

The Social Dimension of the Relationship Between Corporate Real Estate Executives and Outsource Service Providers

*Rob Kooymans**

Centre for Land Economics and Real Estate Research, University of South Australia

Megan Walters

Department of Building and Real Estate, Hong Kong Polytechnic University

***Contact Details:**

Telephone: +61 412 164 660

Fax: +61 8 8302 0512

E-mail: rob.kooymans@unisa.edu.au

Paper presented at the 8th European Real Estate Society Conference-ERES Alicante, 2001, in Alicante, 27-29 June 2001

Keywords: Alliances; Corporate Real Estate Management; Implicit Contracts; Outsource Service Providers; Outsourcing; Social Dimension; Trust

Abstract: Outsourcing of corporate real estate management is a long-established practice in the United States and, to a lesser extent, in Europe and Australia. While the imperatives for outsourcing have been widely studied, there has been little research into the nature of the working relationship between the corporate real estate unit and the outsource provider of CRE management services. The outsourcing of corporate real estate management has certain peculiar characteristics:

- Unlike corporate real estate projects such as new construction or the sale of an asset, which are for a finite period with outcomes that are easily assessed, it involves an ongoing process over an indefinite period with the measurement issues being to do with process rather than a final outcome
- Unlike ongoing tasks such as air-conditioning maintenance or cleaning, it involves a high degree of trust and information-sharing between the parties
- Unlike outsource service providers for the above-mentioned tasks, CRE management service providers may not be particularly numerous in any given market. This may result in a diminution of the cost savings and quality improvements through competition, which are often seen as the main justifications for outsourcing

Such characteristics highlight the importance of trust, cooperation and commitment between the parties. The nature of the relationship is more akin to a partnership than to a standard contract. It is argued that the social dimensions of the relationship between corporate real estate people and outsource service providers become as important or more important to the performance of the management of corporate real estate than the terms of the legal contract. The higher the level of CRE management functions that are outsourced in the fast changing corporate world, the more the contract between the parties must be implicit, and the more the personal relationship matters. The paper discusses the existence and importance of the social dimension and the implicit contract by reference to the literature.

Introduction.....	3
Background to CRE	3
CRE Relationships	4
Outsourcing Relationships	5
Institutional Economic Framework	6
Organisational Culture	9
Institutions in Outsourcing.....	11
Agency Theory	12
Compliance mechanisms in contracts	13
Social mechanisms in contract relationships	14
Meta-Analysis.....	15
Conclusion	16
References.....	17

Introduction

Research into the field of corporate real estate (CRE) has increased substantially over the last 10 years. The literature can conveniently be divided into that relating to the financial implications of CRE, and that concerned with the management of CRE within organisations. This paper looks at the management end of CRE and focuses on two areas: managers' relationships, and the use of outsourcing contracts to carry out CRE functions. In particular, the impact of CRE managers' relationships on the success of outsourcing contracts is addressed. This is of importance in markets such as Hong Kong and some Australian cities, where the number of service providers is small, and in international outsourcing contracts, where the managers from each party have a substantially different view of contracts and relationships.

A framework from institutional economics is used to analyse the relationships. Institutions are rules that govern how people behave; they can be carried through society by formal means such as contracts and informal means such as custom and practice. The institutions and their carriers that apply to outsourcing contracts are reviewed and used to develop a theoretical framework, which provides a basis for subsequent meta-analysis of a wider body of literature on strategic alliances, partnerships and outsourcing contracts, and subsequent empirical studies on the topic

Background to CRE

“Corporate real estate”, for the purposes of this paper, means an object - that freehold or leasehold real estate that is used by an organisation for its own productive purposes - and the people and institutions that relate to that object. The term “corporation” in that definition is used to refer to any medium to large organisation, most certainly including public companies, private companies, government organisations, public institutions and not-for-profits (Joroff et al 1993). It is difficult to pinpoint a particular size of organisation to use as a cut-off point – the main criterion should be that its real estate plays a significant role in the productive process and that its management requires an internal and/or an external organisation. It is sobering to reflect that, by this definition, corporate real estate and the necessity to manage it comfortably predates the Industrial Revolution. Yet the recognition of CRE as a specialist field, and indeed the recognition of the contribution that CRE can make to the organisation beyond the provision of real estate requirements on request, is relatively recent.

The definition of CRE places it firmly within the realm of organisational theory, with all that implies in terms of concepts and controversies. CRE management as a field of study goes back only to the early 1980s (Teoh 1993), although studies into CRE as a physical object go back much further than that – especially those on maintenance management (Mole & Taylor 1992). Mole and Taylor (1992) argue that formal recognition of CRE occurred in the United States with the formation of the International Facility Management Association and the Facility Management Institute in 1980. Interestingly, they point to the practice of CRE being recognised early in the 20th Century, with inclusion of efficient office layout in texts on office management, while the theory began with pioneers of scientific management like Gilbreth and Taylor.

Given that history, there has only been comparatively recent emphasis on the contribution that CRE can make to the organisation's core business – the requirements of the core business, the way that business units function, and their plans (Joroff et al 1993). The business unit managers must be aware of the ways in which the CRE function can help add value to their divisions. More important than the implied customer service relationship, is the necessity for CRE managers and business unit managers to solve business problems of mutual interest and to innovate. These relationships are brought about by two phenomena that appear from the CRE literature to be central to the recognition of CRE's potential to value-add to the organisation - strategic alignment of the CRE unit and formation of external alliances.

CRE Relationships

Although the literature has broadly identified clear roles for corporate real estate, the recognition of those roles within individual firms varies rather widely (Gibson & Watts 1989; Pittman & Parker 1989; Teoh 1993; IDRC & Ernst and Young 1996a & 1996b; IDRC Foundation 1996; McDonagh 1999). The method of implementation of those roles also varies substantially between organisations, over time and with changing circumstances within a given organisation, being dependent on the CRE skills that an organisation possesses or can obtain. From the literature, three relationships that appear to be crucial to effective use of the CRE function to add value to the firm:

- The relationship between senior managers and CRE managers
- The relationship between core function managers and CRE managers
- The relationship between CRE managers and external providers of CRE services generally referred to as outsourcing.

The relationship between senior management and the CRE managers is important to CRE managers because they need to tap into the corporate strategic decision-making process, and to obtain the corporate mandate for implementing change (Kanter 1991; Joroff et al 1993; Carn & Black 1995; Lambert, Poteete & Waltch 1995).

It is important to senior management, because they need the specialist input of CRE managers into the strategic planning process and their co-operation in implementing change. The relationship is one of principal-agent, where the CRE managers act as agents to the senior managers, in providing the real estate as in input resource.

The relationship between CRE managers and external providers of CRE is important to the success or otherwise of outsourcing. It is necessary to make a clear distinction here between transactional and relational services. The former need not imply any relationship at all, and will not be considered here. For example, the one-off hiring of a removal firm to shift the contents of an office from floor A to floor B is in the nature of a spot contract. There is a short time frame; the results are easy to measure - did the furniture finish up in the right place, on time, without the building or the furniture being damaged? Was the removal firm paid the agreed amount of money within the agreed time? On the other hand, the ongoing relationship, such as that between the CRE unit and a provider of property management services, is also a principal agent relationship, where the CRE managers act as the principals and the outsource service provider is the agent.

One related question to consider is whether the organisation can remove the CRE managers from the chain, and have the senior managers secure the real estate resources they need, direct from the outsource service provider. Does the CRE manager add any value to the process? It is argued that the value-added, or otherwise, depends on the senior managers' and CRE managers' respective abilities to maintain a beneficial working relationship with the outsource service providers' managers.

Outsourcing Relationships

Strategic alignment in the corporate sense means that, whatever the competitive and corporate strategies pursued by the organisation, the policies and procedures of its component parts – divisions, line and staff departments, branches, business units and service units – are designed to serve those strategies (Joroff et al 1993).

The concept of alliances or partnership, defined as a strategy to achieve higher performance and /or lower costs through joint, mutually dependent action of independent organisations or individuals (Rothery & Robinson 1995), is the natural evolution of outsourcing. Outsourcing is based on achieving service levels set out in a service agreement, while partnerships are based on issues like cultural fit. Joroff et al (1993) refer to “partnering” in the context of corporations using outsource suppliers for the more strategic CRE work.

Despite these relationships being crucial to the use of the CRE function to add value to the organisation, the nature of the relationships appears to have been neglected in the CRE literature. Certainly there is much literature advocating, describing and prescribing strategic alignment and outsourcing, e.g. Kimbler and Rutherford (1993), Carn & Black (1995), Lambert, Poteete and Waltch (1995) and Manning, Rodriguez and Roulac (1997).

However, it is the authors' contention that there is and has been little examination of how the relationships operate, and where they might tend to break down. Clearly a prerequisite for a relationship is a sound contractual basis, with each party clear of their position at the outset. But contracts cannot cover all eventualities that can arise over the duration of the relationship. How parties deal with these will depend on their view of the relationship with the contracting partner.

The management of corporate real estate has, over the last fifteen years or so, been subject to increasingly intense scrutiny by senior management. In this respect, it has followed the human resources, information technology and other "non-core" specialist functions in having its contribution to corporate value questioned. There is evidence that the corporate real estate function has followed HRM and IT in justifying its existence, at first in respect of cost saving, then as an important contributor to the formulation of strategic direction.

Institutional Economic Framework

Traditional economics has very little to say about the internal working of firms as a method for allocating resources between different functions in order to carry out the production of goods and services. The classic start of the investigation into the internal workings of the firm was Cyert and March (1963) in the Behavioural Theory of the Firm. They proposed that, as an alternative to market mechanisms, the firm itself was complex and worthy of study to solve economic decision-making problems such as price and output determination and internal resource allocation. CRE focuses on the allocation of resources into land and property as an input into the production of goods and services. As such, it is a fundamental part of the economic process - how managers make decisions to secure land and property is of importance in an increasingly global economy. Institutional economics looks at the rules that govern the behaviour of managers and their relationships in the context of economic production. The institutions or rules of the game include both formal laws and informal custom and practice based on social norms. This includes

- How rules are formed
- How they are enforced
- How parties react in the face of uncertainty

Within the management of real estate there are three sets of rules, which can be formed, enforced and broken in certain conditions. There are institutional rules generated by the socio-economic system where the real estate is located, the institutional rules of CRE managers' employer organisations, and the managers' own internal rules of appropriate social behaviour.

Institutions affect the way people behave, through various enforcement mechanisms. Formal institutions are enforced through the legal system of courts and tribunals etc. Informal institutions are enforced through sanctions by society, through exclusion or isolation of those who do not conform to conventional forms of behaviour.

This creates a problem for parties to transactions when faced with an uncertainty that one or both parties feel is inadequately covered by the formal rules of the transaction. In this case, what is the appropriate form of response by the party? If the transacting parties have different informal or social norms, a dispute could arise as each party plays out what it thinks is a legitimate response to the change in circumstances. The inclusion of social interaction in economics has been advocated by a number of writers, particularly Granovetter (1985, 1992), to produce a more realistic picture of economic exchange than in conventional economics.

Institutions consist of cognitive, normative and regulative structures and activities that provide stability and meaning to social behaviour (Scott, 1995). They are transported by various carriers – cultures, structures and routines – and they operate at multiple levels of jurisdiction. Regulative institutions are formalised in society, described by North (1990) as the rules of the game. It includes rule setting, monitoring and enforcement by legislatures, judiciary and law enforcement agencies. Normative institutions refer to values and norms that are obligatory in social life. The dictionary definition of normative is ‘implying, creating or prescribing a norm or standard.’ Normative institutions include defining goals, for example making a profit, but they also prescribe the appropriate behaviour in pursuit of that goal, such as the fair business practice of paying subcontractors on time. These institutions impose constraints on social behaviour but also aid social and economic activity through conferring rights as well as responsibilities. Cognitive institutional analysis stresses the importance of social identity in forming the rules that guide behaviour in a certain situations. The experiences that people undergo and their role in society affect their actions.

Table 1
Source – Scott 1995

Pillars of Institutions

	Regulative	Normative	Cognitive
<i>Compliance</i>	Expedience	Social obligations	Taken for granted
<i>Mechanisms</i>	Force	Normal standards	Imitation
<i>Indicators</i>	Rules, laws, sanctions	Certification, accreditation	Similarities, prevalence
<i>Legitimacy</i>	Legally sanctioned	Morally governed	Culturally supported

Institutions are carried through society, organisations and in people's daily lives by cultures, social structures and routines. Culture includes organisational culture as well as the society level culture. Most groups or organisations have a particular 'culture' identifiable by the group participants and often by external stakeholders. Hotels may seek to develop a customer service culture, whereas chemical plants may seek to foster a safety culture. Each will provide a carrier for rules about appropriate action and behaviour within the group. Social structures provide a pattern of rules of expected behaviour based on social position within a given situation or group. Policemen within a society have a position that confers rights and responsibilities. Within organisations, managers assume rights and responsibilities to carry out patterns of behaviour due to their social position over subordinate employees. Routines include custom and practice and often reflect ingrained habits of the participants based on unarticulated knowledge. Craft based societies and industries reflect this form of rule propagation. Little is written down, but the patterns of actions required are repeated and learned as rules by the generation.

Table 2
Source – Scott 1995

Carriers of Rules

	Regulative	Normative	Cognitive
<i>Cultures</i>	Rules, laws	Values, expectations	Categories, classes, types
<i>Social structures</i>	Governance systems	Authority systems	Identity within societies
<i>Routines</i>	Protocols, standard procedures	Performance of duty, conformity	Unconscious behaviour, scripts

Institutions can be analysed at three levels (Oakerson, 1992; Oakerson and Walker, 1997): the societal or constitutional level, the organisational or collective choice level and the operational or day-to-day level. The methods of rule formation and enforcement of each level come from the level above. For example the organisational level will determine the rules and sanctions used at the operational level. Similarly the societal level will have rules that determine what an organisation can do. For a greater description of the levels of analysis and their application to a real estate problem, see Walters and Kent (2000).

This paper looks at the principal-agent relationships in securing real estate for organisations to undertake economic activity. It uses a transaction cost economics framework to assess the cost to the organisation in obtaining real estate and real estate management services, which organisations in market economies have the opportunity to secure in the market from a third party organisation. It considers the degree to which 'trust' between the user organisation and the third party contractor is a necessary feature to ensure the successful completion of the contract. Trust is used to represent the belief in the integrity and competency of the other party to undertake and complete the contract. The degree of trust generated appears to be linked to organisational culture.

Organisational Culture

There appears to be wide agreement that (dominant) organisational culture is a system of shared meaning held by most members of an organisation that distinguishes one organisation from another (Robbins et al 1994). Robbins et al (1994) report 1990 research by Hofstede *et al* that identified ten primary organisational cultural characteristics:

- Member Identity – or how employees identify with the whole organisation rather than their job or profession. This factor is quite interesting from a CRE viewpoint, as CRE Unit staff have traditionally seen themselves to be professional real estate people, rather remote from the mainstream concerns of the organisation and more closely oriented to CRE people in other organisations (Mole & Taylor 1992)
- Group Emphasis – whether activities are centred on groups or individuals. The power of group working has been increasingly recognised by organisations and CRE Units are increasingly being given the task of reinventing the workplace to accommodate this (Becker & Joroff, 1995).
- People Focus – the degree to which management considers the effect of its decisions on employees. Pfeffer (1994) presents a powerful case for a people-focus providing firms with competitive advantage. Because the CRE Unit is focussed on place, and because place is such an important part of employees' perceptions of how well their organisation is treating them, then the CRE Unit is in a powerful position to influence corporate culture for good or ill (Becker & Joroff, 1995).
- McShane (1995) relates the cases of BP, Nike and Ben and Jerry Homemade (ice cream) inc., which all managed to change or reinforce their corporate cultures through the design of their buildings.
- Unit Integration – whether units are encouraged to operate independently or to coordinate their activities. Many modern CRE authors (Blythe 1998:1; Ellyard 1998; Englert 1998) emphasise the necessity for the CRE Unit to treat the Business units as customers in a service-oriented organisation. This involves a great deal of coordination of activities between CRE Unit and Business units in order to find out and deliver exactly what the enlightened customer wants. This is in contrast to the older CRE approach, where Business units were treated as troublemakers, to be fobbed off as quickly as possible (Becker 1992).
- Control – refers to the extent to which rules, regulations and direct supervision are used to oversee and control the behaviour of employees.

As Handy (1995) observes, the new ways of working in “found” offices are dependent on trusting employees who are objective-oriented; who get results, meet their sales quotas etc. in their own way. The CRE Unit’s staff have always had a certain autonomy, principally because senior management traditionally neither knew nor cared very much about what they did. With the integration into mainstream corporate culture, CRE Units are also enjoying (or suffering) the same levels of supervision that core units have had. A modern, aware, CRE Unit that adds value and demonstrates to senior management that it adds value, also tends to enjoy a freedom from direct supervision – trust comes about through getting results independently (Joroff et al 1993).

- Risk Tolerance – encouragement or otherwise to be entrepreneurial, innovative and risk seeking. As D’Aveni (1994) notes, a risk taking culture is required in the new era of global competitiveness; relinquishing a corporation’s own established competitive advantage to try to establish a new one is a strategy that most firms find foreign, but one that will be increasingly needed. One of the more advanced stages of CRE Unit development noted by Joroff et al (1993) was that of “Intrapreneur” – an internal entrepreneur seeking out new ways to enhance corporate value through real estate. The last thing that a budding CRE entrepreneur needs is a negative corporate risk culture.
- Reward Criteria – whether performance-based or other criteria decide financial and other awards. As Brown and Arnold (1993) note, the CRE Unit was often involved in setting and enforcing standards of accommodation that have frequently been used as rewards for position rather than performance; the supervisor had a bigger office and desk because they were the supervisor, not because they needed the extra workspace. Now, the emphasis is on efficient functioning of the organisation and its real estate (Leifer 1998), so that people get the space needed to do the job, and monetary and other non-space-consuming rewards tend to go to those who perform (Becker & Joroff 1995).
- Conflict Tolerance – encouragement or otherwise to air conflicts and criticisms openly. Toyota Australia uses an innovative employee survey to measure the corporation’s culture on a regular basis (Forman 1995). CRE Units are involved in management and design and development of space, as well as installation of Information Technology systems and other major changes. A crucial part of getting these things right is really listening to the views and criticisms of the people affected. Becker and Joroff (1995) advocate encouraging criticisms and getting conflicts into the open in the planning stages, to avoid costly capital works blunders.
- Means-ends Orientation – the degree to which management focuses on outcomes rather than on the processes used to achieve these outcomes. Joroff et al (1993) reflect that the CRE Unit has moved from a transactional to a process orientation, with concerns more closely aligned to the core business. Now that good businesses are more frequently focused on outcomes, similar focus is being expected of CRE Units (Cam and Black 1995).

- Open-system focus – the degree to which an organisation monitors and responds to external environmental change. As organisations have to become far more adaptable to constant change in the business environment (Brown & Eisenhardt 1997), so have CRE Units had to adapt to requirements for change in the built environment (Becker & Joroff 1995).

It can be seen that CRE is inextricably bound into the elements that go to make up a corporate culture and must be accounted for by corporate management in any appraisal of corporate culture. The culture holds the institutional rules by which managers operate. When functions are moved outside the organisation, managers need to identify the differences in other organisational cultures.

Institutions in Outsourcing

Economic activity can take place through a market mechanism, or through an organisational framework. Transaction cost economics looks at the relative costs of securing resources, including services, within the market or within the organisation (hierarchy) (Coase, 1937, 1960; Williamson, 1975, 1985, 1996). This area of economics suggests that activities are undertaken in the market where the combined costs of the transaction and activity are less than if the organisation undertakes the activity itself. The reduction in costs can come from both reduced transaction costs and reduced production costs. Reduction in transaction costs can be achieved in

- information and search costs
- bargaining and contracting costs
- measuring and monitoring costs.

Institutions provide structure and rules to people in economic exchange to reduce the costs of the transaction, creating more certainty about how the other party is likely to behave. This reduces the costs listed above. However where people come from different societies, or organisations with different cultures, the same institutions can increase the cost of the transaction between the parties.

Reduction in production costs can be achieved through investment in new technologies and improved skills, which give rise to greater competencies by a specialised third party contractor, who can focus on the specific area of expertise, in this case real estate management services. The investment in assets and the development of capabilities by the contractor, results in lower costs than the organisation could have achieved. Contracting out or outsourcing to a specialist allows the organisation to concentrate on investing in technologies and skills relevant to its core competency.

The rise in outsourcing of functions of organisations, such as real estate management services in market economies, would suggest that organisations find the market mechanism a more cost-effective way to secure non-core functions to service its organisation. This gives rise to the question, can a market mechanism such as an outsource contract completely replace organisational relationships? Are there circumstances where a market contract will not work, and will prove more costly and troublesome than carrying out the function in house?

All contracts are by definition incomplete, one cannot specify all the circumstances that could occur during the execution of the contract. Contracts can be split into two types: one off transaction contracts, such as that for the sale of land, and ongoing relational contracts for the provision of goods (for example leased space) or services. The difference between the two is the duration and frequency with which the contracting parties will interact. In a transactional contract, the duration is short, and the parties are likely to only interact once. Neither party is likely to make specific investments in assets, either technological or human skills, in order for the transactional contract to take place. Contrastingly, a relational contract is much longer, the parties will interact more frequently and parties are likely to invest in assets specific to the execution of the contract. The increase in frequency of interaction between parties, and the investment in specific assets to execute the contract, increases the opportunity for one party to engage in opportunistic behaviour at the expense of the other party.

Relational contracts can be analysed using agency theory, where one party, the agent, undertakes an activity on behalf of another, the principal. This usually involves delegating some decision-making authority to the agent (Jensen and Meckling, 1976). The essence of the principal agent problem is how to structure the contract so that the agent acts in the best interest of the principal. To ensure an agent behaves in a particular way the principals can establish incentives and monitoring costs, and the agent can be required to pay a bond. In addition to these costs there is a third cost, the monetary value of the difference between the agent's decision and those that would maximise the welfare of the principal. These agency costs apply to both relational contracts in the market and employment contracts within organisations

Agency Theory

Agency theory focuses on co-operation in situations where externalities, limited observable, or asymmetric information exclude the pure market organisation (Spremann, 1987). An agent, for example an outsource service provider is, in making decisions, influencing his own welfare and that of the principal (the outsourcing corporation). These external effects of the agent's decisions are negative - in making decisions on the level and kind of effort he will put in, the agent is mindful of the fact that what yields utility to the principal yields dis-utilities to the agent and vice versa. The principal is therefore ready to pay some reward for an agent's action that yields utility to the principal.

The most common example is the employer-employee relationship, where the employer compensates the employee for the disutility of spending time that he could otherwise have to himself. The second characteristic is that of asymmetric information. The principal cannot observe the agent's actions in full detail, and thus has difficulty in setting appropriate compensation.

Agency theory has profound implications for the corporation-service provider relationship in an outsourcing situation. Kimbler and Rutherford (1993), in their study of CRE managers and outsource providers, note that providers' performance was below managers' expectations, while providers complained of a lack of information on strategic objectives from the managers. Rothery and Robertson (1995) source most of the major pitfalls of outsourcing to either the externality or asymmetrical information problem. Blythe (1998) refers to COMPASS Management and Leasing, an outsource service provider for CRE, which developed a performance analysis and measurement IT system to provide client reassurance that the required work was being performed to the required standard.

Compliance mechanisms in contracts

Contracts, to a greater or lesser extent, specify the formal rules of how each party is to behave during the course of the contract. This would include the terms of the monitoring procedures of the principals and the bonding costs of the agents, such as carrying public liability insurance. The extent to which an agent will behave opportunistically towards the principal, will depend to a large degree on the informal institutions of social behaviour, rather than what is set down in the formal contract.

In dealings between people, institutions, rules and customs reduce uncertainty by giving a degree of stability to transactions. Formal institutions such as laws and contracts have long been understood to affect economic performance (Eggertsson, 1990). Informal institutions of societal customs and norms have increasingly been studied, particularly by North (1990), as they determine the incentives for parties to adhere to formal rules and the methods of contract enforcement. In determining the relative costs of undertaking the activity through a market contract, the cost of enforcing the contract must be considered. The problem for the parties is that in a contract that has a long duration, circumstances will change, and it is not possible to specify all outcomes before the start of the contract. There may come a point in the contract where one party will feel severely disadvantaged by the combination of the new circumstances and the original terms of the contract and considers it fair to break the contract. The issue for the parties is whether it is appropriate to overturn the original contract and continue with new terms, or whether to enforce the terms on an unwilling party.

In an organisational setting, this issue is of less importance, in that if one part of the organisation feels disadvantaged by another, the conflict is resolved at a senior management level within the organisation. The decision made will, in theory, be that which favours the overall goals and survival of the organisation. In contractual relationships, the decisions of contracting organisations may be those that benefit one party at the expense of the other.

Opportunistic behaviour of parties is examined by a number of writers on economic organisation. Termed moral hazard, opportunistic behaviour occurs 'where one party to a transaction may undertake an action that affects the value of the transaction to the other party, who is not able to monitor the action perfectly or enforce it through the use of a binding contract.' (Lorenz 1999)

In essence each contracting party takes decisions that enhances its activities, whilst neglecting the other party's. In most market economies this is how capitalism works, however, Williamson's view of opportunism has been criticised as being a somewhat narrow, especially American view of how parties interact. In many countries the social culture is one where parties exhibit a much higher degree of trust than in America, but North American economists are 'ready to assume that people will be opportunistic unless there is a clear incentive not to be' (Loasby, 103:1999). Hofstede (1993) criticises transaction cost economics as being unduly narrow on this point, in that it is a theory that reflects competition between individuals, which is not actually how many cultures work.

Social mechanisms in contract relationships

The latest development in the study of institutions is the impact of culture in determining informal norms (Casson, 1993; Greif, 1994, 1997; Bowles, 1998), and the impact of social norms of behaviour in enhancing economic performance. These informal rules of social behaviour include trust, reciprocity and co-operation between people, which affect the costs of a transaction between exchanging parties. The field of social behaviour in economic transactions has been expanded in recent years particularly by the work of Granovetter (1985, 1992) and in specific fields such as trust (Casson 1997) and reciprocity (Parkhe 1993; Kashlak et al 1998). For managers of real estate involved in outsourcing contracts in foreign jurisdictions, different cultures will have different attitudes towards trust and co-operation between parties.

Kanter (1994) contends that inter-company alliances do not work well with the rational, technical, contractual approach so beloved of Western management. Rather, she observes that they tend to meet the following criteria, which also serve well to differentiate alliancing from outsourcing:

- Individual Excellence – both partners are strong in their core competencies and have something of value to contribute to the relationship
- Importance – partners have long-term goals in which the relationship play a key role
- Interdependence – the partners need each other
- Investment – the partners show tangible signs of long term commitment by devoting financial and other resources to the relationship
- Information – partners share information required to make the relationship work, including objectives and goals, technical data and knowledge of conflicts, trouble-spots and changing situations
- Integration – partners build broad connections between many people at different organisational levels, becoming both teachers and learners

- Institutionalisation – the relationship is given formal status, with clear responsibilities and decision processes, so that the partnership can survive the people who initially put it together
- Integrity – the partners behave honourably, enhance mutual trust, do not abuse confidential information and do not seek to undermine each other

Trust is defined by Casson as ‘a warranted belief that someone else will honour their obligations, not merely because of material incentives but out of moral commitment to ...’ (139:1997). Incomplete contracts and incomplete knowledge of both principals and agents makes trust essential to undertake any economic activity. Managers infer information from received communications and formulate expectations about the behaviour of the other party. Provided social rules of normal behaviour are similar between the managers, they can predict with some certainty what will happen and take appropriate action. Problems occur when managers have different expectations about what will happen next, and take action that could be detrimental to both parties.

Trust involves two issues, first that the other party has similar incentives and moral principles to ensure the success of contracted activity, and second that the parties judge the capabilities of the other to be competent to undertake the activity. Organisations provide the basis and environment for managers to assess the similarity of incentives and judge the competence of other managers. The fact that the managers work for the same organisation should provide similar overall goals, and seniority or authority within the organisation provides a quick assessment of another manager’s capability. Where managers are within different organisations, trust is not automatic; it can be generated but can also be dissipated. The formal contract between two organisations, acting as principal and agent, usually sets out the incentives to ensure appropriate behaviour. Moral principles are more likely to match where managers have similar backgrounds, for example similar professional training or the same socio-economic or cultural grouping. The judgement of the other party’s capabilities is usually made before the contract is underway, as part of the information and search costs of undertaking the activity in the market.

Meta –Analysis

It has been proposed by the authors to conduct a meta-analysis of studies into the social dimensions of the relationship between corporate real estate executives and outsource service providers. Meta-analysis is a research method that systematically combines and integrates results from a substantial body of partially comparable empirical studies (Capon, Farley & Hoenig 1990). Meta-analysis has been proposed in a corporate real estate context by Lopes (1995). Lopes (1995) conducted a meta-analysis of models relating to the financial, physical and human aspects of building occupancy, of which there had been many studies.

There are studies involving judgements about various corporate real estate topics using the research of others, which show some of the characteristics of meta-analysis.

However, these lack systematic analysis such as formal counting methodology or analysis of covariance, and may thus be more correctly categorised as literature reviews. Examples include Manning, Rodriguez and Roulac (1997) on corporate real estate outsourcing and Nourse and Roulac (1993) on links between real estate decisions and corporate strategy. Nevertheless, it is proposed to conduct a form of meta-analysis of these qualitative and any quantitative studies, if only to demonstrate the paucity of research into this important field. Such a study will also form a useful basis for further empirical studies on the topic to be carried out by the authors.

Conclusion

A number of studies have been carried out in trust between long term contracting parties, such as joint ventures but fewer have taken place in outsourcing real estate management services. Clear contractual terms between the parties are essential for any relationship between organisations, whether termed outsourcing, alliances or partnerships. However all contracts are by definition incomplete. Social mechanisms make up the gaps between in the formal rules of the contract. Of these social mechanisms, it is the authors' contention that trust is the most significant in ensuring a successful relationship. Trust is a function of frequency of interaction, duration of the contract (the shadow of the future-long time horizons) and high behavioural transparency. Clustering of agreements between firms such as alliances and partnering prevent opportunistic behaviour in any one particular situation, and allow the development of the belief in the capabilities of the other party in a variety of different situations.

This paper set out the theoretical framework for a form of meta-analysis of literature to find if other researchers have identified trust as an important institutional mechanism in the success of outsourcing contracts in real estate management. From the sample of literature surveyed, it appears as if such an analysis will find that scant attention has been paid to the social dimensions of a relationship – between corporate real estate executives and outsource service providers – that the authors contend has the potential to make or break an outsourcing contract. It appears that studies of the relationship between ongoing participants in outsourcing contracts would be useful.

References

- Becker F 1992 'Managing space efficiently: strategic portfolio management', in *Property Management*, Vol. 10, No. 4, pp. 305-311
- Becker F & Joroff M 1995 *Reinventing the Workplace*, Massachusetts Institute of Technology
- Blythe H 1998:1 'New Wave FM', in *Property Australia*, Vol. 12, No. 8, May, pp. 32-34
- Bowles, S. 1998 Endogenous Preferences: The Cultural Consequences of Markets and Other Economic Institutions, *Journal of Economic Literature* Vol. 36 (1) pp 75-112
- Brown R.K & Arnold A.L 1993 *Managing Corporate Real Estate*, John Wiley and Sons, New Jersey
- Brown S.L & Eisenhardt K.M 1997 'The Art of Continuous Change: Linking Complexity Theory and Time-paced Evolution in Relentlessly Shifting Organisations', in *Administrative Science Quarterly*, 42, pp. 1-34
- Capon, N., Farley, J.U., & Hoenig, S. 1990, 'Determinants of Financial Performance: A Meta-Analysis', in *Management Science*, Vol.16, No.10, October Issue, pp.1143-1159
- Carn, N.G & Black R.T 1995 *Trends and Issues Shaping Corporate Real Estate*, NACORE/ARES Corporate Real Estate Research Foundation, West Palm Beach, Florida
- Casson, M. 1993 Cultural Determinants of Economic Performance *Journal of Comparative Economics* Vol.17 pp 418-442
- Casson, M. 1997 *Information and Organization*, Clarendon Press, Oxford
- Coase, R. 1937 The Nature of the Firm *Economica* Vol. 4 pp 386-405
- Coase, R. 1960 The Problem of Social Cost *Journal of Law and Economics* Vol. 3 pp 1-44
- Cyert and March 1963 *Behavioural Theory of the Firm*, Prentice Hall Englewood Cliffs N.J.
- D'Aveni R.A with Gunther R 1994 *Hypercompetition: managing the dynamics of strategic maneuvering*, The Free Press, New York
- Eggertsson, T. 1990 *Economic Behaviour and Institutions*, Cambridge University Press, Cambridge
- Ellyard P. 1998, 'Strategies for the Management of Facilities in the 21st Century', in *The Valuer and Land Economist*, Vol. 35, No. 2, pp. 113 – 120
- Englert J. 1998, 'Alliance Management', in *Property Australia*, Vol. 12, No. 8, May, pp. 38-39
- Forman D 1995 'Toyota's quiz paves the way to performance', in *Business Review Weekly*, 3 April, pp. 74-76
- Gibson & Watts 1989
- Granovetter, M. 1985 Economic Action and Social Structure: the Problem of Embeddedness, *American Journal of Sociology* 91 (3) 481-510
- Granovetter, M. 1992 Economic Institutions as Social Constructions: A Framework for Analysis, *Acta Sociologica* 35, 3-11

- Greif, A. 1994 Cultural Beliefs and Organization of Society: A Historical and Theoretical Reflection of Collectivist and Individualist Societies, *Journal of Political Economy* Vol. 102 (5) pp 912-949
- Greif, A. 1997 On the Interrelations and Economic Implications of Economic, Social, Political and Normative Factors: Reflections from Two Late Medieval Societies in *The Frontiers of the New Institutional Economics* Drobak, J.N. and Nye, J.V.C. (Eds.) Academic Press, San Diego
- Handy C 1995 'Trust and the Virtual Organisation', in *Harvard Business Review*, May/June, pp. 40-42, 44, 46-50
- Hofstede, G. 1980 *Culture's Consequences* Sage Beverly Hills CA
- Hofstede, G. 1993 Cultural Constraints in Management Theories Academy of Management Executive Vol 7 no 1 81-94, [reprinted in (Eds) Lane, H.W., DiStefano, J. J., Maznevski, M.L, 1996. *International Management Behaviour* 3rd Ed Blackwell Cambridge, Mass.]
- IDRC Foundation 1996, 'The IDRC Foundation Research Bulletin 11 - A Corporate Real Estate Interactive Survey IDRC Philadelphia World Congress May 1996', IDRC, Atlanta.
- IDRC (International Development Research Council) & Ernst and Young 1996a, *Corporate Real Estate 2000 Asia Pacific Survey: Linking Corporate Real Estate Management to Changing Business Practices*, IDRC, Atlanta, Georgia
- IDRC (International Development Research Council) & Ernst and Young 1996b, *Corporate Real Estate 2000 European Survey: Linking Corporate Real Estate Management to Changing Business Practices*, IDRC, Atlanta, Georgia
- Jensen and Meckling 1976 *Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure* Journal of Financial Economics Vol 3 pp 305-360
- Joroff M, Louargand M, Lambert S & Becker F 1993 *Strategic Management of the Fifth Resource: Corporate Real Estate*, Industrial Development Research Foundation, Atlanta
- Kanter R.M 1994 'Collaborative Advantage: The Art of Alliances', in *Harvard Business Review*, July-August, pp. 96-108
- Kaslak, R.J., Chandran, R., Di Benedetto, C.A. 1998 Reciprocity in international business; a study of telecommunications alliances and contracts, *Journal of International Business Studies*, vol 29 no 2 281-305
- Kimbler L.B & Rutherford R.C 1993 'Corporate Real Estate Outsourcing: A Survey of the Issues', in *The Journal of Real Estate Research*, Vol. 8, No. 4, pp. 525-540
- Lambert, S., Poteete, J. & Waltch, A. 1995, *Generating High Performance Corporate Real Estate Service*, Massachusetts Institute of Technology, Cambridge
- Leifer W. 1998 'A Primer on the Evolving Role of Corporate Real Estate, in *Corporate Real Estate Executive*, June Issue, pp. 39, 43
- Loasby, Brian J 1999 *Knowledge Institutions and Evolution in Economics* Routledge London
- Lopes, J.L.R. 1995, 'A meta-model for corporate real estate management', in *Property Management*, Vol. 13, No. 4, pp.29-35

- Lorenz, E. 1999 Trust, contract and economic cooperation, *Cambridge Journal of Economics* 23, 301-315
- McDonagh, J. 1999 'Corporate Real Estate Asset Management in New Zealand', in *Proceedings of International Real Estate Society Conference 1999*, Kuala Lumpur, Malaysia
- McShane S.L 1995 *Canadian Organizational Behavior*, 2nd ed, Irwin, Toronto, p 482
- Manning C, Rodriguez M & Roulac S.E 1997 'How Much Corporate Real Estate Management Should be Outsourced?', in *Proceedings of 13th Annual Meeting of the American Real Estate Society, April 17-19 1997, Sarasota, Florida*
- Mole T & Taylor F 1992, 'Facility Management: Evolution or Revolution', in *Facilities Management: Research Directions*, Barrett, P. (Ed.), Royal Institution of Chartered Surveyors, London
- North, D.C. 1990 *Institutions, Institutional Change and Economic Performance* Cambridge University Press, Cambridge.
- North, D.C. 1996 Economic Performance Through Time, in *Empirical Studies in Institutional Change* Alston, L.J. Eggertsson, T. and North, D.C. (Eds.) Cambridge University Press, Cambridge.
- Nourse, H.O. & Roulac, S.E. 1993, 'Linking Real Estate Decisions to Corporate Strategy', in *The Journal of Real Estate Research*, Fall Issue, pp.475-493
- Parkhe, A. 1993 Strategic Alliance Structuring: a game theoretic and transaction cost examination of intrafirm cooperation, *Academy of Management Journal*, vol 36 no 4 794-829
- Oakerson, R.J. 1992 Analyzing the Commons: A Framework, in *Making the Commons Work: Theory, Practice and Policy* Bromely, D.W et al (Eds) Institute for Contemporary Studies Press, San Francisco, C.A.
- Oakerson, R.J. & Walker, S.T. 1997 Analyzing Policy Reforms and Reforming Policy Analysis: an Institutional Approach, in *Policy Analysis Concepts and Methods: an Institutional and Implementation Focus* JAI Press, Greenwich.
- Pfeffer J 1994 'What Effective Firms Do With People, in *Competitive Advantage Through People: Unleashing the Power of the Workforce*, Harvard Business School Press, Boston Massachusetts, pp. 27-65
- Pittman & Parker 1989
- Robbins S.P, Waters-Marsh T, Cacioppe R & Millett B 1994, *Organisational Behaviour: Concepts, Controversies and Applications*, Prentice Hall, Australia
- Rothery B & Robertson I 1995, *The Truth About Outsourcing*, Gower Publishing Ltd, Hampshire U.K.
- Scott, W.R. 1995 *Institutions and Organizations*, Sage Publications, Thousand Oaks, CA
- Teoh W. K 1993 'Corporate Real Estate Asset Management: the New Zealand Evidence', in *The Journal of Real Estate Research*, Vol. 8, No. 4, pp. 607-623
- Walters, M. & Kent, P. 2000 Institutional Economics and Property Strata Title. - A survey and case study, *Journal of Property Research*
- Williamson, O.E. 1975 *Markets and Hierarchies* Free Press New York
- Williamson, O.E. 1985 *The Economic Institutions of Capitalism*. Free Press New York
- Williamson, O. E. (1996) *The Mechanisms of Governance* Oxford University Press NY