

A Study of the Factors Affecting Corporate Real Estate Asset Management Practices in the Commercial Banking Sector in Sri Lanka

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Abstract

Corporate Real Estate Asset Management (CREAM) in Asia is an under-researched area when compared with Europe and America. This phenomenon is very evident in Sri Lanka and it is hard to find comprehensive studies on Corporate Real Estate Asset Management in the Sri Lankan context. Hence this research represents an attempt to enhance the current knowledge of CREAM in Sri Lanka.

The conceptualization of the study focuses on factors affecting to the current level of CREAM. Since it hardly covers the entire industrial sector of Sri Lanka, the study specifically focused on the Commercial Banking Sector of Sri Lanka. The current level of practices has been categorized passive, selective and active while factors affecting the level of practice has been evaluated based on three factors, namely, corporate, environmental and portfolio factors.

The study found that, in general, corporate real estate (CRE) is under-managed in the Commercial Banking sector in Sri Lanka and they are in passive mode. Empirical data-driven analytical techniques were adopted to identify the impact on factors on level of corporate real estate management. The results indicate that there is a positive correlation between corporate factors and portfolio factors and further it identified that there is no relationships between environmental factors and the level of management practice of their real estate.

The findings on CREAM practices and factors affecting the level of CREAM theoretically confirmed the importance of strategic planning as the key skill that corporate real estate managers need to be equipped with to meet the challenges ahead.

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1. Background

The establishment and maintenance of competitive advantage is the fundamental objective of corporate management (Porter, 1985). Corporate management has a significant role in formulating, implementing and evaluating cross-functional decisions that will enable an organization to achieve its objectives. This could be further elaborated as strategic management which is the process of specifying the organization's objectives, developing policies and plans to achieve set objectives, and allocating resources to implement the policies and plans. Strategic management, therefore, combines the activities of the various functional areas of a business to achieve organizational objectives. In this context the resources of the company are a key driving force which enables strategic decisions to achieve its primary objectives. Resource strengths and competitive capabilities deal with internal factors of the organization, which lead to competitive advantage. Therefore, the effective and efficient management of corporate resources is vital in crafting a competitive strategy for a company.

In considering the resources of the company, every firm gives high emphasis to human resources, technology, information, finance, etc. On the other hand, only marginal emphasis is placed on real estate. Despite their considerable value, little emphasis is placed on the strategic management of corporate real estate assets. According to Avis et al (1989); Veale (1989); Teoh, (1993); and Andersen (1995) real estate is a significant yet under managed segment of all corporate assets. The evidence showed that many executives claim that "we are not in the real estate business; hence, it is not a significant issue to the company". Further "Corporate Real Estate Asset Management is a function of the finance department and they will exercise concern for it". This is despite the fact that real estate represents 10 to 40 percent of the total assets and occupancy costs can range between 03 percent and 10 percent of revenue or 5 percent and 15 percent of total costs (Schaefers, 1999).

Corporate Real Estate Asset Management is an emerging trend in the business world. There are indications that especially American and British companies are beginning to reevaluate their policies of neglecting real estate assets (Avis et al., 1993); (Louargand, at el, 1993). A recent study by Schaefers (1999); Tay and Liow (2006) identified the increasing interest by non-real estate companies in CREAM and conclude that companies are awakening to the importance of their real estate holdings. In this regard, the study finds CREAM to be the most important theme in the current business world and tries to identify the Sri Lankan perspective on CREAM in non-real estate companies.

2. Management Problem

The banking sector of Sri Lanka can be identified as a major economic contributor to the Sri Lankan economy. According to the Central Bank (2006), the financial sector provided 10.4 percent contribution to the national economy in 2006. At present, there are 23 commercial banks in Sri Lanka and ten major banks have over 50 branches network across the country (Central Bank, 2008). These banks hold valuable fixed assets including corporate real estate.

The core business of commercial banks is dealing with financial markets. Therefore financial instruments play a vital role in the asset base of any bank. The financial nature of the banking

business ignores the importance of real estate assets leading to minor attention to the management of corporate real estate assets.

The analysis of the structure of fixed asset of banks explores the importance of CREA to a commercial bank. According to Table 01, the average contribution of corporate real estate varies from 60 percent to 75 percent of total fixed assets. Hence, it is evident that at a deeper level, corporate real estate is a significant contributor and plays a vital role in strategic planning.

Table 1 : Corporate Real Estate Asset and Fixed Asset Ratio of Eight Leading Commercial Banks in Sri Lanka

Bank	Rs 000 Land & Buildings	Rs 000 Fixed Assets	Percentage Distribution	
			Land & Buildings	Fixed Assets
Bank of Ceylon	3,289,953	1,853,978	63.95	36.05
Commercial Bank	1,979,139	1,238,123	61.52	38.48
Hatton National Bank	1762198	1145591	60.61	39.39
Nation Trust Bank	59,252	445,741	11.73	88.27
NDB Bank	407,631	264,252	60.67	39.33
Peoples' Bank	7,046,986	2,073,842	77.27	22.73
Sampath Bank	948,954	873,616	52.06	47.94
Seylan Bank	1,450,665	1,684,365	46.27	53.73

Source: Annual Reports of Respective Banks (2006)

A pilot survey on corporate real estate asset management of the above mentioned banks strengthened the argument of the study, where passive and selective management was evident. The questionnaire contains "Critical Success Factors" for effective corporate real estate asset management introduced by Schaefer in 1999. Representatives of each bank, who are actively involved in real estate management, were asked to rank the importance of each critical success factor and the status of practices. According to this analysis, there are three activity types identified, namely, Active, Selective and Passive. Only 23 percent of banks are actively involved in CREAM and 39 percent selectively manage CREA and the other 38 percent being passive. Hence, it was evident that 77 percent of major banks in Sri Lanka ignore the importance of the CREA and ultimately this poor management becomes a hidden burden to the banking sector in Sri Lanka.

3. Research Problem

In-depth analysis of practices of CREAM in the commercial banking sector is very crucial to policy makers in understanding the real situation of Sri Lankan CREAM. Factors contributing to the level of CREAM practice in the banking sector in Sri Lanka gives an insight into the problem to analyzers and policy makers. The study tries to find 'what factors affect CREAM in the commercial banking sector in Sri Lanka'.

4. Objectives

The general objective of the research study is to find out the factors that determine the CREAM practices in commercial banks in Sri Lanka and to identify the strength of each factor.

More specifically, the objective is to

- i. find out the factors affecting CREAM in the commercial banking sector in Sri Lanka and
- ii. find out the impact of factors on CREAM in the commercial banking sector in Sri Lanka

5. Significance of the Study

The mission and operational requirements of the organization drive the corporate real estate decision-making process. The literature on CREAM indicates that corporate real estate management has been inhibited by the low prestige given to it and the low priority given to it by management consultant groups and business schools. However, there is an emerging trend to treat it as a distinct management discipline and functional area of organizations. Most importantly, it recognizes potential of real estate to increase company profits. As a result, corporate real estate management must move towards the level of strategic decision making leading to a proactive, comprehensive, and portfolio-wide decision-making process.

With the introduction of the open economy in Sri Lanka in 1977, business activities boomed. In the new millennium, it is evident that there are many multinational companies and listed companies in Sri Lanka doing business on a large scale. Sri Lankan GDP in 2006 was valued at US\$ 27.2 billion, and there are three major sectors contributing to the economy - agriculture (18 percent), industry (26 percent) and services (56 percent) (Central Bank, 2006). This analysis reveals that the industry and services sector contributed more than 80 percent to the Sri Lankan economy. This strengthens the argument of the study where a larger percentage of companies can be identified as non-real estate sector companies and the real estate assets of these companies perform a hidden role from the wider management perspective. Hence, identifying the reasons behind poor CREAM is vital for developing an effective CREAM process in these companies.

6. Limitations

The main limitation of the study is that it is confined to the banking sector and limited to head offices and branches located in the City of Colombo. The pilot survey was done with 10 banks located within the City of Colombo. The rationale behind this selection is that a major percentage of corporate real estate was available in head offices and corporate branches only. This limitation could have affected the overall conclusions and generalization of the study.

The time frame of the research is another factor that limited the detailed analysis of all major banks. This was another reason for the study to be limited within the City of Colombo and only at corporate level. Further, due to the time frame it is not feasible to do a cross industry analysis. Hence, time is considered a limiting factor.

7. Literature Review

7.1 Real Estate

Real estate has a broad definition compared to land, because land includes only natural things whereas real estate includes natural as well as artificial things or man made improvements. Hence, real estate is defined as "the earth's surface extending downwards to the center of the earth and upwards to infinity, including things permanently attached by nature and man made improvements". Most of these artificial improvements are buildings and structures.

7.2 Corporate Real Estate

Corporate Real Estate (CRE) refers to the land and buildings owned by companies not primarily in the real estate business. Manning and Roulac (1999), define CRE as a property that houses productive activities of a traditional corporation. The broader definition of CRE given by Hiang and Ooi, (2000) who defined CRE as both business (operational) properties and other non business (investment) properties of a non-real estate corporation. The argument stated by Hiang and Ooi in 2000 is that in the current economic context real estate should be evaluated from a in macro economic view than rather than at a micro level. Hence, the study would consider a CRE as comprising both business (operational) properties and other non business (investment) properties of a non-real estate corporation.

7.3 Dimensions of CREAM

CREAM can be identified from three main standpoints, namely, corporate real estate planning to support the overall business strategy, organization structure of corporate real estate for the effective implementation of corporate real estate strategy and corporate real estate performance measurement.

7.4 Corporate Real Estate Planning

Corporate real estate planning is not thoroughly manifested in the business world. In most of the cases, researchers found reactive planning as against proactive planning. Avis et al. (1989) found little evidence on CREAM planning and practices by many firms. This was further supported by Schaefer (1999) in his empirical study of German companies. His result was that there is minimal improvement of or accommodation for proactive planning even 10 years after what Avis et al found in 1989.

Apgar (1995) indicated that there was little evidence on a strategic planning model in the current CREAM literature. Also, many middle and top managers strongly believe that CREAM cannot support strategic business planning. The reasons behind this argument is that CREAM planning is for more than a five to six year period where as in the competitive world strategic business planning is done only for in a one to three year time frame. The other reason was that lack of an information system or database hinders decision making, while prevailing information can be used for accounting/financial decisions only (Bon, 1994; Carn et al., 1999).

7.5 Corporate Real Estate Organizing Structure

CREAM organizational structure is the second most important area leading to strategic support of the organization. Structure is defined as the organizational set up for operations. The structure facilitates the effective management of corporate real estate asset management to achieve set objectives. Zeckhauser and Silverman (1983) identified three basic types of CREAM structures: decentralized, centralized and fully owned subsidiary. A decentralized structure is where management of real estate is the responsibility of each department or functional area. A centralized structure provides central decision making at a particular level of the organizational hierarchical ladder. On the other hand, a wholly owned subsidiary controls some or all of the company's real estate as a separate business entity. Veale (1989) puts forward different views on this analysis and classifies organizational structure as profit centers and cost centers. Even though it is identified as a contradictory concept, a wholly owned subsidiary can be classified as a profit centre and centralized and decentralized structures as cost centres of the organization. The linkage between Zeckhauser and Silverman, and Veale defined by Rutherford and Stone in 1989 are currently discussed at great length. According to Carn et al (1999) senior management does not have a clear definition or difference between profit and cost centre analysis on CREAM. Hence, what Zeckhauser and Silverman put forward in 1983 is still recommended by many researchers.

7.6 Corporate Real Estate Performance System

The final key area of CREAM is performance measurement. The effectiveness of the real estate asset management is evaluated through performance measurements. Therefore, it is a critical element of the CREAM process. Duckworth (1993) indicated that greater attention should be given to the development of tools for monitoring real estate. According to Veale (1989), there are seven criteria that affect real estate performance: the presence of a formal real estate unit; the use of a management information system for real estate operations; the use of property accounting methods; the frequency of reporting real estate information to senior management; the exposure of real estate executives to overall corporate strategy and planning; the availability of information and methods for evaluating real estate performance and use; and the performance of real estate assets relative to corporate assets. Veale's discussion covered a large area and he evaluated real estate performances by looking at the planning and implementing structure of the Real Estate Unit in an organization. The problem is that Veale did not give attention to how much and to what extent real estate supported the overall organizational strategic objectives.

Tay et al (2006) identify the four factors that affect real estate performance: the size of the firm and existence of a real estate unit, business environment, portfolio related factors such as geographical spread and size of real estate, management related factors such as attitudes, preference to lease or own etc. This analysis again discusses the factors affecting real estate performances and not how and to what extent it supports corporate objectives.

Barkley (2000) introduced the Balance Scorecard as the best tool for analyzing real estate performances. The Balance Scorecard provides the overall evaluation of the real estate from four different perspectives which ultimately result in shareholders' wealth / value maximization. The Balance Scorecard evaluates performance of corporate real estate from four perspectives:

customer, financial, operations and innovation aspects. It critically evaluates how real estate management supports the overall corporate objectives which maximize shareholder value.

7.7 Corporate Real Estate Assets Management

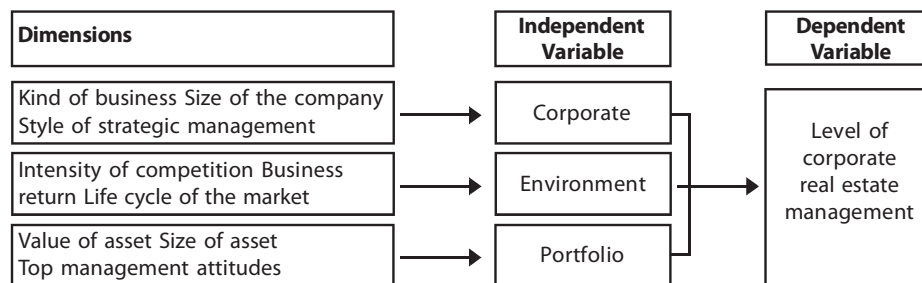
The level of CREAM practice depends on a set of independent factors. The literature on factors affecting CREAM provides a comprehensive variable set. Teoh (1992) identified two factors (primary and secondary) that contribute to CREAM performance. In this context, corporate attitudes, structure of the corporate real estate unit, organization of property inventory records were identified as primary contributors while real estate staff and rewards system were identified as secondary factors. Also Teoh (1992) stated that Veale (1989) Gale and Case (1989) and Pittman and Parker (1989) gave a parallel view and supportive arguments for it. Also Liow and Tay (2006) empirically tested four factors that contribute to corporate real estate performances, which are corporate related, business environment related, portfolio related and management related factors. On the other hand, Schaefer (1999) identified corporate, environmental and portfolio factors as the factors which affect effective CREAM practices. It is evident that some of the factors identified by Teoh overlap with those of Schaefer and *vice versa*.

8. Conceptual Model

The model introduced by Schaefer (1999) is used as a foundation for conceptualization and has been adapted through a comprehensive literature review. According to Schaefer (1999), the Level of Corporate Real Estate Asset Management (Level of CREAM) is identified as the dependent variable, and three broad variables have been identified as independent variables, which change the status of corporate real estate asset management. These three variables are identified as Corporate, Environmental and Portfolio related variables.

The dimensions of independent variables were determined based on Schaefer (1999) and many other researchers who had made a significant contribution to corporate real estate asset management discipline. The holistic analysis of the variable definition is shown in Figure 01.

Figure 1: Conceptual Model



Source : Schaefer. W., *Corporate Real Estate Management: Evidence from German Companies*, *Journal of Real Estate Research*, 1999, p 304 (Adapted)

8.1 Hypotheses

- H1: there is a positive relationship between corporate factors and the level of corporate real estate management.
- H2: there is a positive relationship between environmental factors and the level of corporate real estate management.
- H3: there is a positive relationship between portfolio factors and the level of corporate real estate management.

9. Operationalization of Variables

This study proposed to examine the hypothesized relationships between the level of corporate real estate asset management and its related independent variables, viz, corporate, environmental and portfolio factors.

10. Corporate factors

Corporate related factors are described as selected, descriptive and strategic variables that can have an impact on CREAM (Schaefers, 1999). These factors include type of industry, size of the firm and management style.

a. *Type of industry/kind of business*

Gale and Case (1989) and Avis et al (1993) identified that the retail and service sector business is concerned more with corporate real estate compared to other sector businesses. This is mainly due to the essentiality of real estate in the retail and service sector management system. Also, Schaefers (1999) proved this argument based on empirical evidence from German companies, and identified that companies in the service and retail industries typically have an active real estate management system rather than become passive or selective.

b. *Size of the firm*

Size is defined based on the number of employees and turnover of the company commonly known as sales (Schaefers, 1999). Veale (1989) emphasized that the size of the firm has little bearing on CRE performance. Schaefers (1999) providing empirical evidences from German companies concludes that size of the firm has a positive correlation with real estate performance. His finding was that if the firm becomes large in terms of staff and turnover (sales) base, a proactive approach to corporate real estate is evident, and on the other hand a firm small in size does not provide sufficient management emphasis on corporate real estate.

c. Management style

Zeckhauser and Silverman (1983), who were pioneers on corporate real estate asset management, identified three management styles, namely, centralization, where all real estate decisions for the firm are made in the centralized department, decentralized where management of real estate is the responsibility of each production department, wholly own subsidiary where control of some or all the company's real estate is done by a specialized firm under the ownership of the main company. Considering the literature of Zeckhauser, Silverman, Veale (1989) and Parker (1989) it has been concluded that management style has a positive correlation with level of CREAM.

11. Environmental factors

The environment related factors concentrate on the impact of the external environment on CREAM practices (Schaefer, 1999). In this context, the economic situation, life cycle of the industry and intensity of competition had a significant impact on the level of CREAM of a company.

a. Economic situation

Avis et al (1989) identified that organizations strategically look at corporate real estate only when companies are undergoing economic recession. Schaefer (1999) also stands by the same argument, but Schaefer does not establish a strong relationship between the economic situation and level of Real Estate Management. By considering both arguments, the economic situation is considered as a dimension of the environmental factor.

b. Life cycle of the industry or firm

Schaefer (1999) in his research on CREAM practices in German companies measured the impact on life cycle and identified that companies in the introductory stage have little concern for CREAM while at maturity show advanced concern. This is because at the maturity stage the company owns a larger percentage of real estate and once they become mature they have enough time to focus on secondary areas of the business such as corporate real estate.

c. Competition

Once competition increases, management on CREAM gradually increases. This is mainly because CREAM by itself works as a factor which gives competitive advantage to a corporation (Schaefer, 1999). This is external to the company and operates at a macro environmental level.

12. Portfolio factors

Portfolio related factors includes size and geographical distribution of real estate portfolio and existence of a property data base (Tay and Liow, 2006). Value of assets, size of asset, composition of asset and top management attitudes are identified by Schaefer (1999) as portfolio related variables.

a. *Geographical spread*

Veale (1989) identified that firms give a higher level of attention and above average real estate performances, if there is a wider spread of the stock of corporate real estate. This argument is proved by Teoh (1992) and also McDonagh (2002). Further, McDonagh (2002) identified that management of a real estate information system is an essential factor in the performance of widely spread real estate.

b. *Value of assets*

Balance sheet/historical value of corporate real estate assets has been considered as the value of assets. Analysts regard this aspect as very limited and Schaefer (1999) identified that when the book value increases the style of management changes to the active stage.

c. *Size of asset*

The size of the asset was defined based on square metres of total real estate assets available in the company. Schaefer (1999) found a positive relationship between the size of the asset (land and building) and level of management.

d. *Management attitudes*

Gale and Case (1989) identified that management attitudes have a negative impact on Corporate Real Estate Management. In most cases, when the managers were asked about real estate practices, they replied, "We are not in the real estate business", and also financial analysis indicates that it is their job that they be concerned about real estate when planning the finance of the company.

Operationalization of variable shown in Table 02

Table 2: Operationalisation of Variables - Factors Affecting Level of CREAM Factors Affecting CREAM

Concept	Variable	Indicator/Measures
Corporate Factors	Kind of business	Type of business or category. (Trade, retail services, manufacturing....)
	Size of the firm	How turnover (sales) and no. of employees affect CREAM decision
	Management style	Centralization and decentralized decision making
Environmental Factors	Economic situation	Prevailing economic situation of the country and its impact on Level of CREAM
	Life cycle of the industry or firm	Life cycle of the industry or firm and its impact on Level of CREAM
	Competition	Prevailing competition within the industry and its impact on Level of CREAM
Portfolio Factors	Geographical Spread	Geographical spread of corporate real estate assets
	Value of Asset	Financial value (Balance Sheet) of corporate real estate assets
	Size of Asset	Area (square metres) of total real estate assets available
	Management attitudes	Values and beliefs on corporate real estate

Source: Compiled by Author

13. Population and Sample

The population of the study covered all the commercial banks functioning as at 1st January 2008. There were 23 commercial banks functioning in Sri Lanka as at the mentioned date (Central Bank, 2008).

When considering the banking population, it would be evident that it comprises different clusters according to the number of branches. Ranasinghe and Fonseka (1998) indicate that a biased sample results when using random sampling in a heterogeneous population, which would defeat the purpose of the study.

Accordingly a sample size of 28 of commercial banks should be evaluated to generalize the findings for the banking industry. The nature of the banking industry itself dilutes the findings if the research covers 28 banks, because of the low real estate based in small operators. Therefore this research reduces the sample to 10 banks considering the nature and operation on industry. Table 03 shows the distribution of the sample.

Table 3 : Stratified Random (Disproportionate) Sampling of Commercial Banks based on Number of Branches

No of Branches	Population Size (N)	Sample Size (n)
over 50	6	5
49-20	4	3
19-0	13	2
Total	23	10

Source: Compiled by Author

14. Analysis

The study proceeded in two stages. First, it identified the correlation of factors and level of CREAM. Then it tested the three hypotheses. The analysis evaluates the importance of each factor and its relationship with the current level of CREAM in the Commercial Banking sector of Sri Lanka. Since the sample size is 10, the entire hypothesis was tested based on Spearman's Correlation and conclusions were based thereon.

Corporate factors

Corporate factors were analyzed on three subcategories, namely, kind of business, size of the firm and management style.

According to the Spearman's Correlation Analysis, there is a relationship between corporate factor and the level of CREAM. This relationship was identified as 0.6930 with a 0.026 significance level. Hence, it is evident that this relationship is positive. The analysis showed that the correlation between the Level of CREAM and corporate factors is significant at 0.05 level of significance. The relationship was moderately strong. Thus, it is concluded that "there is a positive relationship between corporate factors and level of CREAM".

Environmental factors

Spearman's Correlation Analysis was done to evaluate the relationship between the level of CREAM and environmental factors. The analysis indicates a - 0.372 relationship with a 0.290 of significant level. The analysis showed that the correlation between the level of CREAM and

environmental factors is weak. The negative sign indicates the negativity of the relationship with an inverse relationship between the independent variable and dependent variable. Therefore, the relationship is stated as negative. Since this correlation model is not significant (0.290), the existence of this relationship is not possible in the real world. Hence, a null hypothesis accepted, and the stated hypothesis was rejected. Therefore, it is concluded that there is no relationship between the level of CREAM and environmental factors.

Portfolio factors

Spearman's Correlation (R) between the independent variable and dependent variable is 0.650, which is a moderate correlation. The analysis showed that the correlation between the level of CREAM and portfolio factors is significant (0.042) at 5 percent level of confidence and the relationship was in moderate form. Further, the relationship was in a positive form. Hence, the null hypothesis was rejected and the stated hypothesis accepted. Therefore, it could be concluded that there is a relationship between the level of CREAM and portfolio factors. Further, it can be concluded that the relationship is of a positive nature.

15. Discussions

Discussions took place on the relationship established between the dependent and independent variables of the hypothesis in the light of existing knowledge and the literature review. On the other hand, the findings of the study are expected to make a substantial contribution to the banking industry. First it discussed the implications of the hypothesis tested for the banking industry and next it discussed the implication of the findings for real estate managers who had a major responsibility to uplift the real estate portfolio in their business.

16. Acceptance of Hypothesis 01

Hypothesis 01 explores the relationship between corporate factors and its impact on level of CREAM. The conclusion was that, "There is a relationship between corporate factors and level of CREAM" Further, it identified a positive relationship between these two factors.

Gale and Case, 1989 and Avis et al. 1993 presumed that mainly retail and service sector companies have an active management style on their CREA due to the relatively important role of property in their management system. The banking sector also can be considered a sector which is more toward the service or retail sector that contributes to the country's economic development. Hence, the acceptance of Hypothesis 01 has revealed possible causes for CREAM practices in commercial banks due to its retail or service nature. Also, it gives clear insights for real estate managers regarding the managers' role in relation to an active management system.

The current analysis showed that the present banking sector of Sri Lanka had a passive approach on their real estate. As noted in the management problem, this had a hidden

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burden to achieving strategic objectives in the banking sector. Hence, the banking sector has to be actively involved with decision making on corporate factors. Through that, banks can gradually increase the level of CREAM from passive to active level.

With regard to the kind of business, Schaefer (1999) identified that the retail sector had an important role in their CREAM. Indeed, the results indicate that to maintain the active Level of CREAM, commercial banks should critically evaluate the retail sector activities. These include space management and related activities to improve customer satisfaction. By providing effective circulating space, banks can increase their customer satisfaction and ultimately their impact on achieving the strategic goals of the Bank.

The size of the firm is the next criterion in Corporate Factors. Hence, banks have to consider the related factor on size of the firm and its impact on CREAM. Space management in the banking system is crucial in this matter. If an increase of employee population and sales is evident, it should be actively involved with their real estate management. In this context, management of the bank has to attend to the following activities.

- Constant review of real estate utilization
- Minimize the services breakdown which had a major impact on day-to-day activities
- Effective allocation of space/area to staff members
- Review on staff space relation or ratio periodically

According to Bon (2002), a constant review of real estate is important for an active level of CREAM. Space per employee is a measure of resource efficiency, how well the organization utilizes its resources and the degree to which it has increased the density of occupation. Space per employee also measures effectiveness. The higher the amount of space for CREAM, the less internal resources devoted to the management of CREAM. Therefore, commercial banks should pay keen attention to the number of employees of the bank, existing space and number of properties available to the bank.

Management style is the next criterion. The corporate Real Estate Asset Management Research Unit of the University of Reading identified that centralized decision making results in low levels of CREAM practices. It is evident that presently almost all banks follow a centralized decision making system. This was the reason for poor management of their real estate. Centralized decision making hinders effective decision making on corporate real estate. Further, this is crucial at branch level where each branch has to get regional office approval and head office approval when there is a major real estate decision to make. Therefore, to maintain an active level of CREAM the Commercial Banking sector has to change their management style to a decentralized structure. To implement that, the bank has to allow decision making power to the real estate department on real estate decisions and allow appropriate decision making power to the local branch, rather than taking decisions through centralized management.

17. Rejection of Hypothesis 02

Hypothesis Two measured the impact of environmental factors on the level of CREAM. Correlation analysis rejected the alternative hypothesis and accepted the null hypothesis. This indicates that there is no relationship between environmental factors and the level of CREAM of a bank.

An assessment of the impact of the environmental situation is made using market characteristics like market growth, industry return and intensity of competition as proxy measures of the economic conditions in the particular industry. It is argued that organizations take property matters more seriously and therefore actively when they are under severe economic pressure in their main business (Avis et al. 1993). Even the literature argues a positive relationship between environmental factors and CREAM. Sri Lankan banking sector does not fall into that category. Hence, it can be argued that economic factors do not have any impact on the Level of CREAM in the commercial banking sector in Sri Lanka.

Preliminary analyses on correlation between environmental factors and Level of CREAM showed a negative relationship. Even this negative relationship is not very significant. Therefore, in the Sri Lankan context, the study concludes that there is no relationship between economic factors and the level of CREAM.

18. Acceptance of Hypothesis 03

The third hypothesis evaluated the relationship between portfolio factors and the Level of CREAM. The value of the asset, size of asset and top management attitude were considered as factors that contribute to portfolio factors. Correlation analysis showed that there is a positive relationship between Portfolio factors and Level of CREAM.

The findings show that Portfolio value and size are highly correlated with the style of CREAM management. In addition, the attitude of top management has an impact on the level of CREAM. First, the influence of the value of real estate holdings on the managerial status is tested. In this context, one may argue that the more the real estate assets in the balance sheet, the more active property management. Given the complexity and confidentiality issues involved, it was unfortunately impossible to receive data as to the current market value of their real estate holdings from the respondent companies. According to Schaefer (1999), most companies with a real estate portion of more than 30 percent of total assets are dominated by an active management style. Similarly, the size of the real estate portfolio in general had positive implications on the level of CREAM. The analysis is based on the hypothesis that companies with a comparatively large real estate portfolio (measured in terms of physical space) would tend to adopt an active approach to CREAM management.

A final indicator on portfolio factors is management attitude. According to the literature, management attitudes have a major impact on the Level of CREAM. Since most managers are from financial, marketing and business management backgrounds, they do not have the required competencies in real estate management. Further, they do not really appreciate the

importance of real estate management or its potential savings for the bank. Therefore, it is important to change this attitudinal factor to increase the Level of CREAM of commercial banks.

19. Future Research

This research focused on the level of CREAM and factors affecting CREAM. The current study had a few limitations and future research should attempt to resolve these limitations.

The current study is limited to the head office and not extended to branch level. Therefore, important factors at branch level may have been ignored or missed out. Therefore, future studies should cover branch levels.

20. Conclusion

The management problem showed that the commercial banking sector showed a passive level of CREAM over the period. Hence the research problem was to identify the factors affecting the level of CREAM in the commercial banking sector in Sri Lanka.

A correlation analysis on hypothesis testing, accepted two hypotheses and one was rejected. According to Hypothesis 01, it showed that there is a positive relationship between corporate factors and the level of CREAM practices in the Commercial Banking sector in Sri Lanka. These factors are well accepted in many European countries and the USA. Hence, it is concluded that the kind of business, size of the bank, and management style have a positive impact on the level of CREAM in the commercial banking sector in Sri Lanka. Management implications of this were that banks have to be concerned with space management, changes of size of company (employee-view and sales turnover-view) and the management style of the banks. Then commercial banks in Sri Lanka could have an active CREAM.

Hypothesis 03 identified that there is a positive relationship between portfolio factors and the level of CREAM in the commercial banking sector in Sri Lanka. Hence, it concluded that there is a positive impact on the geographical spread of real estate, value of assets, size of assets and management attitude on the level of CREAM in the commercial banking sector of Sri Lanka. Hence, commercial banks must be concerned with the management of geographically spread real estate effectively. Further, it should give attention to the value changes of their real estate and size of the portfolio. Once real estate spreads over a wider geographical area, it becomes isolated from the central management. The reason is that the present central management cannot be extended to a deep rooted concern for geographically scattered real estate. Hence, the study concludes that it should have a decentralized system of management if banks' real estate portfolio is scattered over a wider geographical area. The change of manager attitudes is discussed next. It found that managers have a negative view on real estate. They believe it is not an important part of the overall business process. Therefore, the bank and other decision makers should emphasise the importance of real estate to the bank and introduce good real estate practices.

Because of the rejection of the second hypothesis, the study validates the null hypothesis. The null hypothesis stated "there is no relationship between Environmental Factors and Corporate Real Estate Asset Management". Hence, the study concludes that there is no impact from factors, namely, economic, competition and life cycle on level of CREAM.

This study is the first to be performed on the topic of CREAM in Sri Lanka. The analysis of factors affecting CREAM in Sri Lankan commercial banks was done by developing the conceptual framework by referring to many scholarly articles and literature. An empirical study of Commercial Banks provided detailed information on CREAM and research shows that despite their significant value and associated costs, CRE assets are at present seriously undermanaged by the vast majority of the sample. It seems that the international "bandwagon" of active CRE management has not yet reached them. However, there are indications that in some companies the management of CRE is evolving into a recognized management activity that requires a more formal and systematic approach. Effective real estate management means moving beyond reactive and decentralized decision making which are fragmented across the organization towards a proactive, comprehensive and portfolio wide management, well supported by adequate and timely information and the commitment of top management (Veale, 1989).

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