



CHALMERS
UNIVERSITY OF TECHNOLOGY



Broker Involvement when Manufacturers Lease Corporate Real Estate

Master Thesis in Quality and Operations Management

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CHALMERS UNIVERSITY OF TECHNOLOGY
Gothenburg, Sweden 2023
Report No. E2023:023

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Abstract

It is increasingly common for manufacturing firms to lease properties, and they often seek the assistance of external brokers in the leasing process. The question that arises is how manufacturers currently involve brokers during this process and what should be considered when deciding this. This study aims to provide an answer by interviewing large manufacturers. There is limited research on brokerage of leasing in the corporate real estate sector. Here, theories of transactions cost economics and the principal-agent theory have been used to analyze this business relationship. To collect data, five interviews were held with representatives from manufacturers. The interviews revealed that broker involvement greatly differs between firms, however the critical aspects considered when choosing to involve brokers were similar. These aspects included the greater competence offered by brokers and information access compared to in-house personnel, as well as problems arising from information asymmetry between the parties. The decision to rely on internal expertise or brokers is typically based on subjective assessments and not on confirmed data, making it a judgment call on which option incurs the least cost of engaging a broker. Fully relying on external actors for managing the leasing process carries financial risks for firms. Therefore, it is advisable for firms to remain involved and employ a hybrid governance structure to access broker expertise yet maintain control over proceedings. Aligning objectives and facilitating mutuality in the broker relationship is critical, and outcome-based payments can support this. Measuring broker performance using KPIs (key performance indicators) can reduce suspicion, prevent opportunism, and promote collaboration.

Keywords: leasing, corporate real estate, brokerage, transaction cost economics, governance structure, principal-agent theory

Mäklarinvolvering när tillverkare leasar företagslokaler
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Sammanfattning

Det blir allt vanligare för tillverkningsföretag att leasa lokaler och de söker ofta hjälp av externa mäklare i den processen. Frågan som uppstår är hur tillverkare för närvarande involverar mäklare i denna process och vad som bör beaktas vid beslut om mäklare. Denna studie syftar till att ge ett svar genom att intervjua flera stora tillverkare. Det finns begränsad forskning om mäklartjänster vid leasing inom den kommersiella fastighetssektorn. Här har teorier om transaktionskostnadsteori och principal-agent-teorin använts för att analysera detta affärsförhållande. För att samla in data hölls fem intervjuer med representanter från tillverkare. Intervjuerna visade att mäklarinvolvering varierar betydligt mellan företag, men de kritiska aspekterna som beaktas vid valet att involvera mäklare var liknande. Dessa aspekter inkluderade den högre kompetens som mäklare erbjuder och tillgången till information jämfört med intern personal, samt problem som uppstår på grund av informationsasymmetri mellan parterna. Beslutet att förlita sig på intern kompetens eller mäklare baseras vanligtvis på subjektiva bedömningar och inte verifierad data, vilket gör det till en bedömningsfråga som handlar om att välja det alternativ som innebär minst kostnad för att involvera mäklare. Att helt förlita sig på externa aktörer för att hantera leasing-processen medför ekonomiska risker för företag. Därför är det lämpligt för företag att fortsätta vara involverade och använda en hybrid styrningsstruktur för att få tillgång till mäklarexpertis, samtidigt som företagen behåller kontrollen över förfarandet. Att skapa enighet om målbild och underlätta ömsesidighet i mäklarförhållandet är avgörande, och prestationsbaserade betalningar kan stödja detta. Att mäta mäklarprestationer med hjälp av nyckeltal kan minska misstankar, förhindra opportunistiska och främja samarbete.

Acknowledgements

First and foremost, we express our sincere gratitude to Professor Emeritus Jan Bröchner, our supervisor at Chalmers University of Technology, for his invaluable support and guidance throughout the completion of this master thesis.

We would also like to extend our thanks to the employees at Volvo Group, particularly our supervisor Emelie Lygner, for their assistance and provision of information that enabled the realization of this thesis.

Finally, we would like to express our gratitude to all the respondents who participated in the study and generously shared their insights on how leasing works within their respective firms. Additionally, we extend our thanks to the global brokerage firms who assisted us in finding participating firms.

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1. Introduction

This chapter serves as an introduction to the topic examined in this thesis and explains the purpose of the study. The scope of the thesis is narrowed down in the delimitations section and the chapter concludes with an overview of the thesis structure.

1.1 Background

The demand for commercial properties has increased together with industrial activity, which has resulted in firms assigning much attention to corporate real estate (Krumm, 2001). Firms use corporate real estate to support their core business, and as the nature of organizational activities continues to evolve, demand for flexibility in corporate real estate has become a managerial imperative (Gibler and Black, 2015). Still, decisions about aspects involving corporate real estate are often made without knowing how they could affect the productivity and profitability of the firm.

Many organizations lease corporate real estate, citing strategic and financial advantages as the primary reasons for doing so (Ali et al., 2008). Locating, assessing, and securing corporate real estate assets for leasing can be a complex endeavor as there often are a multitude of requirements for the properties that must be met, and an agreement that satisfies both parties must be drawn up. To address this challenge, external brokers are often brought in to assist in the process because of their expert knowledge, as firms may find it challenging to secure corporate real estate without their involvement (McAllister et al., 2008). As a result, the implications of broker involvement have become an area of interest for research.

Therefore, this master thesis will investigate how manufacturing firms with operations dispersed in multiple countries involve brokers to maximize value for their own organization when leasing corporate real estate. To understand this phenomenon, the study will employ transaction cost economics and principal agent theory, which are commonly used in business research, to analyze broker involvement.

1.2 Purpose and Research Question

This thesis aims to describe and analyze how manufacturers involve brokers in the leasing of corporate real estate, with the goal of providing insights to help firms make informed decisions. The research question was developed to address this purpose and is as follows:

- *How are multinational manufacturers currently involving brokers when leasing corporate real estate and what should be considered when deciding how?*

1.3 Delimitations

Our research will exclusively focus on leasing of corporate real estate, as it involves different motives and procedures compared to buying and selling facilities. We will examine multinational firms with diverse real estate needs, including factories, retail outlets, office spaces, and warehouses. Additionally, our study will exclusively focus on firms within the manufacturing industry as they are typically heavily reliant on corporate real estate. It is the current conditions that will be studied, and only firms actively working with brokers and that lease corporate real estate will be subject to the study. Furthermore, an active choice to not include the perspective of brokers in the study was made since the aim has been to explore why and how manufacturers involve brokers when leasing corporate real estate.

1.4 Thesis Structure

Chapter two presents relevant theory, followed in chapter three by a description of the case methodology used to achieve the purpose of this study. Additionally, the third chapter explains how research quality was taken into consideration in this thesis. Chapter four presents the empirical findings, with the theoretical framework serving as the foundation. Summarizations of the empirical data collected from interviews can be found in Appendix II. The findings are further discussed in chapter five, where they are connected to the theory. Finally, the conclusions are presented in the last chapter.

2. Theoretical Framework

This chapter explores the role of brokers as intermediaries in leasing of corporate real estate and offers a theoretical overview of three closely related economic theories that are useful for analyzing business relationships. These theories are: Institutional economics (NIE), transaction cost economics (TCE), and principal-agent theory, where the two latter are branches within NIE. They aim to understand the decision-making processes of economic actors when faced with transaction costs. NIE focuses on the role of institutions, while TCE assigns significant importance to transaction costs, and principal-agent theory explores the dynamics between principals and agents.

2.1 Brokers as Intermediaries

According to Devaney et al. (2017), brokers are needed as intermediaries for transactions regarding commercial real estate because of certain market characteristics. Namely, the presence of heterogeneity, information asymmetry, and spatial fixity, which are always prevalent to various degrees. The role of a broker in any type of real estate transaction can include locating a suitable real estate asset, assisting in evaluation of the asset and negotiation of contract terms, as well as managing the transaction (McAllister et al., 2008). Essential to the usefulness of a broker is their access to local market information through a professional network of contacts, which an organization just looking to invest in a commercial real estate property typically does not have. In fact, brokerage can be regarded as such an essential factor that it becomes truly challenging to proceed with a transaction related to real estate without broker involvement (McAllister et al., 2008).

Regarding market characteristics, heterogeneity of the corporate real estate market is explained as the fact that preferences differ between actors in a transaction, assets vary in quality and traits, and financial circumstances are not static (Devaney et al., 2017). Consequently, information asymmetry occurs since actors involved in a transaction are not holding the same information, and this will be elaborated on in terms of principal agent theory. In turn this can have a significant impact on the leverage in negotiations for both parties. Furthermore, spatial fixity is a form of asset specificity that refers to the importance of the location when making a real estate transaction, i.e., knowledge about the local market is often imperative.

Together these market traits work to elevate the amount of transaction costs involved in commercial real estate transactions, some of which are hard to quantify (Devaney et al., 2017). Transaction costs in this context entails for instance administration, legal costs, and costs for searching for a suitable real estate asset, which are particularly difficult to estimate and potentially considerable depending on the information transparency of the market. Brokers are brought in to assist because of the belief that their involvement would result in less transaction costs, even with the added agent's fee, than handling the transaction in-house, which according to Williamson (1985, p.18) is a central point in transaction cost economics. However, an extensive assessment of existing research within the field of commercial brokerage, made by Broxterman and Zhou (2023), revealed a need for further research to determine how effectively brokers mitigate information asymmetries that arise in commercial leasing transactions. Correspondingly, additional investigations addressing the economic implications of professional networks within commercial real estate brokerage are also required.

D'Lima (2019) states that a common trend seen in literature about residential real estate is that brokers tend to put in more effort when they are incentivized with higher commission payoffs, which can be seen as inherently logical since the greater effort gets compensated by the more generous payoff. Pursuing the same argument in the context of commercial real estate would imply that optimal contracting involves marginal commission rates based on the effort required from the broker. Contracting for leasing of properties is not discussed by D'Lima (2019), however it is not improbable that the same logic would apply here as well, although marginal commissions in leasing contracts might be differently achieved. For example, as a percentage of reduction of rent instead of secured through higher selling price. Nonetheless, a recent review of commercial brokerage uncovered a severe lack of research publications concerning contract design within this field (Broxterman and Zhou, 2023).

Given that institutional influence, transaction costs, and the dynamic between a principal and an agent have significant implications for the level of broker involvement, it is relevant to delve deeper into these themes to provide a deeper understanding of brokers' involvement in leasing of corporate real estate.

2.2 New Institutional Economics

Oliver Williamson is credited for first introducing the term “New Institutional Economics” (Coase, 2002, p.41). The fundamental assumptions of new institutional economics (NIE) are that the exchange between economic actors always entails costs (transaction costs), and that these costs are influenced by institutions. This means that organizations are operating bounded by the premises of their institutional context (North, 1992). Institutions in turn can be defined as “the humanly devised constraints that shape human interaction” (North, 1992, p.5), which entails a country’s legal system, political system, culture, norms etc. Since institutions essentially dictate economic performance, the relevance of NIE lies in the fact that it seeks to explain the impact institutions in a country have on the productivity of the economic system (Coase, 2002, p.42). Furthermore, organizational context can differ greatly between societies, and from national to local level, resulting in disparate perspectives and values, which in turn impact the level of transaction costs involved in economic exchange (North, 1992).

NIE makes a distinction between the institutional environment and the institutions of governance (Williamson, 1998). The former is concerned with formal rules such as laws and enforcement, as well as informal rules like norms and traditions. Institutions of governance is instead about how organizations govern their activities, be it through market exchange, hierarchically, or somewhere in between. This is also where the approach of transaction cost economics (TCE) is primarily used, especially concerning governance of contractual arrangements (Williamson, 1998). The reason for this being the conviction that any problem that can be framed as a contractual issue can be effectively analyzed through a transaction cost economics approach. These theories are therefore of relevance for this study which essentially seeks to explore how a particular organizational process can be advantageously governed. Moreover, principal-agent theory follows as a branch within TCE and examines the relationship between a principal and an agent when partaking in economic exchange, with the main objective being optimal contracting between the parties (Williamson, 1998).

2.3 Transaction Cost Economics

The economic organization can be studied through a lens of transaction cost economics (TCE), where the fundamental unit of analysis is the transaction (Williamson, 1981). The purpose of this can be derived from Commons’ stance on transactions, namely that “the ultimate unit of activity must contain in itself the three principles of conflict, mutuality, and order. This unit is

a transaction" (Commons, 1932, p. 4). Accordingly, in a relation between parties where conflict may stand in the way of acting on opportunities that would lead to mutual benefits, order is achieved through mechanisms of governance.

The main issue that TCE is concerned with is assessing transaction costs and explaining alternative governance structures that are suitable depending on the existing conditions, with the aim to find the most economic option for the organization (Williamson, 1981). This analysis is the basis to decide if an activity should be performed in-house or be outsourced. Then the deciding factors for determining if an organization should contract within the firm or outsource need to be identified.

When a service or product is moved from one party to another a transaction is taking place (Williamson, 1981). During these exchanges, transaction costs will always manifest, for example due to conflicts stalling the process etc. Through transaction cost analysis it is possible to assess and compare the expenses associated with planning, adjusting, and overseeing the completion of activities under various forms of governance structures, and thereafter deciding on the path forward with the least transaction costs. Moreover, governance structure can be explained as the institutional structure wherein decisions regarding the nature of transactions are made (Williamson, 1979). Hierarchy and market are the two main structures, and a hybrid structure is mentioned as being somewhere between the two on a scale (Williamson, 1991). Hierarchy as governance structure entails doing business within the organization, and market means contracting on the external market. In the recent decades, a hybrid form of governance structure has emerged (Powell, 1990). The hybrid form is used if there is a frequently repeated transaction that requires a specific intermediate step, which could be a cooperative or strategic alliance (Krzeminska, 2008). Furthermore, this approach often minimizes transactional costs and enables optimal organizational efficiency. In practice, firms can select their preferred governance structure along a continuous spectrum that spans between the two extremes of market and hierarchy (Gulati and Singh, 1998).

Stipulations surrounding transactions are agreed upon through contracting (Williamson, 1981). It is impossible to contract for every eventuality and with added complexity, it becomes more costly to draw up and ensure compliance to the contract. The underlying reasons for this are the assumptions in TCE regarding bounded rationality and opportunism (Williamson, 1981). Regarding bounded rationality, it is recognized that agents have constraints when it comes to

processing of information, as well as formulating and resolving intricate problems. Opportunism is about the fact that agents might behave deceitfully and for their own gain, by for instance withholding information or acting with a hidden motive, given the opportunity (Williamson, 1981). This in conjunction with the phenomenon of bounded rationality poses a problem since all eventualities cannot be predicted and contracted for, meaning a degree of uncertainty will always remain. However, organizations can take action to try to discern if an agent has behaved opportunistically, but motives are difficult to clarify before the fact and the effort to assess an agent's behavior can result in very high transaction costs (Williamson, 1981). Moreover, an additional aspect to consider in a transaction cost approach is if some of the economic actors involved in a transaction hold information that is pertinent to the transaction but cannot be effectively communicated to others. This is called information impactedness and it usually occurs when only a small number of economic actors are engaging in a transaction.

2.3.1 Assumptions in TCE

It is impossible to establish a contract that covers all eventualities due to the assumptions bounded rationality, opportunism, small numbers, and information impactedness.

Bounded Rationality

Transaction cost economics relies on the cognitive assumption that is bounded rationality. It is assumed that all economic actors are "intendedly rational, but only limitedly so" (Williamson, 1975, p.21; Simon, 1997, p.88). The capacity of individuals involved in establishing a transaction to accurately "receive, store, retrieve and process information without error" (Williamson, 1975, p.21) is constrained, increasing the potential for errors. Furthermore, it hinders the economic actors to be able to spot and foresee all eventualities that may occur because of their actions. Bounded rationality affects transactions since it is essentially impossible to draw up complete contracts (Williamson, 1985, p.46). Moreover, these incomplete contracts give rise to opportunism. Given the challenges of bounded rationality, economic actors must consider the expenses associated with planning, adjusting, and overseeing transactions.

Opportunism

Opportunism is the reason why behavior cannot be governed by rules (Williamson, 1985, p.48). It corresponds to behaving in a specific manner since there is a motive behind it and purposely

hiding information (Krzeminska, 2008). The behavior can be active and passive and occur before (*ex-ante*) and after a situation (*ex post*). *Ex ante* opportunism is characterized by economic actors failing to make a proper difference between the true risk and the risk that arises by hiding the true risk condition, this then gives rise to *ex post* opportunism since the economic actors fail to behave and mitigate risk in a proper manner (Krzeminska, 2008). More generally opportunism leads to information asymmetry which is often the main cause of problems regarding economic aspects in organizations, and it is often the managers of the organization who must deal with the problems that occur *ex post*. Therefore, the actors responsible for the contracting in an organization are keener to expand the resources to identify opportunism and work against it.

Opportunism is a reason why costs expand since an agent is acting in self-interest and usually has a bad motive behind it (Williamson, 1985, p.48). Bargaining costs include the costs incurred by bargainers' time that could have been spent on other opportunities, expenses related to monitoring and enforcing agreements, and any expenses or time lost due to delays or unsuccessful attempts to reach an agreement (Milgrom and Roberts, 1990). Therefore, opportunism gives rise to bargaining costs since the two parties engaging in contracting are meticulous with ensuring that the other party does not act opportunistically, meaning that the contract should cover all possible outcomes. However, it is costly and time-consuming to develop contracts that cover all the possible risks that may occur with opportunism (Williamson, 1985, p.48). Furthermore, and as mentioned, no contract is complete, i.e., covers all eventualities since contracts always contain gaps and errors. This makes the bargaining cost almost infinite, since it is impossible to set up a contract that can cover all eventualities and therefore makes it possible for opportunism to always occur. Moreover, Sharma (1997) argues that the risk of a tarnished reputation and subsequent damage for future business discourages acts of opportunism, and that opportunistic tendencies from service providers are mitigated when the providers are part of a community of professionals who could call out the provider if unseemly conduct is exposed.

Small Numbers

A market becomes competitive when several suppliers offer the same products, resulting in a trading range that is rather limited (Williamson, 1975, pp. 26-29). Therefore, if the buyers have several sources to choose from that meets their requirements, outsourcing becomes more appealing. The number of suppliers the buyer can choose from by outsourcing is dependent on how high the asset specificity of the transaction is, since it can limit the number of suppliers

that would be available for outsourcing (Williamson, 1985, p.53). Furthermore, bounded rationality and lack of complete information limits the buyer's ability to choose the best suppliers.

Information Impactedness

The term information impactedness has its roots in a combination of uncertainty and opportunism, where a situation occurs when one or more of the economic actors engaging in a transaction possesses knowledge relevant to the transaction, but it cannot be communicated to others (Williamson, 1975, p.31). The knowledge that they possess may be impacted by opportunistic reasons, where the economic actors that gain benefits refuse to share it (Akerlof, 1970) or because of bounded rationality where they are not intentionally keeping the knowledge but are unable to share despite their effort (Williamson, 1975, p.22). Furthermore, information impactedness, which is a type of information asymmetry usually occurs when only a small number of economic actors are engaging in a transaction.

2.3.2 Transaction Dimensions

As previously mentioned, actors that act economically are assumed to behave in an opportunistic manner and are boundedly rational. Thus, it is important for the organization to gain efficiency and it depends on three dimensions that have been used in recent decades (Krzeminska, 2008). The three dimensions include: how asset specified the transactions are, how frequently they occur, and disturbance that may occur during transactions that causes uncertainty (Williamson, 1998).

Asset Specificity

Asset specificity is the most critical aspect when describing transactions (Williamson, 1985, p.52). There are four different types of asset specificity: human asset specificity, physical asset specificity, site specificity, and dedicated assets. Moreover, these lead to different organizational outcomes. In general forms, asset specificity is the level of how standardized and unique a transaction is between two actors, leading to either a more complex contract or a more standardized contract (Williamson, 1995). If there is high asset specificity it often means that transactions belonging to that asset are very precise, since the asset is customized for only a few users and does not have value outside that transaction. Furthermore, this leads to capital being tied to that particular asset because of the lacking value outside of the transaction (Yousof,

2017). These highly specified investments are often risky since there is no assurance that the assets can be reused if the contract is completed or disrupted. Therefore, transactions with high asset specificity are usually made hierarchically (Williamson, 1998; Krzmineska, 2008). On the contrary, low asset specificity requires more general investments and is not exposed to that kind of risk, since it is easier to disrupt the contract and the parties would not be affected. Therefore, low asset specificity investments are usually handled out on the market.

Frequency

The frequency of a transaction can either be occasional or recurrent (Williamson, 1979). If an organization has a high asset specificity, a hierarchical governance structure is typically acquired, as mentioned before. Williamson (1985, p.60) then emphasizes that the cost of a specific governance structure is easier to recover if the transactions are bigger and recurring more often, making the dimension frequency important. However, there is no consensus on how frequency affects governance structure (Rindfleisch and Heide, 1997; Macher and Richman, 2008; McIvor, 2009).

Uncertainty

Uncertainty is an important dimension regarding transaction costs according to Williamson (1985, p.57). Problems connected to transaction costs that arise in organizations are because of uncertainty, since it is difficult to constantly try to predict and adapt to changes happening in the society leading to uncertainty. Furthermore, Williamson (1985, p.57) distinguishes between primary and secondary uncertainty. Where primary uncertainty regards the state of nature with its random acts, and characteristics of consumer preferences of goods and services, that cannot be predicted beforehand. Whereas secondary uncertainty is present when economic actors engage in an economic transaction and information is withheld innocently. Moreover, primary and secondary uncertainty are seen as causes of nature (Krzeminska, 2008). Behavioral uncertainty arises when agents that engage in an economic transaction are withholding information from each other on purpose, and exist because of opportunism (Krzeminska, 2008). Additionally, Macher and Richman (2008) consider that there is no consensus on how uncertainty affects governance structure because of the different ways that uncertainty can be described and measured depending on context.

2.4 Principal Agent Theory

Principal agent theory, also called agency theory, is often used in fields like organizational behavior (Eisenhardt, 1989; Bernhold and Wiesweg, 2021). It focuses on the commonly encountered relationship between a principal and an agent, where the agent proceeds to do the work that was assigned by the principal. Furthermore, the theory rests on the organizational assumptions of partially conflicting objectives between principal and agent, and that there exists an information asymmetry between the parties (Sharma, 1997). Hence, the focus of agency theory lies within mitigating conflicts that can arise due to these phenomena, concerning differing goals between the two parties and conflict arising when the principal is unable to confirm what the agent is doing (Eisenhardt, 1989; Gibler and Black, 2004). Principals must devise incentives to encourage desirable actions and monitor agents' conduct to ensure that it is in their best interest (Gibler and Black, 2004). However, although agency theory advocates for reducing information asymmetry through monitoring behavior, this approach can lead to feelings of mistrust and suspicion among all parties involved (Sharma, 1997).

A principal-agent relationship is created when a firm sources services from another firm. Sourcing of business services is imperative for the success of many organizations if they lack the necessary competences within the firm or because of other reasons making it more financially sustainable to outsource (van der Valk and Selviaridis, 2023). Development and delivery of business services require that buyers and service providers engage in collaborative production and usage activities, facilitated by ongoing interaction (Gibler and Black, 2004; van der Valk and Selviaridis, 2023). Thus, it is essential for organizations to find service providers that are dependable, can be trusted, and share the same vision (Dess et al., 1995).

There are many decisions involved and steps to go through in the sourcing process, including establishment of selection criteria for potential suppliers, assessment of proposals and negotiation of terms, as well as formulation and finalization of the agreement in a contract (van der Valk and Selviaridis, 2023). When sourcing for services heavily reliant on professional knowledge, key individuals within the supplier firm with area specific expertise is of particular importance to ensure quality of the service. The service performance should subsequently be measured and evaluated to confirm if the delivery is according to contract and satisfactory (Axelsson and Wynstra, 2002, p.165). It is therefore essential that the obligations and

responsibilities for each party are worked out in detail to make service delivery and post-management as seamless as possible (van der Valk and Selviaridis, 2023).

When sourcing business services, the most important aspect for achieving high quality is trying to meet or even surpass consumer expectations (Seiler et al., 2008). Moreover, disagreement is likely to occur regarding what is perceived as quality from the perspective of the service provider compared to the perspective of the consumer. In most cases it would lead to the service provider focusing on quality factors that are not necessarily the ones leading to consumer satisfaction, or the consumer wanting quality factors fulfilled that are indifferent for the service provider.

A study conducted by McDaniel and Lourgard (1994) showed that the most important quality factors for consumers where brokers are the service providers are: reliability, assurance, empathy, and responsiveness, written from most important to least important. However, from the perspective of brokers, assurance, reliability, empathy, responsiveness, and tangibles were considered the right classification. According to Seiler et al. (2008) responsiveness refers to the ability to react to expectations of the consumers in a good and fast manner. Empathy is achieved when the broker is fast to clear out uncertainty that the consumer may have, and reliability is about how dependable and consistent the service is. Furthermore, it is essential for brokers to be aware of the quality factors and get an advantage for continuing collaboration and being recommended to other customers. Therefore, it is of great importance that brokers are competent and trained well in their role to achieve the quality factors as well as being observed by their employer in their progress (Seiler et al., 2008).

2.4.1 Contracting

To minimize conflict between the principal and the agent, contracts need to be established (Eisenhardt, 1989). The foundation of the contract can either be outcome-based or behavior-based and these two are suitable for different situations (Backhaus et al., 2016). Outcome-based contracts minimize self-interest between the two parties by matching their preferences, since the outcome that would be beneficial for both require the same actions, meaning that the agent receives provision based on how good the outcome is. In contrast, behavior-based contracts are more focused on the process and activity that is needed to achieve the outcome, and this type of contract is suitable for more well-defined tasks since the behavior of the agent is

predetermined. According to Eisenhardt (1989) outcome-based contracts are better for shorter relationships due to information asymmetry, whereas behavior-based contracts are preferable for longer relationships since the principal will have the time to learn about how the agent behaves.

The case of principals lacking awareness about what an agent is doing for them can create doubt about the competence of the agent and whether the agent is conforming to the agreed upon contract (Sharma, 1997). The term *adverse selection* refers to the former, i.e., the problem of a principal not being able to affirm an agent's competence. Similarly, *moral hazard* refers to the agency problem created when an agent is choosing to lack in effort (Sharma, 1997). To prevent any conflict arising on these grounds, the principal can introduce measures that uncover the conduct of the agent, such as enhancing the reporting procedures or adding more management layers, since the likelihood of an agent acting in the best interests of the principal increases with lesser information asymmetry between principal and agent (Eisenhardt, 1989). An alternative solution is relying on an outcome-based contract and thus giving the agent an incentive to perform well. However, Sharma (1997) considers that outcome-based contracts can be difficult to design and establish if the principal has lacking knowledge of the objectives of the task assigned to the agent. The outcome can also be affected by factors that are beyond the control of the agent. Thus, knowledge asymmetry presents constraints on traditional control methods suggested by agency theory, as tracking and measuring becomes challenging when principals have insufficient knowledge about what the agent is doing. Furthermore, external factors such as government policies and market climate make outcomes uncertain, resulting in outcome-based contracting shifting the risk more towards the agent. It follows that high uncertainty makes outcome contracting less appealing to principals due to the agent taking on more risk and therefore requiring higher compensation (Eisenhardt, 1989).

Moreover, the level of risk aversion for both principal and agent influences preferences on contract type (Eisenhardt, 1989). The less risk averse an agent is, the less costly it becomes for the principal to allocate more risk to the agent, which favors outcome-based contracting. The opposite situation then holds that behavioral contracting becomes more appealing. The same argument holds for the principals, as their risk aversion intensifies, there is an increasing propensity to shift the burden of risk onto the agent through outcome-based contracting. The phenomenon of conflicting objectives between principal and agent increases the incentive for outcome-based contracts since the purpose of this type of contract is to align the interests of

both parties. Another factor to consider is the measurability of the outcome. If it is hard to measure, this negatively impacts the desire for outcome-based contracts. Also, longer-term relationships tend to even out the information asymmetry between principal and agent, and thus behavior-based contracts become more in favor.

Contracting for as little uncertainty as possible would require extremely encompassing contracts, making it very time consuming and costly to draw up, and it would make it hard for the recipient to decipher what the contracts contain (Williamson, 1985, p.46).

3. Methodology

To answer our research question in a relevant manner, a methodological framework for multiple case studies was used. Each step included will be presented in this chapter from research design and case selection to collection and analysis of data. We conclude by explaining how the method ensures high research quality, as well as addressing ethical aspects considered when conducting the study.

3.1 Research Design

There are many research designs to choose from when conducting a study (Yin, 2003, p.9). Therefore, to choose the right method, it is important to take three conditions into account. These are: (1) what type of research question is proposed, which is the most important aspect when deciding which research method to use, (2) the amount of control the researcher has over actions and (3) the level of attention given to modern events versus historical events (Yin, 2003, p.9). When the researcher has evaluated these three conditions it is possible to choose a research design suitable for the study. The research question in this study is formed in the way of “how”, which is more explanatory (Yin, 2003, p.9), with the aim to understand how organizations involve brokers when leasing properties. In this study, actions and events cannot be under our control since they happen within the organizations. Therefore, interviews of the people involved in the leasing process were conducted, which ensures empirical evidence (Yin, 2003, p.10). This thesis is focused on contemporary events, which is how firms are currently working with brokers when leasing properties. Given how the research connects to all three conditions, the most suitable research method was a case study.

Case study as a research method can either examine a single case or multiple cases, which is the first distinction that needs to be made when conducting a study. Furthermore, the justifications for using a single case study instead of a multiple case study are if the case is critical, unique, representative, and if the case is examined at different points of time. Meanwhile, the purpose of a multiple case study is to compare the cases that are included, enabling researchers to also compare the results from each case. This has made multiple case studies extremely popular in business research (Bell et al., 2019, p.67). Moreover, this method

is also known to be more robust than the single case study. Since this thesis has research questions about how organizations involve brokers, it will be conducted as a multiple case study and the results from each case will be compared and analyzed.

A qualitative approach was used in this research since it values words more than numbers, which is the main distinction between a qualitative and quantitative approach (Bell et al., 2019, p.356). However, there are more factors that need to be considered when deciding if the approach should be qualitative. Firstly, it is the ontological position, where we take a constructivist perspective meaning that reality is not objective and is subject to variation, as it is influenced by social actors within it. Additionally, this approach seeks to understand how social actors shape and construct the world through their actions, behaviors, and subjective interpretations. Secondly, it is the epistemological position where we have an interpretivist standing where it is assumed that comprehending the behavior and interactions of social actors is essential to understand reality fully. Hence, natural science techniques are insufficient as social actors impact and create meaning through their actions, which influence reality. Bell et al. (2019, p.355) state that the qualitative approach adopts an interpretivist perspective and employs a constructivist approach to view reality. However, in research the range between qualitative and quantitative is more of a spectrum, and it is unlikely to be situated at the extreme ends. Moreover, it is possible to emphasize one dimension more than the other.

In this thesis the case study method as shown in *Figure 1* was used. The methodological framework was inspired by Yin (2003, p.57), however the original steps of writing individual case reports, as well as modification of the theoretical framework were excluded as they were deemed unnecessary for this study. The framework includes three main steps: (1) Define and Design, (2) Prepare, Collect and Analyze, and (3) Analyze and Conclude. The first step entails development of a theoretical framework, designing a data collection protocol, and selecting cases (Yin, 2003, p.57). The second step involves conducting the case studies, and the third step includes drawing cross-case conclusions from the cases and writing a cross-case report.

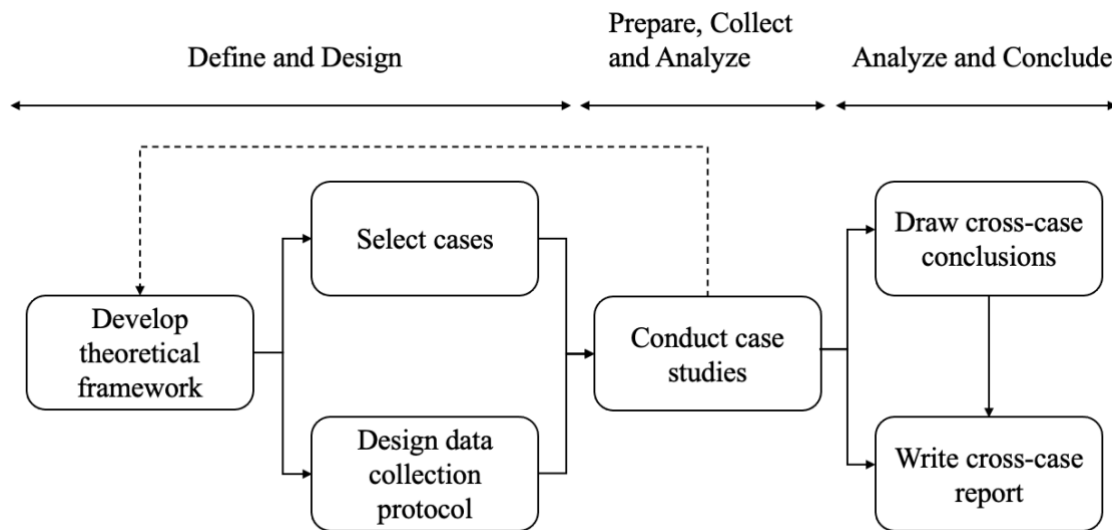


Figure 1. The methodological framework for multiple case studies used in this study.

3.2 Define and Design

As mentioned, Define and Design includes development of a theoretical framework, case selection and designing a data collection protocol.

3.2.1 Development of the Theoretical Framework

Bell et al. (2019, p.8) suggest that a literature review should be undertaken to determine existing knowledge in the subject and to collect information written by other researchers on the topic. In this study, academic literature was reviewed and critically selected from textbooks and peer reviewed articles to gain understanding of how firms can and should involve brokers in the process of leasing corporate real estate, as well as to understand situations that can arise when contracting. Based on this examination, a theoretical framework was developed, which has a clear dependence on Williamson as he is a pioneer within the fields of new institutional economics and transaction cost economics. The information gathered in the theoretical framework guided the collection of data by interviews and contributed to the understanding of why firms operate in a certain manner.

3.2.2 Case Selection

According to Yin (2003, p.53) multiple case studies should follow a replication scheme, and each case should be considered an experiment. This indicates that the selected cases should

have a literal replication or a theoretical replication where the former gives rise to similar results and the latter gives contradicting results. The theoretical framework indicates that the involvement of brokers may differ in different firms depending on governance structure, which would mean that a theoretical replication should be used. However, we could not know beforehand how the firms are currently involving brokers and to what extent, which makes it difficult to select cases that give contradicting results. Therefore, theoretical replication was not possible.

It was also difficult to know what kind of governance structure the firms had beforehand. The only thing that was made sure ahead of selection was that there is some kind of brokerage involvement within the firms when leasing properties, relying on information provided by two global brokerage firms. These brokerage firms specifically aimed the request of participation to clients matching a specific profile, namely manufacturing companies with multinational operations and who lease corporate real estate. This profile was chosen because large manufacturing firms (10,000+ employees) typically depend heavily on corporate real estate to manage their operations, which involves a lot of money (Barkham and Park, 2011). Thus, it is relevant to explore how such firms work with leasing corporate real estate. Furthermore, narrowing down the profile aids in reducing the margin of error that can be attributed to factors outside of the scope of the study. Initially, we approached 20 organizations with emails, where five organizations declined due to either perceived lack of benefit from participation or concerns of potentially sharing sensitive information with competitors. The rest did not answer due to what we presume was lack of interest in participating. A total of five organizations remained.

Since this research has a qualitative approach, the aim was not to provide statistically significant results with many cases. Instead, five case studies were conducted with firms meeting the previously mentioned criteria, which were: that they are large manufacturing companies operating in various continents and who lease corporate real estate, and that there is some kind of brokerage involvement within the firms when leasing corporate real estate. An overview of the case firms is shown in *Table 1*.

Table 1. The position of interviewees, firm size, and number of brokerage firms involved at each case firm.

	Number of employees	Interviewees' areas of responsibility	Number of brokerage firms frequently used
Firm A	15,000+	Real estate management	2-3
Firm B	40,000+	Real estate management	1
Firm C	4,000+	Workplace management	1
Firm D	10,000+	Real estate management	Several
Firm E	40,000+	Real estate management and purchasing	4

3.2.3 Data Collection Protocol

Data collection is the most important part in every study according to Bell et al. (2019, p.11). In this research the data collected from the cases should be robust enough to understand how companies can and should involve brokers in the process of leasing corporate real estate, as well as to discover possible situations that can arise when contracting. Furthermore, the data collection protocol was then designed with the theoretical framework as a foundation. This made it possible to revise and examine each case study in the same way.

3.3 Prepare, Collect, and Analyze

After having selected the cases to be included in the study, the next step was to determine what information that was of interest for the study, and how this information could be obtained, as well as analyzed in a suitable manner. Consequently, these next stages of the methodology focused on the preparation, execution, and analysis of cases in the study.

3.3.1 Preparation for Case Studies

According to Bell et al. (2019, p.67), when conducting qualitative research, where theories arise from the data collected, interviews can be an appropriate method of data collection to use in a multiple case-study design. The two most common types of interviews in qualitative research are semi-structured and unstructured interviews, where the former proceeds from a guide of predetermined questions while the latter does not (Bell et al., 2019, p.434). These kinds of interviews allow for flexibility from the perspective of the interviewer and respondents are encouraged to speak freely around questions, thus enabling in-depth answers. The reason for

using semi-structured interviews in this study was the desire to extract certain information from the respondents, making it necessary to formulate questions beforehand and with the theoretical framework in mind. This was important to enable cross examination of the results from the multiple cases (Bell et al. 2019, p.438). Furthermore, an important aspect considered regarding the questions was formulating them in an open-ended manner to allow for more descriptive and informative answers, as well as encouraging respondents to answer based on their understanding of the topic and what they view as important (Bell et al. 2019, p.436).

An alternative data collection method would be the use of questionnaires. This method enables collection and analysis of a larger amount of data points, as it is less time consuming than conducting and transcribing interviews (Bell et al., 2019, p.232). However, writing down answers would have made it more difficult to get respondents to give detailed information and taken away the possibility of instant follow up questions and clarifications. Therefore, the use of questionnaires was discarded. Moreover, it would have been interesting to do a benchmarking in the study. However, it proved difficult to collect enough data points to allow quantitative analysis of the findings, as the subject being investigated is regarded as sensitive, thus making firms cautious about sharing information due to confidentiality reasons. The use of workshops was also considered but ultimately discarded due to large geographical spread of potential participants. Additionally, workshops would have likely decreased the interest in participating in the study, as they typically demand more time and active involvement compared to interviews.

All participants received the interview questions prior to their interview, enabling them to prepare. This increased the likelihood of obtaining comprehensive and precise answers to all questions, although sending the questions out in advance may allow the respondents to answer in a more calculated manner. However, because of the in-depth knowledge required to answer the questions we deemed the benefit of preparations to be greater than the risk. For confidentiality reasons, i.e., preventing the spreading of sensitive information that can be connected back to a specific organization, it was pertinent to assure all eventual participants in the study that their firm would be kept anonymous in the final report.

3.3.2 Data Collection

Empirical data collected in the study was generated from interviews with a company representative from each participating firm. The respondents all held a position of great responsibility and insight into the corporate real estate dealings within their firms, enabling them to answer the questions during the interviews with a higher degree of credibility and with greater depth.

Conducting interviews in a face-to-face setting is according to Bell et al. (2019, p.451) beneficial to enable the interviewers to gather non spoken nuances of the answers provided, for example by noting body language of respondents. Therefore, all interviews in this study were held through video call to closely resemble a face-to-face meeting, as a digital meeting was the more convenient option for the participants. Both of us authors were present and involved during each interview and transcription, to ensure mutual understanding of the information given. The interviews were about 60 minutes long and were held during March-April 2023, they were recorded and later transcribed which is common practice in qualitative research to ensure accurate capturing of what was said and in which way it was said (Bell et al., 2019, p.440). By eliminating the need for notetaking, it also permits interviewers to be more attentive during the interviews. In addition, questions or clarifications needed from the respondents could be obtained through email correspondence after the interviews.

To ensure validity of facts and conclusions, intersecting evidence should be looked for from each case, and it is important to specify how and why a particular claim was exhibited or not (Yin, 2003, p.56). Moreover, Yin (2003, p.59) promotes including at least two cases within each eventual subgroup in a multiple case study to ensure that the theoretical replications transcending subgroups are supplemented by literal replications within subgroups. This brought implications for the methodology of this study since the prominence of leasing of corporate real estate within each participating organization was impossible for us to know prior to the execution of the case studies. It was discovered that one case stood out from the rest. That is, the number of contracts for leasing was significantly lower for this organization, which could potentially be a critical factor. Therefore, an additional case with a similar profile regarding the prevalence of leasing contracts was sought to strengthen the results by allowing for better literal replication within this subgroup. However, the search was not successful since public sharing of company data often is a sensitive matter due to competition.

3.3.3 Interview Template

When conducting the interviews, a template was used for structure and to ensure that the same fundamental questions were asked of each of the respondents. The template was created to get a proper understanding of the working process for leasing of corporate real estate at each firm. It covers the critical aspects of the leasing process connecting to the theoretical foundation of TCE, principal agent theory, sourcing of business services, and quality and competence assurance. The interview template can be found in Appendix I.

3.3.4 Analysis of Data

Analysis of qualitative data is an area lacking in well-established and widely accepted rules according to Bell et al. (2019, p.518, 521). However, grounded theory is an approach frequently used which is focused on the emergence of theory from data. Coding is an essential part of grounded theory, and it is through this method that the data collected in this study has been dissected for analysis. The procedure for this study involved reviewing all information collected from interviews, comparatively assessing, and breaking the information down into sections of potential theoretical significance, which can be in the form of concepts, categories, properties, hypotheses, and theories (Bell et al., 2019, p.522). Subsequently, these sections were analyzed in relation to the themes that were identified as critical in the theoretical framework.

3.4 Analyze and Conclude

The theoretical framework according to the research question guided the development of the data collection protocol. Additionally, it served as the basis for analyzing and drawing conclusions from the cases studied (Yin, 2003, p.54).

3.4.1 Cross-Case Conclusions

To establish and understand why and how the interviewed firms involve brokers when leasing corporate real estate, the cases were compared with each other. The comparison included reviewing all the theories to further understand how interviewees reasoned.

3.5 Research Quality

The most common factors to weigh the research quality in a study are reliability, replicability, and validity (Bell et al., 2019, p.46). However, Bell et al. (2019, p.47) suggest that these quality factors are aimed more towards a quantitative approach since they emphasize measurements. Therefore, qualitative researchers believe that different criteria should be established when reviewing a qualitative study (Lincoln and Guba, 1985, p.293). Furthermore, they consider that trustworthiness is a criterion for qualitative research and have divided it into categories that are connected to the quantitative measurements. These are: credibility, transferability, dependability, and confirmability. These criteria will be used to evaluate the research quality in this study since this is a qualitative study.

3.5.1 Credibility

The aim with this criterion is to verify that the study is carried out in accordance with ethical standards and that the researchers have accurate comprehension of the social settings under examination (Bell et al., 2019, p.363). To achieve this, member validation can be used where the findings of the study are presented to the individuals who were studied to ensure the researchers' interpretations. Accordingly, the information provided in each interview was made available to the respective respondents, and we complied with requests from participants to make corrections and to exclude sensitive information such as the number of employees, which could potentially reveal the identity of the firm.

3.5.2 Transferability

Transferability seeks to evaluate the extent of how the findings of the research can be generally used in other contexts (Bell et al., 2019, p.364). Since qualitative studies typically involve in-depth exploration with a limited number of participants compared with quantitative research, it can be a challenging task. Therefore, it is proposed that the researchers provide a detailed description of the context in which the study has been conducted. This has been done for this study by presenting descriptions of the participating firms, including approximate number of employees, countries they lease in, what kinds of facilities they lease, and approximate number of leasing contracts for each firm.

3.5.3 Dependability

Dependability focuses on the consistency and reproducibility of data across time (Bell et al., 2019, p.364). To ensure this quality factor it is usual to rely on assessment by peers, during the conduct of the research and especially in the end to confirm how methods have been followed. While conducting the study we had a supervisor who checked that the approach and methods used throughout were appropriately applied and thus making the study dependable. Furthermore, a version of the thesis was scrutinized by two opposing students at the thesis seminar in May 2023.

3.5.4 Confirmability

Confirmability is used to ensure to what extent the discoveries are affected by the values of the researchers (Bell et al., 2019, p.364). Moreover, since qualitative studies have a subjective element, where prejudgments can create biased results and therefore lower the quality of the research, confirmability is especially important in qualitative studies. In this study all the data resulting in the findings was solely provided from the interviewees with only minimal personal interpretations from us. Additionally, the interviews were all conducted with both of us present to minimize the risk that personal beliefs would affect the answers.

3.5.5 Ethical Considerations

To secure the integrity of the research it is vital for researchers to be able to address and be aware of any ethical issues that may arise during the conducting of the study (Bell et al., 2019, p.114). Furthermore, there are four ethical principles that need to be considered, namely: harm to participants, lack of informed consent, invasion of privacy, and deception. Bell et al. (2019, p.114) state that to avoid ethical issues it is important to inform the participants of the approach of the study, enabling anonymity and allowing them to not answer questions. To ensure that the ethical principles were considered in this research, the interviewees were informed that the finished thesis would be in the public domain, as required by Chalmers University of Technology. The participants were also given the choice to be anonymous to avoid being victimized by their firm and given the option to refrain from answering a question if it was deemed as sensitive information. All respondents wished to be anonymous.

4. Empirical Findings

In this chapter, the firms examined in the study are presented as individual cases and later analyzed according to various themes. In Chapter 5 these themes will be related to the theoretical themes presented in Chapter 2. The information for each case is derived from interviews conducted with company representatives. Additionally, summarizations of the interviews can be found in Appendix II.

4.1 The Five Firms

We begin with introducing the examined firms, which are anonymized due to confidentiality reasons and therefore called Firm A, Firm B, Firm C, Firm D, and Firm E. See *Table 2*.

Table 2. Overview of the examined firms.

	Number of employees	Geographical presence of leasing	Number of leasing contracts	Number of brokerage firms frequently used	Leasing as % of turnover
Firm A	15,000+	Half of the countries in the world, less in Africa and Asia	250+	2-3	NA
Firm B	40,000+	100+ countries, mainly in Europe, the Middle East, and Africa	200+	1	0.5
Firm C	4,000+	Many countries, but mainly in Sweden and Germany	40~	1	NA
Firm D	10,000+	Many countries, but mainly in America, Sweden, and Germany	90~	Several	0.8
Firm E	40,000+	Many countries. Mainly in Northern America, Europe, Asia, South America, and South Africa	700+	4	0.3

Firm A is a manufacturing company with 15,000+ employees globally and is active in all continents but has less representation in Africa and Asia. They use approximately 1.6 million square meters of corporate real estate of which they lease about 500,000 square meters. Firm A mainly leases sales offices and service centers, but also two large industrial sites. Firm A does

not know the yearly cost for leasing since it has never been collected but they do have 250+ unique leasing contracts.

Firm B is a large manufacturing company with 40,000+ employees and has over 200 leasing agreements spread across 125 countries. The majority of agreements are in EMEA (Europe, the Middle East, and Africa), and the rest are in the Americas, and Asia Pacific. Offices and warehouses are the primary segments counting the number of leasing contracts, but manufacturing is the largest leasing segment in terms of square meters and leasing amount. About 25% of the company's real estate portfolio is made up of leased properties, and the company spends about 0.5 percent of its turnover on leasing agreements.

Firm C is active in the manufacturing industry with 4,000+ employees and is divided in four divisions that each has its own business operations. The firm has leasing contracts in many countries but mainly in Sweden and Germany, because of quite large operations there. Firm C mainly leases office spaces as well as two factories, but does not know the yearly cost for leasing, since it has never been collected. However, leasing contracts are a small cost of their operations, with the leased factories representing a slightly larger proportion. The firm has 46 leasing contracts.

Firm D is active in the manufacturing industry with 10,000+ employees globally and is divided into three divisions that all have their own business operations. The firm has leasing contracts in many countries, but mostly in America, Sweden, and Germany both in terms of square meters and number of leasing contracts. Firm D leases everything except factories, but primarily warehouses. They lease for approximately 0.8 percent of their yearly turnover. Firm D has 90 leasing contracts.

Firm E is active in the manufacturing industry with 40,000+ employees globally and includes numerous firms with their own business operations under Firm E as the parent company. Firm E has leasing contracts in many countries, but mostly in Northern America, Europe, Asia, South America and South Africa. They lease warehouses, dealerships, and offices. Their cost for leasing is about 0.3 percent of the company turnover. Firm E has approximately 700 leasing contracts.

4.2 Brokers in the Leasing Process

Firm A and Firm D both prefer to involve brokers as early as possible in the leasing process, sometimes as early as during feasibility studies, due to their lack of internal expertise. As such they follow a hybrid governance structure in their leasing process, where brokers are involved as intermediaries in certain steps, but the firms are also actively engaged together with the brokers and not completely outsourcing. However, Firm A has business principles dictating that decisions should be made based on the "right knowledge" and thus it follows that experts are brought in with the bottom line of ensuring the most economic option for the firm. However, broker performance is not measured, which indicates that it could be difficult to discern economic implications.

Firm B always involves brokers for leasing, except when leasing space of less than an undisclosed threshold of square meters, because of lacking internal expertise. They also prefer to involve the broker as early as possible in the leasing process, with added emphasis on the broker being with them all the way until a contract is signed. Consequently, compared to the other firms their governance structure leans more toward market outsourcing, but can still be considered as a form of hybrid because of the close partnership throughout.

Firm C has a different approach and does not always involve brokers in their leasing process with the stance that "if you have the expertise, you can save money by doing it yourself". Instead, they have established basic rules about how the brokerage firm can support them. If Firm C believes they have enough internal expertise they contact the landlord directly by themselves without brokers involved. Consequently, they have a more hierarchical governance structure where some lease contracts are handled in-house, and some are partially outsourced to brokers. This strategy is presumably favored because Firm C has few leasing agreements, compared to the other firms, and primarily leases office space, which generally comes with fewer requirements compared to industrial sites or warehouses for example.

Firm E reveals that they do not have any overarching guidelines in the firm regarding when and how brokers should be involved in the leasing process. Consequently, broker involvement varies from country to country. As such, the governance structure in Firm E varies depending on where in the company a particular leasing project is taking place. It also appears that Firm E always either applies a hybrid model or leases through hierarchical governance.

Firm B stood out as putting a lot of value on using brokers for leasing administration, involving documentation, and keeping track of all leasing agreements, as well as brokers proactively identifying and meeting Firm B's needs. Leasing administration was also mentioned as important to create an overview and keep track of the properties Firm B leases and to improve the management of their leasing agreements. Similarly, Firm C stipulates in a framework agreement that the brokerage firm is responsible for the system where all lease agreements are collected, enabling Firm C to keep track of dates and know when to make decisions on renegotiating, extending, or terminating contracts. The same ambition exists within Firm E, who also have their leasing agreement collected in a database provided by a brokerage firm. However, Firm E appears to handle the monitoring of leasing agreements by themselves which is also the case for Firms A and D. Although, both Firm D and Firm E highlight the importance of monitoring the agreements and taking timely action.

Leasing administration is thus recognized as a critical part of the leasing function by several of the firms, as it can help save expenses by reviewing agreements and assessing future options. This should be especially important for firms with a large geographical spread and a high number of leasing agreements, or where leasing expenses are significant.

4.3 Broker Competition

Since no contract covers all eventualities mostly due to bounded rationality, negotiations of leasing contracts can give rise to opportunism from brokers. However, Firm A always collects bids from two to three different brokers for larger transactions in an effort to ensure the best possible deal, where their assessment relies on internal experience. The same applies for Firm D. They create their own requirements specifications and then collect bids from several different brokers. Firm C expresses a desire to include more partners in the future to create competition among the brokers, which can then be regarded as a measure to prevent brokers from acting opportunistically. Further actions to reduce opportunistic behavior concerning Firm A, are that they prefer to not have brokers involved in the final negotiation process with landlords and to include a lawyer to avoid conflicts of interest. This is an aspect that the other firms did not emphasize. Instead, it was mentioned that the brokers are often viewed as an asset during negotiations. In the event of needing customization of buildings, Firm A states that they strongly desire to pay for this by themselves to ensure that the broker works in their best interest.

This stands out in relation to the other firms, which do not indicate concern around not hiring the broker themselves for customization work.

Both Firm B and Firm C have partnerships with one global brokerage firm, but they differ in how they approach broker relationships and minimize conflicts of interest. Both firms assign most contracts to the one partner without collecting proposals from other brokers. However, Firm B puts strong emphasis on building a close relationship with their broker partner based on trust, and actively mitigates conflicts of interest through open communication. If Firm B experiences that something in the collaboration is off, they take measures such as utilizing business contacts in different countries for information, and there is a clause in the framework agreement stating what happens in case of a conflict of interest. Firm C on the other hand values great flexibility in their partnership with a broker, to be able to decide the level of brokerage involvement and cancel it at different stages, depending on their needs.

It is reasonable that using one broker and not collecting bids from other competing firms could allow for opportunistic behavior from the brokers since there is no need to disclose information to appear like the superior service provider. On the other hand, a close collaboration, such as Firm B aims for, is likely to increase transparency into the work of the broker. Additionally, the broker risks losing a substantial partnership if Firm B is unsatisfied with their performance, and consequently there should be a strong incentive for mutuality in this partnership. Since Firm C invests less in creating a strong relationship with their broker, the incentive for mutuality in this case appears weaker. Nonetheless, Firm C can swiftly cancel the partnership at various stages and thereby reduce opportunistic behavior. However, this approach does not eliminate the risk of brokers resorting to opportunistic actions to sustain the collaboration, as there is no guarantee of continuity. Thus, there is likely a trade-off between maintaining flexibility and fostering a close relationship where mutuality is a clear objective for both parties.

All firms lease properties in numerous countries and therefore choose to collaborate with several well-established and global brokerage firms to utilize their professional competence and the expansive reach of their networks. There are a handful of global brokerage firms meeting these requirements, as well as smaller brokerage firms with local knowledge. This means that the numbers are small but there are various options for a company wanting to outsource, and thus allowing for competition. However, a lack of market insight and information sharing limits a firm's ability to choose the best broker, and to evaluate their effort.

As aforementioned, both Firm A and D favor receiving bids from several brokers to assess their expertise before engaging in a transaction. Since the brokers are competing to receive the assignment, information impactedness can occur in the form of brokers withholding information for their own gain. Information impactedness for Firm B is seemingly not as likely to occur since they closely collaborate with only one brokerage firm, with a strong emphasis on mutual gain. However, Firms C and E appear to lack this close relationship with brokers, which could result in information being withheld intentionally for opportunistic reasons, and unintentionally due to lacking knowledge about the firms.

4.4 Standardized Contracts

Firms A, D, and E have established framework agreements with brokers, but Firms A and D vary in their stances regarding standardization. The framework agreement at Firm A always applies, but there is no standardized contract model. Instead, brokers present and justify how they want the setup for the collaboration through meetings with Firm A, and then negotiations proceed. This non-standardized approach may result in expanded bargaining costs for Firm A. However, Firm A recognizes the need for more standardization to make collaboration with brokers easier and reduce the workload for local managers. On the other hand, the framework agreement at Firm D appears to have a higher degree of standardization, which is valued by the firm as it makes contracting easier and saves resources. Firm E did not disclose their stance in this matter.

Firm B has a standardized framework agreement covering all their leasing projects globally, and a project engagement form is added to each project to cover project-specific aspects. This standardized approach benefits Firm B as they know they have “ticked all their boxes” in the contract, leaving no room for further negotiations. However, they mention that drawing up the engagement forms can be time-consuming, which increases bargaining costs in that aspect. Similarly, Firm C has a framework agreement where several parts are standardized, such as the outcome in case the collaboration between the broker and the firm is terminated, which eliminates the need for repeated negotiation and avoids bargaining costs. However, Firm C emphasizes their preference to keep flexibility in the agreements through engagement letters tailored to each individual project, rather than standardizing everything. This includes changes in local agreements regarding compensation, and the level of broker involvement, which can reduce fee payments but may also result in increased bargaining costs.

4.5 Customizing Facilities

Asset specificity becomes relevant regarding customization of leased properties, where Firm A expresses a strong desire to bear the cost of the modifications and to hire the broker, if one is hired, to ensure that the broker works for them. Moreover, Firm B wants responsibility over customization since their opinion is that brokers lack competence in this area. However, if the property involves large financial investments, Firm B might prefer to engage the broker in negotiations with the landlord. These practices indicate that if a property has high asset specificity and is critical for the firm, Firm A and Firm B want to be in control and manage things more hierarchically, although partly outsourcing to brokers might still be preferred and necessary.

Firms C, D, and E have indicated that the responsibility for customizing a leased property may fall on either them or the landlord, depending on the customary practice in each country. Firm C seems to prefer delegating responsibility of modifications to the landlord as a means of lowering the brokerage fee, whereas the position of Firm D on this matter is unclear. Firm E appears to use this approach because of their lack of strategy, although it is mentioned that rent can become cheaper if Firm E pays for modifications themselves. As both Firms C and D primarily lease offices and warehouses, which are less asset-specific and therefore entail lower monetary investment, it appears that it may not be critical for them to assume the responsibility of customization themselves.

4.6 Assessing Broker Expertise

All firms mention local expertise as the most important factor when involving brokers. Thus, it follows that there is a lack of transparency regarding the corporate lease market, potentially resulting in high uncertainty. Both in the form of changing market conditions, and regarding broker expertise and information sharing since the assessment of brokers is mainly subjective. These implications raise concerns about the potential risks and costs associated with engaging brokers. Uncertainty surrounding market conditions can result in significant financial losses, while subjective assessments of broker expertise and subpar information sharing can lead to inadequate services and missed opportunities.

Firm E has around 700 leasing contracts in place, while Firm A and Firm B both have over 200, Firm C has about 40, and Firm D has about 90 leasing contracts. Considering the amount of

resources required to complete a leasing deal as well as subsequent management, it can be argued that the frequency of transactions ranges from high to quite high for all firms. Given that larger and more frequent transactions make it easier to recover the cost of a governance structure, it is not unexpected that Firm B appears less worried about the direct costs of involving brokers than Firm C does.

Firm B's approach may be to directly invest more in broker services with the aim of ultimately minimizing the overall transaction costs related to leasing. This strategy would be logical for them, given their large number of contracts. Firm C should find it easier to handle their contracts more in-house, therefore providing less incentive to outsource. Additionally, one could argue that the leasing function becomes more important for a firm with a higher number of leased properties, thus increasing the willingness to invest in professional expertise.

The firms have various quality factors that they consider especially important regarding broker services. Firm D highly values that the brokers are fast, especially in the beginning of the leasing process, that they react quickly and that they give a professional and competent impression. Similarly, Firm E values the ability of brokers swiftly finding suitable landlords as time is often a critical factor in the leasing process. Firm C puts extra importance on the ability to provide informational material for comparison of alternatives, and on good communication and collaboration towards the internal business. Firm A greatly appreciates that a broker has the right knowledge about what is important for the firm, making it redundant to check with the broker each time that these aspects are covered. Firm B mentions that trust in the communication is important, and that they measure broker performance through KPIs (key performance indicators) to assure competence and quality of the service. These KPIs include factors such as competence, market knowledge, communication, proactivity, and adherence to standard processes.

In contrast, Firm D argues that when working with the largest international brokerage firms, there should be no need to ensure competence and quality, instead they base their perception on knowledge and experience of the market. Consequently, Firm D keeps track of what is written about the brokerage firms, and because of their close collaboration, they claim that they have the capability of noticing differences in quality between broker services. Firm C simply does not see the need of measuring the service quality because of the small number of contracts.

There are evidently differing views on what is most worthwhile, either investing in quality assurance with the aim of ultimately minimizing costs, or to directly save on resources but risk lower quality. The degree of importance attributed to the leasing function may explain this difference in opinion. Essentially, if the leasing function is deemed to be highly critical, it would become more imperative to measure broker performance to ensure quality and potentially achieve long-term resource savings.

4.7 Incentives for Brokers

Information asymmetry in the relationship between a firm and their brokers will naturally exist when brokers are brought in because of their superior expertise. In addition, the knowledge-based nature of the service makes it difficult for a principal to gain full insight into the broker's work, and to assess performance, which is evident by the fact that all firms except B do not objectively measure broker performance. However, Firm E discloses that all major deals where brokers are involved are followed up and a quality analysis is conducted. To close the information gap and to gain insight into the brokers' proceedings, all firms except E reveal that they always work very closely together with the brokers, instead of completely outsourcing. This appears to be the preferred conduct since none of these firms indicates a desire to achieve a higher degree of outsourcing.

To ensure proper effort from the brokers, all firms agree that mutual benefits are important, but how this is achieved differs. Firms A and B explicitly emphasize the strive for both parties to be satisfied with the outcome, rather than solely focusing on the lowest price. Firm A also wants to avoid brokers being influenced by their connection to a landlord and thus sometimes rewrite contracts to have the broker on their side. This implies that Firm A wants to mitigate conflicts that can arise and wants the ability to confirm what the broker is doing. Firm B has the approach of having a clear and open dialogue with the brokers to ensure transparency and building up trust. This is evident in the fact that they ask the broker outright if there is a conflict of interest, indicating openness and trust between them. Firm C appears to have a more skeptical approach and instead discusses the trade-off between using brokers and doing the job themselves. Stating that brokers ultimately want to earn money, and for each case, they receive additional compensation. Consequently, Firm C favors flexible contracts to gain control of the collaboration.

The most typical payment arrangement for brokers involves them receiving a percentage of the annual rent for leasing of a property. All firms except Firms C and E disclose that further broker commission on savings is not included for leasing contracts. Consequently, principal and agent achieve aligned objectives in the form of a continuing business relationship. However, preferred outcomes are not aligned since a lower rent for the firms essentially means a smaller payment for the brokers. Thus, the contracts cannot be regarded as outcome-based. Firms A and C recognize that providing additional payment for achieving savings gives brokers an incentive to lower costs for their clients. Firm A would therefore like to include this in the future, while Firm C already includes that if the broker manages to negotiate further savings, such as lower rent, they can receive a percentage of these savings in payment.

However, the creation of an outcome-based contract heavily relies on the measurability of the outcome, which is arguably low for broker services. An issue is the difficulty to establish what this measure should contain: if it should be based on achievement of lower rent, lower occupational cost, negotiation of other terms such as flexibility in the contract to the landlord, etc. A possible reason why the firms may not even want to measure service outcome is that it can be resource-intensive, or as Firm B stated, it is not always possible to attribute cost savings to the work of brokers. Furthermore, the case might be that the firms are satisfied with the broker service as it is and do not believe they would gain by including other incentives for the brokers.

4.8 General Observations

All firms chose to acquire broker services out of necessity to achieve the most economical outcome. However, transaction costs involved in this kind of transaction are potentially considerable and at the same time difficult to estimate. Additionally, Firms A, B, and D disclose an absence of outcome-based payment models that offer clear incentives for brokers, and despite the lack of research in contract design for commercial brokerage, it is logical to assume that better incentives for brokers will result in more effort on their part.

The firms work with major brokerage firms and use key personnel when needed for access to local market information through their professional network of contacts. This is essential since it is often difficult for firms to acquire this information by themselves.

Due to a lack of internal expertise and resources, firms utilize brokers to varying degrees in leasing transactions, with varying levels of involvement and governance structures. Moreover, all firms apart from Firm E appear to always be highly involved when working with brokers, contributing to ensuring satisfactory development and delivery of the services.

The knowledge-based nature of brokerage services makes it difficult for firms to assess broker performance. Close collaboration between the firms and the brokers is necessary to bridge the information gap and gain insight into the brokers' work, thereby improving service delivery. In addition to this challenge, all firms except Firm B reveal that they do not formally measure broker performance, and instead make subjective assessments, although Firm E conducts a quality analysis on critical deals. This suggests that the firms may not be fully implementing best practices in service delivery, which could have implications for the quality of the service they receive. There are conflicting views on whether to prioritize measuring broker performance to ensure quality or to immediately save resources despite the risk of lower quality.

Proper management of leasing contracts is vital for informed decision-making and timely action. To minimize opportunism that arises due to bounded rationality in dealings with brokers, it is important to have a balance between flexibility and close relationships, while also ensuring transparency and aligned incentives. Additionally, firms need to weigh the benefits of standardization of contracts against potential bargaining costs associated with their approach.

There are various options for outsourcing among a few global brokerage firms and smaller local firms, which allows for competition. However, brokers withholding information is a concern. High asset specificity appears to make firms more inclined to keep control of their leasing process. However, uncertain market conditions and poor market transparency necessitates involvement of brokers. More leased properties could amplify leasing function importance, increasing willingness to invest in brokers.

5. Discussion

The discussion will follow a structure based on the themes in Chapter 2. These are Brokers as Intermediaries, Transaction Cost Economics, and Principal Agent Theory. The findings presented in Chapter 4 will be discussed in relation to these themes with the aim of answering the research question for the study.

5.1 Brokers as Intermediaries

The market characteristics of information asymmetry, heterogeneity, and spatial fixity are what makes broker involvement necessary in leasing transactions (McAllister et al., 2008). This is supported by the findings in the study, where the last two are emphasized in terms of firms needing access to local expertise to assess if a facility matches their requirements and needs. The brokers also provide guidance in assessing if a deal is good or not, because it is very difficult for firms to gain insight on a local level, especially with a wide geographical spread and long distances. Information asymmetry, however, arises between the two parties due to their possession of different information. Our study findings indicate that this asymmetry is primarily being mitigated through contract stipulations and effective communication.

Based on the findings there is evidently a wide range of broker services available that relate to the leasing process, not directly mentioned in the reviewed research, which emphasizes locating suitable facilities, assisting in evaluations of these, and negotiation of contract terms, as well as managing transactions (McAllister et al., 2008). The additionally mentioned broker services include leasing administration and data systems for this, feasibility studies, proactively investigating company needs, etc. Thus, there is the possibility of firms outsourcing a wide range of tasks pertaining to leasing of facilities. It may therefore be beneficial to evaluate all available broker services to determine the most effective approach for managing these tasks, be it hierarchically or by broker, to minimize resource utilization and achieve the most satisfactory end result.

According to Devaney et al. (2017) broker involvement can result in less transaction cost, since transaction costs involved when leasing can become extensive due to poor information

transparency in the market. This is in line with the study findings, which reveal that firms feel a need to involve brokers to access information, and this often involves using key personnel at the brokerage firms for their professional networks. Devaney et al. (2017) note that quantifying transaction costs in this context can be challenging, making it difficult to determine when broker involvement reduces such costs. The decision to rely on internal expertise or brokers is typically based on subjective assessments rather than confirmed data, which means that it comes down to a judgment call on which option incurs the least cost. Moreover, the study indicates that broker involvement intensifies with an increase in the number of leasing contracts, as it places a higher demand on the management of operations pertaining to leasing.

According to D'Lima (2019), brokers tend to work harder for clients when incentivized with higher commissions. Therefore, including such incentives in leasing deals could lead to enhanced performance. However, our study found that this practice is not typically present in leasing deals, although it is sometimes acknowledged as potentially beneficial. Nevertheless, it is important to note that contract design in this area is largely unexplored (Broxterman and Zhou, 2023), and thus it can not be definitively stated that including incentive commission payment for brokers would be beneficial. Especially given the challenges associated with implementing outcome-based contracts in the context of leasing, as indicated by our study and Sharma (1997). This stems from the fact that a firm may have limited knowledge of the tasks assigned to the broker and thus it becomes difficult to assess broker performance.

5.2 Transaction Cost Economics

According to the interviewees, brokers should be used as intermediaries when leasing corporate real estate principally because of a lack of transparency in the market, since identification of suitable properties is highly dependent on local market knowledge, which brokers to a greater extent possess. This means that brokers, being experts in the field, should be able to handle the task more effectively, especially when dealing with numerous properties and a wide geographical spread.

However, companies also need internal expertise, as corporate real estate involves a lot of money (Barkham and Park, 2011), and it is therefore critical to have the knowledge to make informed decisions about these investments. Hence, fully entrusting the identification of leasing opportunities to an external actor might entail significant financial risks, and therefore, the firm

should still be involved in the leasing process. The question is to what extent it should be involved.

The presence of financial risks in identifying opportunities for leasing indicates that a hybrid form of governance structure is favorable, which is in line with the theory suggesting that a hybrid governance structure is appropriate for frequently repeated transactions with specific intermediate steps (Krzeminska, 2008). Furthermore, a hybrid governance structure can be adopted along a continuous spectrum ranging from market to hierarchy (Gulati and Singh, 1998) and can therefore be used to varying degrees depending on the specific needs of a firm. As was shown in our study where firms exhibited various takes on hybrid governance, depending on perceived internal expertise, significance put on the leasing process in terms of the number of contracts, and criticality of investment.

Involving a broker for a specific project or not is thus a balancing act in the perspective of transaction cost economics, which states that the most economical governance structure should be chosen (Williamson, 1981). It may not always be the case that partly outsourcing to brokers, given their fees, is less costly than handling all tasks internally and there is the issue of risks to be considered. However, firms in the study do not appear to make an earnest attempt at predicting and measuring financial consequences when deciding which exact hybrid structure to use.

Concludingly, we would argue that greater involvement of brokers is more justified for transactions that require good knowledge of local market conditions and where risks associated with reliance on a broker are small.

5.2.1 Assumptions in TCE

The need to win clients can become a motive for brokers to hide information on purpose, which corresponds to opportunism (Krzeminska, 2008). However, encouraging competition among brokers can also help prevent opportunistic behavior, as brokers will strive to present their best possible offers to win clients. Furthermore, we would argue that the brokerage industry is heavily reliant on reputation to receive business and therefore acts of opportunism are discouraged by the risk of a tarnished reputation (Sharma, 1997). An alternative approach would be to focus on creating close partnerships with brokers, and thereby increase the transparency into the work of the brokers. This could minimize opportunism since it is a great

risk for brokers to act opportunistically when it can negatively affect a substantial partnership. Furthermore, opportunism will arguably be inhibited by creating benevolent attitudes among the service providers based on a perception of mutual gain. Mutuality is according to Commons (1932) a key element in a transaction and will inhibit the occurrence of conflicting objectives arising. A close relationship between parties should therefore be favorable and create a win-win situation where the broker gains continuing business and the buyer gains extra effort put in by the broker, thus creating mutual dependence and gain. Overall, it is important to emphasize reputation, transparency, and mutual gain since these aspects can prevent opportunism and still encourage competition among brokers.

The study found that broker involvement in projects can vary significantly even within the same firm. When that is the case, flexible contracts that allow for adaptability to individual projects are suggested as suitable. However, another revealed approach involves having a more standardized partnership and using brokers in the same way for similar projects. This approach was seen to offer the benefit of saving money on bargaining costs as standardized contracts eliminate the need to negotiate every time. Nevertheless, per the presumption of bounded rationality, it is impossible to contract for all eventualities (Williamson, 1985, p.46), and this can result in high bargaining costs when developing the contracts. However, we argue that creating standard agreements can be more resource-efficient in the long run, especially when there are many contracts. We also acknowledge that this may not be practical or economically feasible for every firm, and therefore flexible contracts may be necessary. It is essential to strike a balance between flexibility and standardization, depending on what works best for the firm and the project at hand.

Since there are several brokerage firms offering the same service, the buyer can subject the brokers to competition and thus gain bargaining power (Williamson, 1975, p.27). However, the buyers are dependent on the brokers professional expertise, and this coupled with a lack of market insight, results in brokers still holding a significant amount of bargaining power. This is something buyers should consider when working with brokers as it puts further emphasis on the importance of mutuality. Moreover, the phenomenon of information impactedness occurs when two parties are unable to share information with each other (Williamson, 1975, p.31). To address this issue, we believe that establishing a strong working relationship between a buyer and a broker can help them better understand each other's needs and preferences, thus reducing

the chances of unintentionally withholding important information. This can be of particular importance to ensure good service quality when the needs of the buyer are highly specific.

5.2.2 Transaction Dimensions

The study provides evidence that firms are inclined to manage the leasing process in a more hierarchical manner when high asset specificity is involved. For example, when facilities require distinct and expensive customization, as specific investments need to be carefully managed (Williamson, 1998). In contrast, leasing of facilities with lower asset specificity, such as office space, appears to be outsourced to a higher degree, which is in line with theoretical predictions (Williamson, 1998). However, brokerage is a knowledge-intensive service, as firms rely on brokers for their expert knowledge (McAllister et al., 2008) and consequently the search for a facility with high asset specificity becomes more complex and would therefore require a higher degree of expertise and broker involvement, as indicated in the study. Yet, despite brokers being more extensively involved, buyers likewise want to be actively involved alongside them to maintain control of proceedings. As a result, the management of the process becomes more hierarchical. Altogether, it is implied that in situations where high asset specificity is required, extensive broker involvement is often necessary.

The study indicates that leasing administration becomes progressively more important as the number of contracts increases, as the demand for management also increases. Therefore, we argue that companies with a high number of leasing contracts have a stronger incentive to involve brokers in their operations pertaining to leasing, also because the cost of a specific governance structure is easier to recover with larger and more frequent transactions according to Williamson (1985, p.60). As a result, being proactive in managing contract extensions, renegotiations, and relocations could result in significant cost savings for companies. While managing contracts in-house is an option, outsourcing leasing administration to brokers may be more beneficial if a company wants brokers to work proactively and ensure that the task is prioritized across the entire company.

5.3 Principal Agent Theory

The knowledge-centered nature of broker services brings with it significant information asymmetry between a firm and broker which can give rise to conflicts (Eisenhardt, 1989). The study suggests that this presence of information asymmetry sometimes leads to mistrust of the intentions of brokers. To mitigate this, it is suggested by Gibler and Black (2004) that a principal should monitor the actions of an agent to ensure that they align with the objectives of the principal. However, this can be challenging for services involving soft skills since reliable data is difficult to obtain and monitoring can create adverse attitudes between principal and agent (Sharma, 1997). One concrete way of firms mitigating conflicts arising from information asymmetry is instead through frequent communication and close collaboration with the brokers, emphasizing the need for a strong relationship between the principal and agent.

To have a successful development and delivery of business services it is important for firms to find service providers, in this case brokers, that can be trusted and who share the same vision (Dess et al., 1995). The importance of brokers understanding the business principles and needs of a firm to be able to deliver a satisfactory outcome was emphasized in the study. Moreover, Gibler and Black (2004) state that collaboration and frequent interaction are also necessary factors to ensure a good business service, which was also recognized and typically carried out by the firms. Since the brokerage industry is knowledge-intensive, the firms used key personnel to access critical information, which is important according to van der Valk and Selviaridis (2023) if the service heavily relies on professional knowledge. Overall, this indicates that the firms create favorable conditions to receive a satisfactory service.

The study shows that the most important quality factors for firms can be connected to responsiveness and empathy, with the first corresponding to being fast and responding to the customer in a good manner, whereas the latter pertains to addressing uncertainties that the customer may have (Seiler et al., 2008). However, the study indicates that quality factors are often not objectively measured and are instead subjectively assessed. The firm that did measure broker performance through KPIs emphasized collaboration and mutual benefit more than the rest of the firms. This could be an indication that using KPIs to measure service performance may help firms prioritize creating good business relationships with brokers by providing concrete results and reducing the need for subjective assessments.

Overall, developing KPIs and establishing baselines for what qualifies as good quality can enable firms to concentrate more on mutual benefit and collaboration, without having to be concerned about broker performance during the collaboration, as there are standard operational procedures in place to measure this and thereby ensure high quality.

5.3.1 Contracting

In this study it was shown that outcome-based contracts where the broker is paid based on the outcome of their performance does occur but appear to not be the typical choice. Furthermore, outcome-based contracts lower the self-interest that can arise between the principal and agent by aligning their preferences, meaning that the agent receives a provision based on how satisfactory the outcome is (Backhaus et al., 2016). This occurred in the form of brokers being paid by commission on achieving savings of different kinds, meaning that the firm having to pay a lower rent leads to the broker being paid more. The benefit with this kind of arrangement is that it minimizes adverse selection and moral hazard by providing incentive for the broker to perform well (Sharma, 1997). However, most firms studied here had fixed percentage rates based on for example annual rent, thereby creating conflicting objectives between principal and agent.

Moreover, Sharma (1997) states that outcome-based contracts are problematic when a firm may not be aware of what constitutes a satisfactory outcome, which is arguably the case for broker services since it is difficult for someone lacking knowledge in an area to assess the outcomes. This issue was raised in the study with firms mentioning that it is difficult to establish what a performance measure should even contain and difficult to determine an appropriate baseline for comparison. Concludingly, it is clear that outcome-based contracts are problematic for leasing services, but it could be beneficial for firms to include this type of contract to ensure broker performance by providing incentives.

Finally, there is no clear indication of how risk aversion affects contracting and payment of agent fees in this context of leasing. However, it is reasonable to assume that by partnering with globally renowned brokerage firms, companies benefit from a certain level of service quality assurance since brokerage firms depend heavily on their reputation for continued business (Seiler et al., 2008). Therefore, firms may not perceive a high level of risk in engaging the services of these brokers.

6. Conclusions

This thesis aims to describe and analyze how manufacturers involve brokers in the leasing of corporate real estate, with the goal of providing insights to help firms make informed decisions that maximize their value. The conclusions reached in this study will hereby be presented.

Through interviewing five firms it appears that brokers are involved when leasing corporate real estate since leasing is a knowledge-intensive area and intermediaries with expert knowledge therefore become necessary to access essential information. Brokers provide a wide range of services, and our study showed that firms hire brokers for locating suitable facilities, assisting in evaluations of these, negotiation of contract terms, leasing administration and data systems for this, feasibility studies, and proactive investigation of company needs. Broker involvement differs both between and within firms but locating suitable facilities is the main task assigned to brokers and is common for all firms in the study. The decision to rely on internal expertise or brokers is typically based on subjective assessments rather than confirmed data, which means that it comes down to a judgment call on which option incurs the least cost.

Furthermore, leasing of highly asset-specific facilities typically involves a lot of money and thus it carries financial risks for firms to fully rely on external actors to manage the leasing process. Therefore, it is advisable for firms to remain involved and employ a hybrid governance structure to get access to broker expertise and still maintain control over the proceedings. Our study highlights the importance of aligning objectives and facilitating mutuality in the relationship with brokers. Outcome-based payments can be a part of achieving this. Additionally, measuring broker performance with KPIs could reduce suspicion, prevent opportunism, and promote collaboration.

There may be some degree of bias present in the cases included in the study. The approach of selecting empirical cases through requests by brokerage firms may have resulted in firms with greater broker involvement than is typical. It is also possible that these firms were specifically targeted because they are good clients for the brokers and regard broker involvement as very important. Additionally, all the firms in the study had a strong emphasis on using global brokerage firms, which may have influenced the findings. However, it should be noted that the

firms met the delimitation criterion of being multinational and involving brokers in corporate real estate leasing, making them a suitable fit for the study.

As this study provides an overview of how brokers are involved in the leasing process, it would be our recommendation to conduct further research that focuses on the individual steps of the process to gain a deeper understanding. Moreover, outcome-based payment models are important to achieve aligned objectives among parties involved in a transaction. As our study did not examine this aspect in depth, further research is prudent to provide more insights into this topic. Finally, exploring broker involvement through benchmarking with qualitative data on a broader scale would enable finding patterns that support and expand upon the findings of this study.

The practical implications from our study would be for firms to firstly assess their internal working proceedings, identify their needs, and then explore how brokers can contribute to achieve the most financially advantageous arrangement. As it is hard to improve upon what is not measured, firms should also investigate the possibilities for implementing KPIs to measure performance pertaining to the leasing process.

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Appendix I

This appendix contains the interview template used in this study.

Leasing

- In which countries are you leasing buildings?

- What is your geographical distribution of leasing contracts?

- Which types of buildings do you lease?

- What is the distribution of different types of buildings in terms of quantity?

- What is the distribution of different types of buildings in terms of leasing amount?

- What total annual amount do you lease buildings for?
 - What percentage of the company's annual revenue does this correspond to?

- How many contracts for leasing do you currently have?

Use of Brokers

- Do you work with brokers when leasing buildings?

- Do you always involve brokers?

- How many different brokers do you use?
- Why do you choose to work with brokers instead of handling the leasing process entirely on your own?

How Brokers are Involved in the Leasing Process

- Could you describe how the leasing process works from beginning to end?
- Is the process always the same?
 - If not, how does it differ?
- Is this applicable to the entire company? (globally)
- Who initiates and drives the leasing process?
- At what point in the process do you involve brokers and what determines this?
- Which parts of the process are handled by the broker?
 - Can this vary?
 - What are the determining factors for this?
- What does your contact with brokers look like during their involvement in the process?
- Do you work collaboratively with brokers during certain stages of the process?

- How is responsibility transferred from the broker to your organization?

- What does the contact between your organization and the broker look like after you have signed a lease agreement with a landlord?

- When a building needs to be customized prior to your use, who is responsible for overseeing and funding the necessary work – your organization or the landlord?
 - Who is responsible for the communication with the landlord during this part of the process?

Relationship Between Company and Broker

- Do you always use the same broker locally?
 - And if not, why?

- What kind of relationship do you strive for between yourselves and your brokers?

Contracting and Model(s) of Payment

- Are the contracts for the brokers standardized or do they differ?
 - Why and how do they differ?

- Is your contract strategy towards brokers to cover as much as possible in the contract, or do you prefer to work more flexibly?
 - Advantages and disadvantages of this?

- What does the payment model for the brokers look like?

- If it varies, what factors determine the payment model for a specific contract?
 - Is it dependent on the scope of the leasing contract?

- How do you ensure a favorable contract for both parties?

- What incentives do you have for the brokers?

Quality Assurance

- What factors are important to you regarding the quality of the service delivered by the brokers?

- Do you in any way measure the quality of the brokers' work?
 - Are there any difficulties with this?
 - Are there aspects that cannot be assessed?

- Are you actively working to improve your quality assurance and if so, in what way?

Competence Assurance

- How do you work to ensure that the broker has the right competence for the assignments given to them?"

- How do you determine that a broker can do a better job than yourselves?

Appendix II

This appendix offers a summarization of the information from each interview.

Firm A

Firm A is a manufacturing company with 15 000+ employees globally and is active in all continents, half of all countries in the world, but less representation in Africa and Australia. They use approximately 1.6 million square meters of which they lease 500,000 square meters. Firm A mainly leases sales offices and service centers and only a few large industrial sites around the world are leased. The total cost for leasing has earlier not been collected but this will start from 2023. Firm A has 250+ unique leasing contracts.

The Leasing Process

The leasing process for Firm A is always the same globally since the firm's business principles are the foundation, and the initiative is taken by the local business leader who is the owner of their own local business. The process works as such that Firm A starts by evaluating what it is that they need and begin to create a business case by determining what their requirements are. This includes factors such as the size of a warehouse, building or office, industrial or commercial space, and thereafter they decide on how large it should be and where it should be located. Once they get into the discussion of where it should be located, Firm A has already done a thorough analysis on their end and this is where brokers are brought in at the latest, since the brokers have knowledge of the city, upcoming plans, workforce, transportation, and the most accessible routes etc. If Firm A wants to be located in a specific place, the local agent at Firm A has done an investigation and then brings in a broker to answer any further questions they may have during the early stage of the leasing process. This helps Firm A with making a preliminary agreement with a broker in several stages. Sometimes, Firm A may want to exit the process with a broker early, so they want to get a rough overview of what real estate is available in the market, and what their options are. Then Firm A proceeds with the negotiation process. Once the broker finds a property that is suitable and Firm A receives a preliminary price, they must obtain formal approval. Firm A has a formal approval process depending on how far up the organization the decision must go. Then they can sign an agreement for leasing.

Broker Involvement

Firm A always involves brokers when leasing since they do not have internal expertise. If they want to lease in a country where there is absolutely no expertise, which is the case if they have smaller office rental contracts for example, they have a number of large contacts with well-established and global brokerage firms. If there exist local brokers, they can also be used. This is sometimes the case in locations where the company has been operating for many years. The company always collects bids from two to three brokers. In addition to the bid and the price, they want to meet the brokers and see what expertise they have in the subject. Firm A wants to bring in the brokers as early as possible, and then Firm A thinks about how many people they need to accommodate or how large a new service center should be etc. As soon as they feel that they need to bring this up to the top management in Sweden, they bring a broker along.

The company wants to follow their business principles by having independent brokers who can play different roles, such as conducting an early feasibility study, and they bring in brokers to evaluate potential locations and prices before deciding on a lease agreement. For larger contracts, Firms A request bids from three brokers and evaluate their processes before proceeding. Moreover, the broker, a lawyer, and the firm will discuss the process, but if it is a tougher negotiation, the company advises removing the broker from final negotiations to avoid conflicts of interest.

Regarding whom stands for the cost when it comes to customization of a property, Firm A states that it is their strong desire that they are the ones who pay for this and that they are the ones who have hired the broker because Firm A wants to ensure that the broker works for them. The contact with the landlord during the customization process is managed by someone in the local business, for example the CEO or a lawyer. Furthermore, Firm A is not a centralized company, so everything is managed by local companies, and they are always very much involved in working with the brokers. This means that there is no real handover between firm and broker since they are always involved, and Firm A never buys a complete service.

Contracting and Payment

Firm A states that their contracts with brokers do not differ that much, but they have not made any standardized model where they specify that this is how it should be done, instead, the brokers present and justify how they want the setup when Firm A interviews them. The respondent explains that the reason they do not have a standardized contract with brokers is

because the company has grown significantly and there has not been a need for standardization until now. They recognize the need for more standardization to make it easier for local managers to work with brokers without involving the respondent. The goal is to move towards standardized contracts, although it may be difficult due to differences in how things work in different countries. Furthermore, Firm A has a framework agreement with brokers that always apply.

According to Firm A the payment model for brokers is often based on commission. Sometimes, when it is just a matter of an investigation and the broker is only conducting research, it becomes more of a consulting fee instead. Commission-based contracts often apply to the total cost and length of the contract, and it becomes quite traditional with simple measurement tools. Firm A can specialize the contract a little if they know that they want to rent for even longer or shorter periods. Commission on savings is rarely included. However, Firm A claims it would be a good thing to discuss this because then they would work even more on the same side with the brokers, but they are not there yet. Furthermore, Firm A negotiates depending on the length of the contract. They claim that to ensure beneficial contracts for both parties they have internal experience where they compare brokers, and most of the managers involved in the deals have been around long enough to ensure this. Firm A also always checks with others within the organization. When it comes to incentives for brokers, Firm A believes that standardization and mutual benefit are important, rather than solely focusing on the lowest price. The goal is to have a win-win situation where both parties can make money and be satisfied with the outcome. Furthermore, they emphasize that it is a mutual business process that requires consideration and cooperation.

Relationship with Brokers

If Firm A always uses the same broker locally depends on the size of the contract and if it is a recurring rental of something. In that case, it is fine to use a local broker with whom you have a good relationship. However, they always write a framework agreement with brokers or something similar as Firm A wants to have a proper agreement. When it comes to more critical projects, a formal contract must be written. Firm A does not just rely on a contact they know for brokerage services. Although, it might end up being that person anyway, the decision is not solely based on that. Furthermore, Firm A states that it is important to have a good and open relationship with brokers. As a company, they need to work with brokers who understand their needs and have the necessary expertise. Firm A interviews brokers to ensure that they speak the

same language and that the brokers have understood them. For smaller leasing projects, a small office for example, this is not as important, and Firm A may not even be involved. However, for larger cases, Firm A states that it is crucial to have an open relationship because things can happen during the process, and it is essential to have a broker who can stand up for their viewpoint and tell them if something is going wrong. Firm A demands high standards from all their consultants. Additionally, Firm A has a closer relationship with major brokerage firms and with key personnel, and they use them for contracts that are geographically distant or when less experienced people are responsible for the deal internally. That way, Firm A can rely on the brokers to have a good relationship with the local organization.

Quality Assurance of Broker Services

Firm A states that the reason for not handling the leasing process by themselves and involving brokers is because the expected knowledge level for brokers is quite high. Their business principles dictate that decisions should be made based on the right knowledge. In some countries like Germany, brokers are paid by the landlord and the contracts are quite transparent, but Firm A does not appreciate that, so they rewrite the contracts in a way so that they have the broker on their side. As the client, Firm A wants professional advisors who are not influenced by the fact that the landlord and the broker have contact with each other. Therefore, the business principles are what matter the most. Furthermore, Firm A does not measure the quality of the service provided by the broker but wants to include this in the future.

Firm B

Firm B is a large manufacturing company with 40,000+ employees and has over 200 leasing agreements spread across 125 countries. Most agreements are in EMEA (Europe, the Middle East, and Africa), and the rest are in the Americas, and Asia Pacific. Offices and warehouses are the primary segments counting the number of leasing contracts, but manufacturing is the largest leasing segment in terms of square meters and leasing amount. The distribution is as follows: manufacturing makes up more than 200 million euros, offices account for around 32% of that amount, and warehouses for approximately 27% of that amount. About 25% of the company's real estate portfolio is made up of leased properties, and the company spends about 0.5% of its turnover on leasing agreements.

The Leasing Process

Firm B describes that there are different types of leasing processes for different situations in their firm. For example, if the company wants to renew a lease agreement, if they have new requirements and are looking at the market, or if they want to consolidate something. However, the parts that are included in all of the leasing processes, from requirement to signing the contract, are the following; First agreeing with the internal business department what the requirements are, then talking to brokers and looking at a long-list of properties. After that, doing site visits of properties with the local businesses branch, and then making a short-list of properties and starting to prepare both an operational and financial business case accounting for the total cost of occupancy. The next step is choosing a property from the short-list and submitting the business case, then sending the business case to the internal unit responsible for approval. Finally, concluding negotiations and writing of the contract are done. The aforementioned are the most important parts of the leasing process, but Firm B emphasizes that each project has its own specific scenarios. In some situations, Firm B may therefore use their global partner for scenarios such as moving, consolidating, renovating, and for lease versus buy decisions. All such options are included in the process described above.

The leasing process is sometimes initiated and driven by the respondent (director of real estate and facility management) and sometimes by the business or regional lead. In the case of new business, it is the business side that initiates the process. Firm B includes the entire scope of leasing in their contract with their broker partner.

Broker Involvement

Firm B has a global partnership for lease administration with one of the global brokerage firms typically used for corporate real estate. This is the only partner they work with in principle, but in practice, they may work with three to four other partners per year depending on the situation such as prevalence of conflicts of interest or availability. However, around 90% of their partnerships involve the global partner. If the space to be leased is under a certain threshold of square meters, brokers are generally not involved. For service agreements, brokers are typically not used, but in general Firm B tries to utilize brokers as much as possible.

Firm B chose to involve brokers in the leasing process for two reasons; The first being that they have no internal resources with the right competences in real estate, facility leasing or other real estate matters. The second issue is that the overview of the number of real estate properties

Firm B utilizes is limited. When the respondent began working at Firm B, there was no total cost of occupancy available. After partnering with the brokerage firm, they implemented lease administration and now know about 90-95% of all global properties utilized by their company. Firm B also sees that brokers can be a tool for implementing standardization across different countries, as otherwise, each country could do as they please without a standard, which normally results in over-scoped solutions and too many square meters. Now, when Firm B enters a market, they first assess their business needs and requirements, and then use their broker partner to help them find the exact property they are seeking.

The broker is involved in the entire leasing process at Firm B, and they use the same broker for lease administration as for lease agreements. For example, the broker may alert Firm B that three leasing agreements for offices in Gothenburg will end in 2024 and 2025 and the broker may want to consolidate these three into one office because employees at Firm B likes working from home. Then the broker looks at lease administration and the condition of synchronizing these three agreements. They check what the requirements are for the three groups of people in the offices and collaborate to find a solution to take one office instead of three. Firm B says that this is part of the partnership between their company and the broker, that the brokers are with the company all the way. Moreover, the way of working with the brokers at Firm B is mostly the same for the whole organization, and they are working to achieve the same process globally.

The handover of responsibility from brokers to Firm B is a straightforward process. When Firm B signs the contract, colleagues usually implement the projects, and there is no handover process. Once the contract is signed, it is final, and Firm B pays the fees. Moreover, after signing a leasing agreement with a landlord, the contact between Firm B and the broker depends on the clauses in the contract. If there are clauses regarding, for example, building modifications, the brokers will discuss them with the landlord. However, if there are any gray areas in the agreement, Firm B may need to involve their brokers again since they were involved in the discussions with the landlord. The length of the contract also affects the contact between Firm B and the brokers. If it is a short-term contract of for example three years, the stakeholders will remain the same after that period. However, if the contract is for 15 years that might not be the case, and a third party is then usually brought in to do a survey of the building. This way, Firm B can determine their obligations as stated in the agreement. In summary, the contact between Firm B and brokers after signing a leasing agreement varies depending on the clauses and the length of the contract.

If there are clauses in the contract related to building modifications, Firm B will typically take the lead in negotiating with the landlord. The broker typically lacks the necessary expertise, but a third party may be hired through the broker. However, in cases involving large financial investments, Firm B may want to involve the broker early in the negotiation process with the landlord to take advantage of their expertise. Incentives such as rent-free periods or building modifications can be negotiated with the landlord, and the organization can use this information to determine how much of the investment they want the landlord to cover. During this part of the process, the responsibility for contact with the landlord usually falls on Firm B. However, in some cases, the broker may take the lead if their third-party services are used.

Relationship with Brokers

Firm B tries to consistently use the same local broker for their leasing projects. Although different individuals are used for projects in different cities, Firm B uses the same broker partner for all their projects. The regional lead at Firm B is responsible for coordinating with the broker for all projects from the firm's side.

Firm B values transparency in their relationships with their brokers, aiming for open communication and clear dialogue with their stakeholders. It is important for the brokers to demonstrate their expertise and competence, as Firm B often lacks knowledge of various markets and relies on the brokers' experience. The trust between Firm B and their brokers is built upon the ability of the brokers to quickly demonstrate their competence and market knowledge, and to provide a good long-list of potential locations and market overviews. The partnership is a long-term relationship in which both parties have a vested interest in each other's success. This partnership is important for solving any problems that may arise in the process. It is crucial that the brokers and local employees at Firm B work well together to add value to the company. Overall, the most important aspect of the relationship between Firm B and their brokers is trust, which is built upon the brokers' expertise and market knowledge.

Contracting and Payment

Firm B has a master agreement with their global broker partner that applies globally across the business. However, there are additional project engagement forms that vary by country as adjustments are sometimes needed to comply with legal obligations in certain countries. For example, Firm B had a project in Denmark where the standard document worked perfectly, but

for other countries, Firm B may need to adapt the contract to include specific clauses required by local laws.

Firm B makes contract amendments on rare occasions. They have a master agreement that covers payment terms and conditions for all agreements. However, the engagement form is more tailored to local legislations and typically does not include payment terms. It focuses more on liabilities and conflict resolution for the specific country, which may not apply to Sweden. The master agreement covers as much as possible, while the project engagement form specifies the terms for a particular project. By using the project engagement form, which includes the whole project scope, they avoid disputes that may arise beyond the scope of the contract. Overall, Firm B finds that using a standard contract format works well for them. The advantage of this is that it serves as a checklist, ensuring that all necessary components are included. They do not see any significant drawbacks to their approach, although it may take some time to customize contracts for specific situations.

Firm B has negotiated a price list for different countries, which is included in the engagement form. For leasing agreements, a fixed rate fee applies, which is a percentage of the annual rent. They do not have further incentives for brokers because they believe that when changes occur that affect costs, such as choosing to certify, for example, this is usually not part of the brokers' work. Essentially, the incentive for the brokers is that they have a global partnership with Firm B that continues and creates collaborations in different countries. To ensure a favorable contract for both parties, Firm B tries to avoid conflicts of interest. If they negotiate a deal with the broker and the broker has a relationship with several landlords of the buildings they are considering, then the broker might have a bigger interest in making a good deal for their other customer than for them. This can be risky, so Firm B needs to make sure it is a good deal for both parties. If there is no conflict of interest, the brokers get their fee for the deal.

It is not always easy to determine if there is a conflict of interest, but the first thing Firm B does is ask the brokers about it. However, not everyone is completely honest, so they rely on their network of contacts in different countries to find out which brokers are usually involved in such projects. This is especially true for larger projects, as it can be more challenging to get information on smaller ones. If Firm B negotiates with the broker and a landlord and feels that the broker is not on their side or not agreeing with them, they need to investigate whether there is a conflict of interest. However, it is more a part of their job at Firm B rather than a rule or

process, and it relies on trust and their knowledge of who else the broker is working with. Firm B also has a clause in their master agreement that outlines what happens in case of a conflict of interest for different types of local projects. Sometimes, brokers will come to them and say there is a conflict of interest, that they have a relationship with a landlord they want to make a deal with, and they need to make sure they can work together on that project. It is in the brokers' interest not to go behind their global partner's back to ensure that conflicts of interest do not arise.

Quality Assurance of Broker Services

Important factors for the quality of services the brokers deliver to the company are their competence and market knowledge, as well as trust in the communication. The company has KPIs (Key Performance Indicators) for measuring quality of broker services and these include factors such as competence, market knowledge, communication, proactivity, and adherence to standard processes. KPIs for innovative ideas apply mainly to offices and the company likes it when the broker partner talks to their colleagues about activity-based working, for example, as a good starting point for a conversation that may lead to reducing office space. Opportunity spotting is another KPI, where brokers are proactive in looking at critical dates and the portfolio, and suggesting solutions to optimize it, such as consolidating multiple offices into one. Firm B also sends out project surveys to local stakeholders for feedback and measures the results. They have a project manager in each country and an account report is created every quarter to measure all KPIs. There are no current difficulties with measuring since Firm B only uses KPIs that can be measured, and if a KPI can not be measured, the brokers are not held accountable for it. Firm B actively works on improving their quality assurance by reviewing their results quarterly and identifying areas where they can improve. They work together with the brokers to find solutions to problems and are still in the process of fine-tuning their processes. The company aims to have a partnership with the brokers, but they are also open to penalties if the brokers do not meet the KPIs or could not mitigate a conflict of interest.

Regarding finances, Firm B seeks help from brokers for accurately measuring total occupancy costs, as they may not always know how much they are paying for everything. They ask brokers to go to the site and make a business case, and then need to make ratifications to their financial directors in different countries. This is also part of their KPIs. The company emphasizes the importance of following their standard processes consistently and wants brokers to look at their lease administration agreement to ensure it is up-to-date and that the reporting is correct.

Moreover, Firm B acknowledges that they need to work collaboratively with brokers and can not expect them to have all the information. For example, brokers may not be aware of the status of a lease agreement, and the company needs to provide them with accurate information.

Firm C

Firm C is active in the manufacturing industry with 4500+ employees and are divided in four divisions that each have their own business operations. They have leasing contracts in many countries but mainly in Sweden and Germany, because they have quite large operations there. Firm C is growing a little in the USA and in India. They mainly lease office spaces and two manufacturing factories. Firm C does not know the yearly cost for leasing, since it has never been collected but the leasing contracts are a small cost of their operations. The factories they rent represent a slightly larger proportion. The firm has 46 leasing contracts.

The Leasing Process

The leasing process for Firm C is the same globally but can differ depending on how a particular part of the company wants it since they take the initiative for leasing. Firm C has an internal process linked to the business' needs. When there is a request about leasing, Firm C has a procedure where the business provides them a requirement profile of the property they want to lease with as much information as possible so that Firm C can conduct a search. Once Firm C has the information, they conduct a search for properties with a global and well-established brokerage firm or on their own. Then Firm C has a discussion with the business and analyzes if there are any interesting properties found. They narrow it down to four to five options to visit with the business to see if anything fits. Then they contact the property owner to get proposals on how the lease could look if they were to move in. This is when the negotiation process begins. Afterward, internal processes come into play, such as what are the limits for renting, what they can afford, etc. Firm C must find the right level for what the business is willing to pay. Then they have an internal process for contract writing. The four divisions need to agree if they really want the property, and Firm C negotiates with the property owner.

Broker Involvement

Firm C has a framework agreement with a global and well-established brokerage firm. They have set up some basic rules related to it so that the brokerage firm can support them. The brokerage firm handles their lease contracts in a system so Firm C can keep track of dates etc.,

and know if they need to renegotiate, extend, or terminate a contract. They rely on a brokerage firm who has contacts in each country they lease in.

However, Firm C does not always rely on the global brokerage firm. They have expertise on their own, so they can handle lease contracts by themselves to some extent. In some areas, they work entirely on lease contracts themselves and contact the landlords directly. For example, they have the internal expertise for handling Sweden. Furthermore, Firm C explains that all brokers want a fee, so it is also a matter of cost savings. If you have the expertise, you can save money by doing it yourself.

The broker is usually involved in the first stage of the leasing process to understand the specifications. Firm C usually has a meeting together with the broker, and the business unit to understand the information so that the broker can conduct a correct search. Brokers are brought in for further assistance if Firm C can not go and see locations of interest by themselves. Firm C has a structure where they can cancel broker involvement at different stages depending on how much resources and expertise they want to put in. Sometimes they only have need for feasibility studies, or they also want a long-list and short-list of properties provided by the broker, and then they can cancel the collaboration there. In another case, the brokers drive the leasing process all the way.

How much Firm C is involved with the brokers depends on how active the business side is, if they are active and allocate personnel or resources into working with the brokers, they can drive a lot themselves and only need guidance from Firm C. However, Firm C usually attends various meetings so that they do not leave the brokers completely free with the business either.

Regarding whom stands for the cost when it comes to customization of a property, Firm C states that it varies. If they can negotiate with the landlord to do most of the work, then the landlord will do it. However, sometimes Firm C handles the customization work themselves and then also must pay for. Regarding contact with the landlord during this stage, Firm C states that it can be handled by either them or the brokers. If the property is in another country, then perhaps the broker handles that contact, as Firm C has hired the broker to ensure that everything is done correctly. It may also be that Firm C hires the broker's third-party contacts to find, for example, a local project manager if the property needing customization is in another country. Sometimes the brokers have project managers at the global brokerage firm that Firm C can use, so they try

to find a good contact there if they can not do the work themselves, to ensure that everything is done before Firm C moves into the new property. After Firm C has signed a leasing agreement with a landlord the communication with the broker can look differently depending on the country.

Relationship with Brokers

Firm C uses the same brokers locally. However, in some cases, they do not use brokers at all and instead go directly to the property owners themselves. They want their relationship with brokers to be as good as possible so that the brokers can be their extended arm and help them when they do not quite have the capacity themselves, and so that the brokers can understand the firm's needs. Firm C tries to maintain a good relationship and therefore has regular meetings with the brokers to go through how things are going. However, Firm C states that brokers also want to earn money, and for each case the brokers handle, they receive extra compensation, so Firm C tries to balance that as well. Firm C wants to in the future have several framework agreements with different brokerage firms, which can help them to steer and maybe also pit the brokers against each other to see what kind of compensation they can offer. Then Firm C would be able to choose a brokerage firm to collaborate with on a case-by-case basis.

Contracting and Payment

Firm C has a framework agreement with one brokerage firm, which covers the entire organization. However, each new assignment becomes a new project with specific conditions that are agreed upon between Firm C and the brokers. The compensation for the brokers varies depending on the specific conditions of each assignment. The framework agreement also stipulates that the brokers are responsible for the system where all lease agreements are collected, and for each assignment, an engagement letter is created with specific provisions that are signed.

Firm C tries to balance the brokers' desire to earn money with the company's need for cost-effectiveness and therefore chooses to involve brokers on a case-by-case basis. Furthermore, Firm C mentions that there are standard parts in their framework agreement, such as what happens if they terminate the collaboration to avoid discussing it every time. However, they also want certain parts to be flexible, depending on the nature of the task. Firm C states that they work on both approaches and have locked some parts of the agreement to avoid repeated

discussions but have good flexibility when it comes to engagement letters for tasks, allowing them to make changes to local agreements.

Firm C goes on to mention that the compensation for the broker can be one of the more flexible parts in the agreement, depending on how easy or complex the task is. If the brokers can easily generate a list of properties, they may not receive compensation if the collaboration is terminated after that. However, if they must put in significant effort, compensation may be necessary. Additionally, the level of involvement of the brokers is not locked, and they can take over the work themselves if they feel they can handle it. Firm C notes that if they know that the property owner covers the broker's fee, they can let the brokers do more of the work, as they will not receive anything from the property owner if they do the work themselves.

Firm C has revised the framework agreement, removing pre-determined price lists for project managers in different countries, which was causing problems. Now they can negotiate prices instead. Regarding the payment model towards the brokers, Firm C states that the payment for brokers in Sweden is often a percentage of the annual rent, usually around 10%. If the broker negotiates further savings in the agreement, they can receive a percentage of the savings achieved over a three-year period. Brokers may negotiate for the landlord to cover certain renovation costs, limit rent increases, or negotiate automatic lease extensions with limited rent increases. These negotiations can be difficult to quantify after the fact, so the experience and knowledge of the broker are important in achieving the best results. Providing a bonus for achieving savings gives brokers an incentive to lower costs for their clients.

To establish beneficial contracts for both parties, Firm C mentions that there is a certain structure in place where if they terminate a deal, the brokers still receive compensation. They recount a situation where they terminated a deal after negotiating and finalizing it, but the brokers still received payment. Firm C acknowledges that it may not be enjoyable to pay for something they do not benefit from, but that is how it is done. Regarding conflicts of interest, Firm C notes that brokers usually inform them if they represent a property owner in other cases. It is usually not a problem since the brokers represent the renters more often, but there may be instances where issues arise. Furthermore, it is difficult to determine if brokers have done their best in negotiations, as the initial rent amount is often set by the landlord and can be difficult to negotiate. Firm C notes that sometimes the landlord may be in a position of power with multiple potential tenants, which may limit the flexibility of the negotiations.

Quality Assurance of Broker Services

Firm C states that the reason for not handling the leasing process by themselves is a competence and resource issue. They mean it is difficult to cover the whole world, and they depend on those who are familiar with the local market. Furthermore, Firm C discusses the trade-off between using brokers and doing the job themselves. While brokers may be able to do some jobs better, the cost of their fee and the value of having their own expertise must be considered. Ultimately, the decision is subjective. Firm C means the importance of brokers lies in their ability to provide good information that can be used in decision-making processes. This includes comparing different options and their costs, as well as communicating directly with the business and presenting alternatives at meetings. The communication and documentation aspects are also important, as a broker's actions can reflect on the business they represent. However, broker performance is not something that they measure and are not keen to do because of the small amount of leasing contracts they have.

Firm D

Firm D is active in the manufacturing industry with 10,000+ employees globally and are divided into three divisions that all have their own business operations. They have leasing contracts in many countries, but mostly in America, Sweden, and Germany. This is in terms of square meters and leasing contracts. They lease everything except manufacturing factories, and mostly lease warehouses. They lease approximately for 400 million SEK yearly and have 90 leasing contracts.

The Leasing Process

The leasing process for Firm D is always the same since they have the same brokers. The initiative is taken by Firm D since they are always involved. The divisions that need to create new or renew contracts can choose to go directly to the broker by themselves, but it practically never happens except for in America where they are independent. The process works as such that Firm D approaches several different brokers and asks if they are interested in the job. If the project is larger, several brokers usually present their proposals. For smaller projects, the broker who responds the quickest or seems the most interested can be chosen. After choosing one of the brokers, based on price and competence, the broker begins their process. This includes creating a longlist and a shortlist of properties. Firm D then visits the best two to three locations

and the broker negotiates the lease agreement while keeping them informed. Finally, Firm D signs the lease agreement.

Broker Involvement

Firm D usually involves brokers because of lack of competence or resources or a combination of these two. However, they do not always involve brokers. They have framework-agreements with several global and well-established brokerage firms, and usually use one of them. Firm D hires a broker when they realize that they need a new space and do not have the resources or expertise to handle the leasing process themselves. They try to involve the broker early in the process, so they have time to determine the best solution before they need to move. They do not hire brokers to keep track of their contracts, they do that themselves. Firm D creates their own requirements specifications and then asks brokers for bids. There are two different steps in creating requirements specifications, depending on why they are leasing the space. For example, if they are leasing a facility that has offices, manufacturing, research and development, and warehousing, they may need to work with the broker to develop a detailed specification for the required spaces, sizes, rooms, and loads. If they are moving an office because the current space is too small, they will tell the broker that they want to be in a certain area and how many employees they have. But the broker will need to help them determine the number of workstations, offices, team rooms, etc., based on the work process Firm D envisions.

Regarding if Firm D has regular contact with the brokers during the leasing process, they meant that they always collaborate with the broker since it is always a process of juggling the longlist, then the shortlist, then deciding which locations they want to look at. Also, they must be there themselves to check them out, and then they must negotiate the lease agreement with different parts of their organization before it can be signed. Firm D also has regular contact with the broker. Regarding the contact with the broker after the deal has been signed, Firm D means that since these brokers have framework agreements with them, that they have regular contact. They prefer to have fixed contact, so they talk to these global brokerage companies. Firm D will be in recurring contact as new agreements are made throughout the year. And then an evaluation meeting will also be held once a year to go through what they have done together during the year and what they plan to do in the future. Regarding whom stands for the cost when it comes to customization of a property, Firm D states that it is mostly themselves, but that it can vary depending on the country where the landlord stands for the cost of customization of a property. The contact with the landlord during the customization process is that Firm D will have a project

manager and if the broker is involved in, for example, adapting an office space. Furthermore, if they have involved the broker and the broker has done their place design for them, Firm D are likely to give the broker the assignment to handle project management as well. Then it will be the broker's project manager who will work with a project manager from Firm D's side.

Relationship with Brokers

Firm D uses the same global brokerage firms, and they all receive a request (at least for larger projects) and the best one gets chosen. They want the relationship to be friendly and amicable. Since they have collaborated for many years now, they are keen to maintain a good relationship, otherwise it does not work Firm D means.

Contracting and Payment

The contracts towards the brokers are standardized since Firm D always starts from the same agreement, which is their service agreement. Then they need to negotiate and analyze what deviations and adjustments need to be made for the specific case. It has not happened yet that Firm D has needed to renegotiate their agreements with the brokers, they have had it for a few years now and it applies until further notice. The framework agreement is the same regardless of which broker they work with. Firm D also prefers their contracts to cover all countries and services. The benefits with this type of contracting according to Firm D is that it becomes very easy with their framework agreement. Having this approach saves a lot of time, is faster when they need to get started, and it saves a lot of resources. Firm D thinks it is the same from the brokers' perspective because they do not need to discuss a contract for different assignments, so the brokers need to spend much less time on each request they send.

The payment model for brokers, for leasing services specifically, Firm D has not had any instances where brokers have been paid for savings, but rather a percentage of the annual rent straight up, regardless of the length of the lease agreement. The percentage rate is fixed depending on the agreement, either completely fixed or with a small range. For example, 11-13% in some countries, and then there are slightly different levels in different countries, but Firm D has this pricing in the agreement. To establish beneficial contracts for both parties, Firm D starts from their standard agreement, brokers provide their feedback, and then they negotiate on the feedback that exists. Firm D does not think they have been in a situation where there has been any conflict of interest because they do not operate in markets or search for premises in

areas where there would be a direct conflict of interest. Furthermore, they do not have any direct incentives for brokers.

Quality Assurance of Broker Services

Firm D uses the same brokers locally. Since they work with the largest international brokerage firms, they do not ensure competence, instead it is based on knowledge and experience of the market. Firm D keeps track of what is written about the firms, but then they work closely enough during the year that they notice the difference in quality between the brokerage firms and can compare them. The quality factors of the service that brokers provide and that are important for Firm D are that they are fast, especially in the beginning of the process, that they react quickly and that they give a professional and competent impression. However, formally, it is not something that they measure.

Firm E

Firm E is active in the manufacturing industry with thousands of employees globally and have separate firms with their own business operations within the same organization. They have leasing contracts in many countries, but mostly in America, Europe, Asia, South America, and South Africa. This is in terms of square meters and leasing contracts. They lease warehouses, dealers, and offices. Their leasing cost is 0.3 percent of their turnover. Firm E has about 700 leasing contracts.

The Leasing Process

The leasing process differs for Firm E depending on the country, where North America has a more standardized process. In the US and Canada, Firm E has an employee working as the central point of contact for all new lease requests. This employee also handles all the renewals/extensions, SDNA's (Subordination, Non-Disturbance and Attornment), estoppels, divestments, and acquisitions. In North America they have a defined process used for new leases, lease renewals, SDNA's, Estoppels, divestments, and acquisitions. These requests may come from the business directly or through the local GRE (Global Real Estate) contact to the central point of contact, who then determines when, how and where to use brokers. This employee also determines at what level Firm E needs the broker involvement. In Sweden, for example, when a separate firm needs a new warehouse the real estate function within this firm would then look for suitable options, sometimes utilizing brokers from global and well-

established brokerage firms who are provided with the property requirements. The broker then comes back with proposals, and the separate firm can select a few of the proposals for further assessment. At this stage, the brokers are usually excluded, and the company may negotiate and determine the lease terms on their own. In the US, a similar process takes place, but the company contacts a local broker who has offices in the specific state. The broker then provides proposals, and Firm E goes down with the separate firm to meet up with the broker and visit the different locations. The company then decides which warehouse to lease. During the negotiation process, the broker is not typically involved, although they may have provided data on metrics such as square meter prices, etc. As for why the broker is not involved in the negotiations, there may not be a specific reason. It could be that the company has not utilized the broker's expertise or may not be aware of the broker's capabilities.

Broker Involvement

Firm E does not always involve brokers, but when they do it is because of lack of internal expertise, and they use the same brokers locally. They work extensively with brokers in the US and Canada. It varies from country to country, not all countries require the use of brokers. It has become more of a practice where, for example, when renewing a leasing contract, Firm E involves a broker with an approach of "do it if you have the opportunity, time, and budget for the project". Accordingly, everyone works differently due to a lack of strategy.

Firm E has a framework-agreement with four global brokerage firms. When they do involve a broker, it is early in the process and because of determining what possibilities there are, for example, what different warehouses exist, since they do not have that competence themselves. Firm E then states what requirements they have and the broker proceeds from there. Regarding what parts of the processes the broker is handling, Firm E means that a global brokerage provides them with a database, where all their agreements with their lessors are gathered, but Firm E handles the agreements themselves. Firm E wants there to be continuity in how they renew and renegotiate leasing agreements based on, for example, inflation. They want the broker to be able to identify trends in different countries. They also want the broker to give them advance notice if a lease is expiring and to question whether all the space is needed, etc. Currently, Firm E conducts a strategic analysis even if brokers are not involved and makes active decisions regarding renewals, so generally it is not the case that Firm E must continue a lease because they do not have time to move. However, there may be a risk of this with today's process.

There is more collaboration in America between Firm E and the broker. However, in all other places it seems like the broker just completes a task and then disappears, so there is no real partnership. The hand-over of the broker's work is usually through a file on email or a meeting. Regarding whom stands for the cost when it comes to customization of a property, Firm E states that it varies between them and the landlord, but it is cheaper to rent if they pay for it and the broker is not involved in this part.

Relationship with Brokers

In some countries there is concern of corruption and then Firm E requires that the local broker takes anti-corruption measures to avoid conflicts. Firm E wants to have a close relationship with the broker, and they want to use them more if it is shown to be the best strategy.

Contracting and Payment

Firm E has a framework agreement with four brokerage firms, as well as a special agreement with one of these firms for handling of leasing contracts. However, the broker may provide certain goodwill gestures. As they have not worked with brokers that extensively yet, the payment model is not known, at least not to the respondent's knowledge. A beneficial contract for both parties is secured by the fact that the broker wants to work with Firm E specifically, because of the good business opportunity, and Firm E wants a global partnership.

Quality Assurance of Broker Services

Firm E follows up on all major deals where brokers are involved and conducts a quality analysis. They have follow-up meetings with their SPOCs (Single Points of Contact) at the major brokerage firms. When working with brokers, Firm E finds it important that the broker quickly finds a good landlord, as it is often time-critical and Firm E wants the leasing process to be quick. The services provided by the broker should be appealing to the separate firm and meet their needs. Firm E is aware that they may not have the expertise on pricing in different areas and countries, as well as what is available for lease and therefore a broker is preferred.

DEPARTMENT OF TECHNOLOGY MANAGEMENT AND ECONOMICS
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CHALMERS UNIVERSITY OF TECHNOLOGY

Gothenburg, Sweden 2023
www.chalmers.se



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