

CULTURE VERSUS STRATEGY IN REAL ESTATE ORGANIZATIONS

A number of today's successful commercial real estate organizations were started by entrepreneurial individuals in brokerage, development, private real estate equity and advisory businesses. Many of these firms have well established operating and investment strategies that guide the firm. For example, a private equity firm may have funds from institutional investors and invests in apartments, office buildings or distressed debt. Another may be a local brokerage firm that specializes in the sale of net lease investment projects and another may be a real estate development consulting firm. As real estate firms grow from one or two entrepreneurial founders, they evolve with an established business strategy and a certain culture. In analyzing the operations of a company, many think that the strategy of the company determines its culture; however, I posit that it's the other way around. The structure or culture of a firm determines its strategy. That is, the culture that becomes embedded in the firm dictates its growth, hiring program, operational strategy and profitability. This may sound counter intuitive, but it is true in many instances, especially with professional real estate service type firms.

As real estate firms grow and their strategy becomes successful, they often build up a corporate structure that gets more and more consistent and efficient and eventually rigid. Even though the company is growing and successful it becomes insular. How many times have you heard executives at a company say; "This is how we do things here" or "It's our way or the highway" or "We only buy core properties in core markets"? This insular culture and a static corporate structure feeds on itself and gets celebrated and codified in the organization. The company only hires people who have the same values, points of view, interests and ones that follow the corporate mantra. I faced this issue back in 2004 when I was in a joint venture with a notable investment management firm to raise capital in a private placement real estate offering. I was the managing partner of the fund and my joint venture partner was responsible for infrastructure including office services and personnel. This company was so inward focused, they would not approve of anything that wasn't developed internally. It got to the point where one of their senior marketing personnel, who did not know anything about commercial real estate, wanted me to change the deal slides in a PowerPoint presentation to potential investors. When I said that didn't make any sense and refused, the person stated, "This is how we always do our presentations".

Over time, the employees in these companies seek to protect their jobs, organization structure and established practices, which further reinforce this company rigidity. Since the company is managed by those who are internally focused and care less and less about developing new

strategies, the company does not see or adopt new technologies, business processes or investment programs. Think again about the number of real estate private equity funds that would not change or adjust their strategy to the financial depression of 2007 and continued to make overpriced and foolish investments. Eventually the company's structure or culture becomes too confining and out of touch with its customers and market and it falters. The structure and culture of a real estate company therefore determines its strategy.

This organizational culture damage is prevalent in many real estate organizations, especially today. If the CEO or Managing Partner went to Harvard, then the firm only hires Harvard grads or if the management team came out of the pension advisory industry they only hire individuals from that sector. Firms caught up in this culture trap do not want alternative points of view or dissenting strategies. Many real estate firms that were tops in their business prior to 2007 are now out of business, in dire straits or bankrupt and one of the overriding reasons was this culture corruption. The remedy for this culture determines strategy conundrum is to create an open and diverse organization and culture, which encompasses dissenting opinion, new ideas and includes individuals with diverse backgrounds and talents.

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