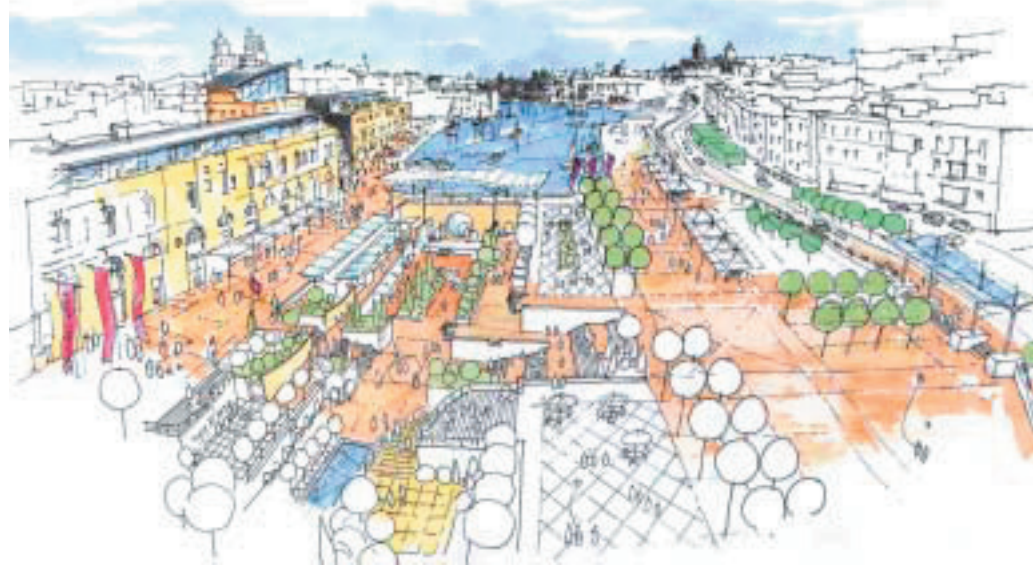


An Integrated Approach to Corporate Real Estate, Social Responsibility and Shareholder Value

By Charlie Hughes



The redevelopment of the historic dry dock/port area within Grand Harbor, Malta, integrated design with a major new marina and onshore development.

At last year's meeting of the Aspen Institute in Lyon, France, an energetic debate took place on the linkage between the mature application of corporate social responsibility policies by major international corporations and the continuing strength and security of Western democracies in an age of commercial globalization and cultural conflict.

September 11 and corporate scandals, like those from Enron and WorldCom, have added prophetic value to the Aspen debate and ensured that issues of transparency and social responsibility are no longer to be treated as convenient bolt-ons, but as central elements for corporate and commercial survival.

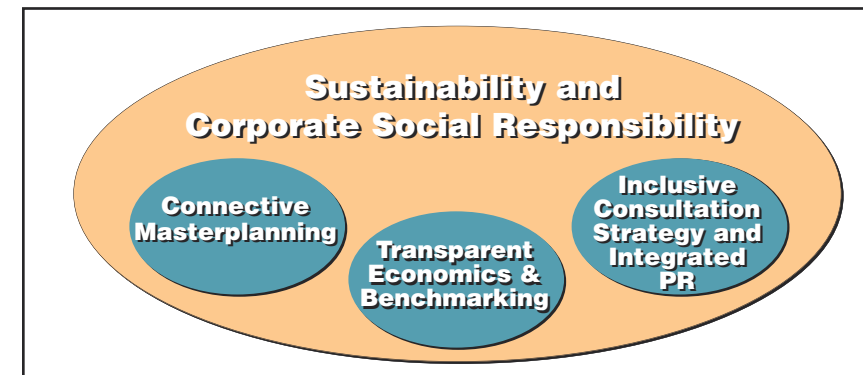
Of course, many successful international corporations already have

mature corporate social responsibility (CSR) policies and procedures in place in relation to their core businesses, but only very rarely is this extended to corporate real estate. Why is this?

For most organizations, CSR policies and procedures are put in place by the corporate board of directors because they are seen to be relevant to the "bigger picture" of brand value and the perception of the company by investors, markets, competitors and the wider community. Inevitably in such a situation the focus will be on core business activities and, for most corporations, the corporate real estate (CRE) executive does not occupy a place on the board of directors (or indeed report directly to the board). In this context it is easy for real estate to be seen as a peripheral issue unrelated, or

having limited relevance, to core board policies or aspirations. Equally, key real estate decisions are often made by regional or national management who are insufficiently aware of "the bigger picture" and the direct linkage between real estate and brand/shareholder value.

In this paper I want to concentrate on the area of plant redundancy, closure and disposal because it is here that, for most companies, social responsibility is most noticeable by its absence, and yet at the same time negative impact upon brand value and the perception of the company is at its greatest. This is particularly topical given the current global downsizing by many corporations and the frank, although perhaps ill-advised, admission by the CRE vice presidents of two major multinational corporations at a



recent CRE conference, that the key driver of global location strategy for them was the presence of relaxed labor laws, allowing minimal cost/time exit from those locations. Undoubtedly the status quo is to minimize any further costs in connection with the redundant plant and to dispose as quickly as possible.

In some situations, such as a major 'cash call' from headquarters, this will be inevitable. Unfortunately, while plant redundancy can be a result of rationalization following a merger or an acquisition, it all too often results from unfavorable market conditions either globally or within a particular operational region. Selling in a depressed property market, if it is possible at all, will normally be at minimal or below book value. At the same time, disposal will be equated by observers as the avoidance of responsibility and will often carry with it long-term 'polluter pays' risks, certainly in Europe. In many areas consideration of viable re-use will be hampered by a negative approach from planning authorities and governmental agencies adopting a conflict-led mindset in response to the corporation's rapid closure and disposal approach. This is the worst possible outcome for the corporation – minimum financial return from the disposal and maximum negative impact upon brand value and the external perception of the company. In such an apparently negative context how can benefit to the corporation be maximized?

Integrated CSR and CRE

Over the last few years, working with large corporate and governmental clients, we have progressively developed an innovative methodology that integrates the processes of corporate real estate disposal with main board corporate social responsibility policies and procedures. Our central thesis is that – contrary to initial, sometimes skeptical, reactions from CRE executives and appointed brokers – taking a sustainable, socially responsible approach to real estate disposal will not add significant time, cost or risk to the process, but rather will save time, reduce financial and other risks, and add significant shareholder and sustainable brand value.

What is the essential aim of the methodology? Production plants – whether they are for computers, automobiles or refrigerators – bind, support and sustain the communities within which they operate in ways other than simply the provision of employment. When that plant ceases operations, the corporate and the wider communities suffer economic, social and very often environmental damage. In their core businesses, corporations with mature corporate social responsibility policies will ensure that their activities bring social, economic and environmental benefits to their employees and the wider community.

We take the view that it is entirely logical for these corporations, and ultimately all corporations, to dis-

pose of real estate in a way that minimizes social, economic and environmental damage and, in so doing, minimizes the negative brand impact of downsizing. It must be stressed at the outset that we are not expecting corporations to become real estate developers. We are rather proposing that sufficient pre-development input be applied to redundant real estate to allow effective disposals or joint-ventures to take place which will facilitate the corporation buying into a wide range of added value, none of which can be achieved through a "just hurry up and sell it" approach. While our methodology must retain sufficient flexibility to deal with specific circumstances and the aspirations and needs of individual corporations, nevertheless there are three key elements which we believe are common to any sustainable, socially responsible approach to real estate disposal.

Inclusive Consultation and Integrated Public Relations

Properly managed collaborative stakeholder workshops are not an opportunity to delay the disposal process through endless debate, but are instead a professionally facilitated medium for understanding the various social, economic and environmental impacts of plant closure and for informing the production of "options for change" in the master-planning phase.

For major plant closures that will have significant local, regional and sometimes national impact, stakeholder groups may include politicians, government agencies and economic development units. It is essential that the process of consultation is properly audited and that the corporation's wider public relations (PR) activities are fully integrated with the process from Day One. Integrated PR must also extend across the other two elements of the methodology for maximum impact.

There is nothing cynical in this. How often have we witnessed **continued**

first-class PR and media outreach from global automobile manufacturers on the launch of a new model, while at the same time being surprised by the complete absence of any beneficial PR at the time of plant closure? This is unnecessary, commercially damaging and wholly illogical. Plant closures, when treated in a sustainable, socially responsible manner, can produce good news.

Transparent Economics

Matt Cullen, the chairman of CoreNet Global, was recently quoted as saying: "I think we all recognize the need for transparency from an accounting perspective in financial transactions."

This comment was made with direct reference to real estate transactions, but how often have we seen economic transparency applied to plant closures? Transparency in such situations has in the past been resisted on the grounds of "commercial confidentiality," but who is the confidentiality protecting? The real cost of plant closure will often make real estate returns seem insignificant and, as stated earlier, bottom-line financial returns from disposal are very often diminished by a depressed market and oversupply. Yet how often have we seen corporations suffer negative impacts from pressure groups and the media accusing them of gaining massive commercial advantage from a closure?

Equally, in considering redevelopment options to maximize disposal value, lack of economic transparency, in our experience, creates an atmosphere of mistrust between the corporation and those very authorities which are responsible for granting development consents. Taking an "open book" approach to site closure and redevelopment costs and returns creates an atmosphere of collaboration and trust. The economic aspirations of the land-owning corporation are fully reflected in the economic

model, and transparency assists in moderating unreasonable or unsustainable expectations on the part of the wider stakeholders. Brand value and corporate credibility are immediate winners in this context.

In many European countries operational plants will have been established with the aid of regional grants which, in some cases, will be repayable on closure. At the same time, pursuing viable redevelopment options may require transfer of land and, in some cases, land and cash to the municipalities involved. Adopting a transparent economic model allows common agreement to be reached on the ways in which the finances of redevelopment can be applied for maximum social, economic and environmental benefit.

Connective Master Planning

We use "connective" in the sense that the master planning of the redevelopment of redundant operational sites should address those connective social, economic and environmental linkages in the community which will be negatively impacted upon by the plant closure, and which will have been properly examined through the stakeholder consultation process. Connective master planning produces redevelopment "options for change" which are subjected to an economic and sustainability audit resulting in the production of a definitive redevelopment master plan. At that point, the plan can be seen to be economically viable from the corporation's point of view; has the support of all key stakeholders; and forms the basis, together with the economic model, of an effective disposal to, or joint venture with, developers and investors.

Case Study from Malta

We are currently applying our integrated CSR/CRE methodology in our role as master planners for the Malta DryDocks Co., a quasi-governmental organization and the largest employer on the island of Malta in the Mediterranean.

Miller Hughes worked very closely with the chairman and chief executive of the company to prepare presentations to government ministers reviewing the economic, social and environmental benefits of the process. Strong support has been received from the Maltese government and has led to an invitation to move forward with the process, integrating it with the formation of strategic spatial development frameworks for all of the company's waterfront land and the Grand Harbour.

The CEO of Malta DryDocks Co. comments: "Part of my role is governance of our companies' substantial property portfolios. At a time of ongoing scale reductions in core operations, non-operational land must bring maximum value to the company. Right-sizing and restructuring the business in a context where labor unions have considerable strength and direct political access is an issue of great sensitivity."

The bigger picture, he says, is that Malta is currently in the next line of accession countries to join the European Union. Should this happen, he observes, two key factors will have to be taken into account in planning. "Firstly, government direct subsidy to our companies will not be allowed under current European state-aid rules. Restructuring of the business will therefore have to proceed apace to ensure international competitiveness without direct subsidy, and the effective use of our land portfolio is an essential part of this process. Secondly, the opportunity will arise to access European Structural Fund support for regeneration, economic and financial restructuring, etc. It is therefore essential that any steps we take now with regard to our portfolio place the Malta shipyards, and indeed Malta, in the most advantageous position to secure such funding against competition from other accession countries and existing EU members."

The CSR/CRE methodology, he adds,

Benefits of the Integrated Corporate Social Responsibility – Corporate Real Estate Methodology

For the Corporation:

- Direct corporate access to highest levels of government and key public authorities
- Support of local mayors and communities, with attendant improvement in labor relationships and "softer" view of foreign ownership
- More favorable political and organized labor response to "right-sizing" and corporate restructuring
- Widely perceived leadership of economic, social and environmental issues leveraging the status of the corporation within society; in particular, leadership in economic transparency and business probity at time of cultural change
- Beneficial and more rapid licenses with direct financial and operational impacts
- Portfolio-wide leverage/cross fertilization
- Managed exit routes with no PR or economic downside
- More favorable media coverage
- Major CRE contribution to corporate, ethical/sustainability profile and performance, leveraging the corporation's membership of "global ethical club" (e.g. FTSE 4 GOOD index)

For the CRE Executive:

- Direct main board representation/access
- Access to key policy and political activities of corporation with direct influence on decision making
- Perceived relevance to core business and license to operate
- Greater peer recognition and support
- Improved HR liaison
- Leadership status with industry-wide potential

"is both actively assisting the corporation in achieving support for our restructuring program, and also preparing us to maximize the benefits of EU grant support. The process, with its central attention to social, ethical and sustainability issues, is an innovative way to address a wide range of current Maltese national imperatives and EU policies and guidelines, not least the pressing need for Malta to move forward a more financially transparent property market."

Where Next?

The application of corporate social responsibility and ethical business standards to corporate real estate will not go away. In a post-Enron/WorldCom world, it is untenable for global corporations which

are acknowledged as world leaders in the application of CSR to their core businesses to dispose of redundant operational sites by terminating the employment of sometimes thousands of workers, locking the gates and instructing agents to "sell to the highest bidder."

As noted earlier, downsizing often takes place in the context of economic recession or market fragility and, in this situation, the CRE executive is under enormous pressure to produce early cash flow from property disposals. CRE executives will need to make themselves more aware of the impact of real estate on "bigger picture" issues such as corporate brand value and ethical investment patterns, but equally they will need a stronger base of support in adequately and accurately presenting the real risks and returns of a more mature and informed approach to their executive boards. This will require focused research and the development of appropriate measurement tools. CoreNet Global, with its education partners, is in a position to recognize this need on the part of their members by considering the potential for the following:

- Further development of measurement tools:
 - brand impact
 - social capital
- CSR/ethical investment monitor
- Development of research and training programs for CRE executives – "leadership beyond the bounds of real estate"
- Repositioning of corporate real estate within a corporate social responsibility framework
- Access for global corporate members to new markets (e.g., China) and the strengthening of existing weak positions
- Further development of web-enabled processes:
 - interactive project web sites
 - community portals

LEADER

Charlie Hughes



Charlie Hughes is managing director of Miller Hughes Associates. Miller Hughes' model for socially responsible real estate disposal won CoreNet Global's 2002 Global Innovator's Award.