainability” as a separate strategy which is already established within the original strategies of Lindholm and Leväinen, (2006). In addition, the study disagrees with Lindholm and Leväinen (2006), on contributors of CRE to the wealth of the organization in the way of Revenue Growth and Profitability Growth, whereas technically revenue growth is part of the profitability or profits are within the revenue of the business organization. Thus, the study proposed alternatives classifications for CRE strategies as Contributors of Revenue and Contributors of Cost Reduction for the wealth of the organization.

### **Review on Strategic Corporate Real Estate Models**

The literature review summarized ARES by Nourse and Roulac (1993), *Elements of Added Value* of De Jonge (1996) and *Model for Identifying the Added Value of Corporate Real Estate Management* of Lindholm and Leväinen (2006) as main contributors to the literature of strategic real estate. The in-depth study of three scholarly works on strategic CRE portrait similarities on each value addition element and/or strategy.

The review on three strategies confirmed that the contribution of the maximizing the value addition by strategic CRE can broadly divide into two main categories namely (a) Contributors of Revenue and (b) Contributors of Cost Reduction.

Strategies for Contributors of Revenue focused on the mechanism of increasing the revenue of the organization through operationalization of CRE strategies through the selecting best locations for the organization, making conducive work environment for employees and encourage innovation while negotiating best options for lease and outright purchase of real estate. On the other hand, strategies for Contributors of Cost Reduction are focused on the minimizing cost of operations of the organization in the way of increasing productivity and improved cost structure on real estate through the effective and efficient use of real estate.

The two strategies of Nourse and Roulac (1993) “Promote Sales and Selling Process” and “Promote Marketing Message” have a similar setting where focused on location selection, attractive sales environment, and physical institutional advertising through symbolic value. The conceptualization of the strategy is similar to “Promote marketing and sales strategy” of Lindholm and Leväinen (2006) model. Further the value addition element of PR and marketing strategy of De Jonge, (1996) also similar with above. Thus, *Promote Marketing*



*and Sales* is a common CRE strategy by all three scholars. The “Occupancy cost minimization”, “Cost reduction” and “Reduce cost” as CRE strategy by three scholars are focused on the same direction and thereby **Reduce CRE Cost** can be identified as common CRE strategy for all.

In the same context Nourse and Roulac (1993) and Lindholm and Leväinen (2006) strategies on “Flexibility” and “Increase Flexibility” respectively have similar characteristics which contribute profitability growth for the organization in a way of flexible lease agreements, flexible workplace and multiple uses of space. Further “Increase flexibility” by De Jonge, (1996), also portrait the same concept and thereby **Increase Flexibility** can identify as another common strategy for all scholars.

Another similarity of CRE strategy of three scholars are on **Increasing Productivity** debated using different terminology as “Facilitate and Control Production Operation and Service Delivery”, “Increasing Productivity” and “Increase Productivity” by Nourse and Roulac (1993), De Jonge, (1996) and Lindholm and Leväinen (2006) respectively.

In the same context, the study was able to summarize fifth similarity of two scholars on **Increase HR Satisfaction** as “Promote Human Resource Objectives”, and “Increase Employee Satisfaction” by Nourse and Roulac (1993), and Lindholm and Leväinen (2006) respectively. There is no clear evidence on strategic HR by De Jonge, (1996). However, it is noted HR aspects of CRE was discussed as a part of the value-adding element of “Risk control” which is also focused on flexible real estate portfolio and real estate risk.

Moreover, CRE strategies as “Capture the Real Estate Value Creation of Business”, “Increase Value”, and “Increase Value of Assets” by three scholars are portrait the similarity and possible to form a common CRE strategy; **Increase Value of the Assets**. The final three strategies namely “Facilitate Managerial Process and Knowledge Work”, “Changing the Culture” and “Increase Innovation” are also representing similar characteristics and study identified as **Facilitate Managerial and Knowledge Process**. The element of value addition “Risk Control” of De Jonge, (1996) has mix nature of flexibility and HR and the study ignore this since those aspects are already covered by other strategies discussed. The summary of comparison of strategies is given in table 1.

## METHODOLOGY

Analytic Hierarchy Model used as the analysis tool of the study. According to Deng et.al (2014) and Wu (2012), AHP model of Saaty (1980), is a decision-making model which use structural technique to analyze complex decision making scenarios. The method has the ability to combine qualitative as well as quantitative factors which effects on decision making. The method has three main steps including, (a) establishment of hierarchical structure by decomposition decision problem, (b) construction of pairwise comparison, and (c) estimating pairwise comparison matrix to identify weights of the criteria.

The process of the priority order of dimensions of CRE strategies analysed based on the priority vector known as the normalized Eigen vector of the matrix. Aside from the relative weight of each CRE strategy Consistence Ratio (CR) has been estimated based on the Eigen value and the Average Random Consistency Index. According to Saaty, (1980) smaller or equal to 10 per cent, inconsistency is acceptable as the consistency decision of the study.

**Table 1: Value Addition Strategies of Corporate Real Estate**

Category	Proposed Category	Nourse and Roulac (1993)	Lindholm and Leväinen (2006)	De Jonge, (1996)
Contributors of Cost Reduction	Reduce CRE Cost	Occupancy cost minimization	Reduce cost	Cost reduction
	Increasing Productivity	Facilitate and control Production Operation and Service Delivery	Increase Productivity	Increasing Productivity
	Increase Flexibility	Flexibility	Increase Flexibility	Increase of Flexibility
	Increase HR Satisfaction	Promote Human Resource Objectives	Increase Employee Satisfaction	-----
Contributors of Revenue	Promote Marketing and Sales	Promote Sales and Selling Process	Promote Marketing and Sales	PR and marketing
		Promote Marketing Message		
	Facilitate Managerial and Knowledge Process	Facilitate Managerial Process and Knowledge Work	Increase Innovation	Changing the culture
	Increase Value of the Assets	Capture Real Estate Value Creation of Business	Increase value of the Assets	Increase of value
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Defined by author based on Nourse and Roulac (1993) , Lindholm and Leväinen (2006), De Jonge, (1996)

\* Value adding Element Risk control ignored since the indicators of that element already included in other strategies in the summary table

Reference to the Pairwise comparison scale for AHP preferences (Al-Harbi, 2001) the study defined the scale of the comparison from 1-9 as shown in table 02. The definition of each criterion of CRE strategy defined based on the literature review and given in table 03.

The study defined an expert as a Sri Lankan who has academic experience in real estate, a person who published scientific articles based on the empirical study in a scientific journal or who has management experience in real estate decision making on hotel or attended a scholarly conference and presented real estate management research finding of the hotel. Thus the study ensures holistic review on CRE strategies by experts to fulfil the aims of the study. With reference to this, the total population of the study includes academics, executive staff of hotels who make real estate decisions, and members who presented real estate management findings of hotels at national or international research conferences.

**Table 02: Pairwise Comparison Scale for AHP Preference**

Numerical scale value	Definition of the scale
1	Equally preferred
2	Equally to moderately
3	Moderately preferred
4	Moderately to strongly
5	Strongly preferred
6	Strongly to very strongly
7	Very strongly preferred
8	Very strongly to extremely
9	Extremely preferred

Source: (Al-Harbi, 2001)

**Table 03: Definition on CRE Strategy**

CRE Strategy	Definition
1 Promote Marketing and Sales	A real estate strategy that combines hotel's marketing goals which offer the right mix of hotel product with the support of real estate to achieve profit, satisfied customer and sustainable business.
2 Reduce CRE Cost	A real estate strategy that combines real estate decision and business decision to reduce the cost of real estate and business operations.
3 Increase Flexibility	A real estate strategy on willingness to change, compromise, or modify the real estate decisions to maximize the output as per the

	changing business environment.
4 Increasing Productivity	A real estate strategy that ensures effective use of real estate to gain maximum efficiency of operations of business.
5 Increase HR Satisfaction	A real estate strategy which ensures pleasant surroundings keeping employees engaged and satisfied in the work environment.
6 Increase Value of the Assets	A real estate strategy to combine management decisions to ensure the market value of real estate over the period of time.
7 Facilitate Managerial and knowledge Process.	A real estate strategy ensure of knowledge creation and value adding process to the value chain of the business.

Source: adopted definitions based on Nourse and Roulac (1993); Lindholm and Leväinen (2006); De Jonge, (1996)

Total of 90 experts has been selected using convenience sampling and the study used email web base survey and traditional face-to-face contacts to during the month of July 2016 to collect data on expert view on CRE strategies. The response rate of the study was 42.69 per cent with a total of 38 responses. Table 04 give details of 38 respondents.

The AHP questionnaire for numerical pairwise comparison AHP priorities is designed in a way of comparison matrix using 1-9 scale measurement according to experts' scores on CRE strategy. Experts were asked to identify appropriate prioritization of each pair. The total of 21 comparisons available based on the pair construction formula  $[n(n-1)/2]$  where n represent the number of CRE strategies, which is 7.

**Table 04: Category of Experts**

<b>Participant Category</b>	<b>No of Participants</b>
Academics	03
Senior management staff of hotels	12
Middle management staff of hotels	14
Management staff of Sri Lanka Tourist Development Authority	02
Management staff of Travel Advisory Organizations	05
Opinion Leaders	02
Total	38

Source: survey data (2016)

## ANALYSIS

The first test of the study is the pair-wise comparison of seven CRE strategies. The expert applied their experience on CRE and knowledge of strategy of the hotel to rank "Equally

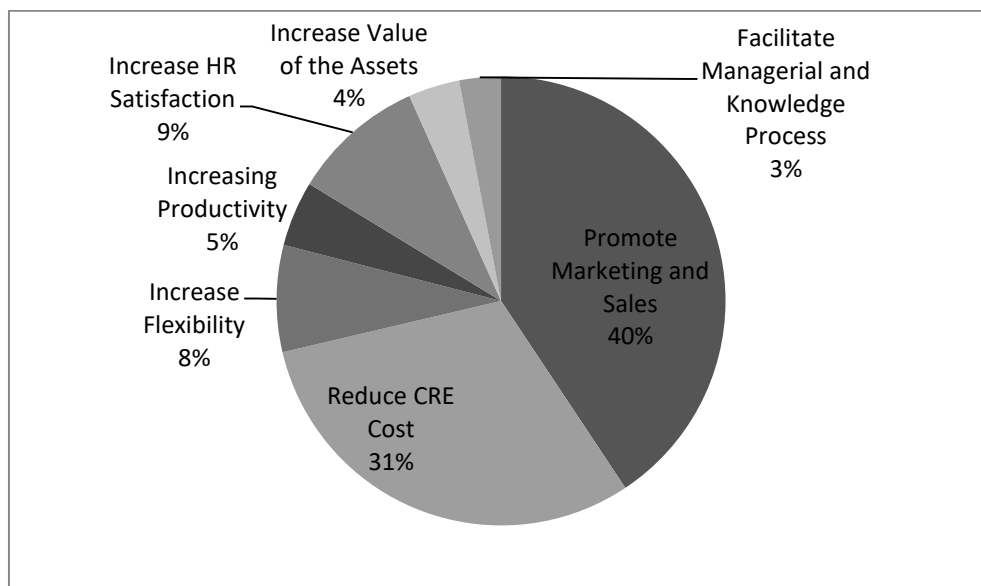
Preferred” to “Extremely Preferred” in relation to each of the factors in pair-wise context. As explained the study used numerical values from 1-9 for comparison between alternatives. The Decision Matrix as per the expert pair-wise comparison given in table 05

**Table 05: The Decision Matrix**

CRE Strategy	1	2	3	4	5	6	7
1	1.00	2.00	7.00	5.00	7.00	9.00	9.00
2	0.50	1.00	7.00	9.00	4.00	5.00	9.00
3	0.14	0.14	1.00	1.00	1.00	3.00	5.00
4	0.20	0.11	1.00	1.00	0.5	1.00	1.00
5	0.14	0.25	1.00	2.00	1.00	3.00	7.00
6	0.11	0.20	0.33	1.00	0.33	1.00	1.00
7	0.11	0.11	0.20	1.00	0.14	1.00	1.00

Source: Field Data (2016)

The normalized Eigen vector of the matrix or priority vector has been estimated to prioritize expert view on CRE strategies for hotel in Sri Lanka. Resulting weights of the pairwise comparisons confirmed that “Promote Marketing and Sales” is the highest important CRE strategy with the relative importance of 40.70 per cent. The second most important CRE Strategy is “Reduce CRE Cost” with the weight of 30.70 per cent. The least important CRE strategy is “Facilitate Managerial and Knowledge Process” with the weight of 3.00 per cent. The relative importance of each CRE strategy with weight is given in figure 1.



Source: Field Data (2016)

*Figure 01: AHP Priorities on CRE Strategies for Hotel, Sri Lanka*

The principle Eigen value has been estimated to calculate the Consistency Ratio of the expert view. The estimated principal Eigen value is 7.521 and Eigenvector solution is 6 iterations, delta equal to 1.5E-9. The 6.5 per cent of Consistency Ratio (CR) which is less than 10 per cent is within the decision rule of the Saaty (1980). This confirmed that the review results of the expert are consistent and valid to use in a context of decision making of Corporate Real Estate Strategies for the hotel industry in Sri Lanka.

According to the results of the expert review the hotel management primarily focused on operationalization of CRE strategy through “Promote Marketing and Sales” to add value to business by making a strategic decision on how to make symbolic icons of hotel architectural designs, making the interactive selling process of unique locations, environment, and physical institution advertising. According to Nourse and Roulac (1993), Lindholm and Leväinen (2006), De Jonge, (1996), the strategy can operationalize by making adequate space for guests, designing workplace which promotes the brand of the hotel and the corporate identity.

The operationalization of “Reduce CRE cost” strategy is materialized by maintaining the quality of the hotel service. The experts confirmed that the strategy should focus on minimizing acquisition cost, minimizing operational expenses by converting energy efficient mechanism like a green test, green energy, and control systems while conducting routine maintenance to curtail breakdown damages.

As per the third level priority “Increase HR Satisfaction” the strategy operationalized making a pleasant working environment for employees by making a functional working place with desired amenities and responding swiftly to real estate requirements. Experts’ views are in line with Nourse and Roulac (1993) Lindholm and Leväinen (2006), De Jonge, (1996).

The “Increase Flexibility” as the fourth-level priority, experts confirmed that the hotel should focus on flexible lease agreements and services agreements of real estate related fixtures including air conditioning, swimming pool etc...while focusing on multiple uses of facilities of real estate within the hotel such as convertible banquet hall, resultant and committee/meeting rooms with different guest sizes.

“Increasing Productivity” as the fifth level priority on CRE strategy experts pointed that it should operationalize making optional or alternative uses and designing convenient layout for production areas of the hotel including, kitchen, restaurant, and laundry etc... Further, it is recommended to designing stores, backdoors and service units of the hotel in a way which supports to add value to services and increase the productivity of the hotel. The argument is in line with Nourse and Roulac (1993) Lindholm and Leväinen (2006), De Jonge, (1996).

As per the expert view, the sixth CRE strategy received only 4 per cent of weight in priority order which is “Increase Value of the Assets” can be operationalized based on making up to date valuation of real estate of hotel and redevelop obsolete properties at the right time when it became physically, economically or legally obsolete. Further operationalization of fully automated property management/monitoring system recommended.

The least important CRE strategy “Facilitate Managerial and Knowledge Process” received 3 per cent priority. As per the Nourse and Roulac (1993) Lindholm and Leväinen (2006), De Jonge, (1996) and expert view the strategy operationalized in a way of making real estate facilities to employees to allowed innovative process and emphasized knowledge work process.

## **CONCLUSION**

The study focused on expert view on Corporate Real Estate Strategies for hotels in Sri Lanka. The empirical work revealed three main scholarly discussions on CRE strategies and value-adding elements to business including eight strategies of Nourse and Roulac (1993), seven strategies of De Jonge, (1996) and seven of Lindholm and Leväinen (2006). In-depth review of these three scholarly works and the contemporary discussion on value addition strategies of CRE summarized into seven strategies. The outcome of the study is the priority analysis of these strategies in the context of the hotel industry in Sri Lanka.

The AHP results of expert review confirmed that “Promote Marketing and Sales” is the most contributory CRE strategy for value addition for hotels in Sri Lanka. The second highest priority CRE strategy is “Reduce CRE cost”. With reference to this, the study conclude that strategic decision makers of corporate real estate decisions of hotels in Sri Lanka need to primarily focus on value adding operational dimensions namely; selecting best locations for hotels, making spacey hotel atmosphere, making symbolic brand using corporate real estate

to create unique customer experience, control environment of interaction with hotel products and service offering, governing corporate identity through real estate and contributing environmental sustainability under the “Promote Marketing and Sales” CRE strategy. Further operational decisions on a green test, green energy, and central systems while conducting routine maintenance to minimizing breakdown damages, effective use of space, utilize government incentives on real estate and minimizing acquisition and finance cost on real estate are important “Reduce cost” decisions to positively contributes overall strategic objectives of the hotel. The CRE strategy Facilitate Managerial and Knowledge Process is identified as the least important strategy which contributes value addition to the hotel with the AHP weight of 3 per cent.

Accordingly, the study concluded that “Promote Marketing and Sales” is the most important determinant for value addition of the hotel. Thus, management of hotels needs to re-evaluate their attention on operational decisions on CRE decision for effective and efficient use of real estate for add value for the performance of the hotel. Finally, the study recommends an empirical investigation on expert review on operational dimensions of CRE strategies and the impact of CRE strategies on the performance of hotel industry in Sri Lanka to make holistic decisions on how to integrate CRE strategies with the strategic plan of the hotel.

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