

**Pooling of resources in housing development through  
strategic alliances:**

**Theoretical framework and options for the Swedish market**

by

Han-Suck Song<sup>a</sup> and Hans Lind<sup>a</sup>

<sup>a</sup>) Department of Building and Real Estate Economics,  
Royal Institute of Technology (KTH), Stockholm

[han-suck.song@abe.kth.se](mailto:han-suck.song@abe.kth.se)

[hans.lind@abe.kth.se](mailto:hans.lind@abe.kth.se)

## **Problem:**

A developer needs to pool many different type of resources in order to complete a successful development project.

## Coordination:

- (ideal) markets,
- (ideal) organizations, and
- Hybrid organizations

## **Purpose:**

The purpose of this paper is to discuss different types of **strategic alliances** that a developer might establish in order to undertake risky development projects.

We want to increase the awareness of potential benefits of different type of strategic alliance

- as vehicles to **pool resources**, and
- and as a way to **share risks**.

This article is based on the general literature on

- strategy,
- management and
- organization

concerning strategic alliances and interfirm collaboration.

Intention: to create new frame of references for establishing strategic alliances in the residential development.

## **Definition of strategic alliance**

Cooperative relationships driven by a logic for strategic resource needs and social resource opportunities.

Voluntary agreements between firms involving exchanging, sharing, or codeveloping of products, technologies, or services.

Strategic alliances are voluntary cooperative inter-firm agreements aimed at achieving competitive advantage for the partners.

A common feature is the quest for resources through the establishment of inter-organizational relations and the encouragement of collaborative behavior.

Strategic alliances involve

- longer-term,
- more substantial collaboration between companies,

excluding

- casual or loose cooperative projects between companies without long-term commitment
- as well as projects that have a beginning and preordained end.

In construction, a distinction is usually made between

- long-term (strategic) partnering, and
- short-term partnering

Short-term or project partnerships are created and sustained for the life of a project, focusing on short-term benefits.

Strategic partnerships involve long-term co-operation intended to include several projects and search for long-term benefits

**Important trend:** The growth of interfirm and strategic alliance activities.

### **External forces**

(e.g. globalization of markets and competition, faster technological development, and other forces that increase organizations' strategic vulnerability)

### **Internal conditions**

(e.g. organizations' resource dependency).

**Resource dependency** provide motivations for cooperation:

- Access to markets
- New technology
- Access to special skills
- Access to raw materials.

**Two competitive aspects:**

- The alliance can lead to *cost leadership*
- The alliance can lead to advantages in the area of *differentiation*, creating a more competitive product.

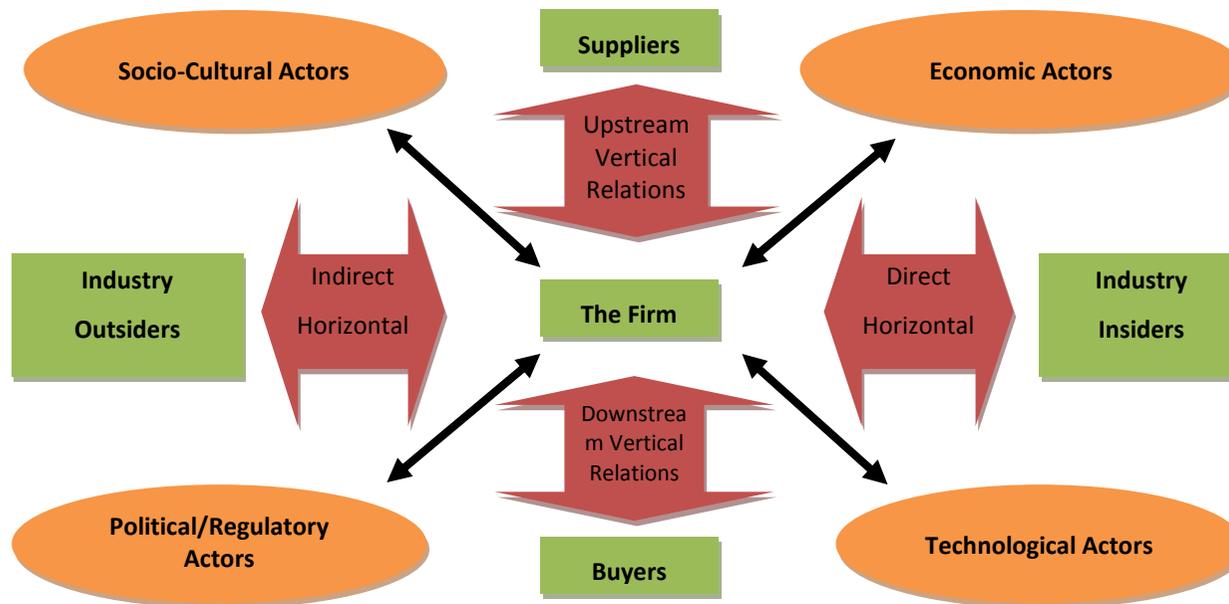
*Schumpeter (1942):*

‘The fundamental impulse that sets and keeps the capitalist engine in motion comes from new customers’ goods, the new markets, the **new forms of industrial organization** that capitalist enterprise creates’

Currently, there is no single theory, nor single school of thought, can explain the phenomenon of alliances and hybrids.

# Who are the potential alliance partners?

Eight major groups of external groups of parties that constitute potential alliance partners to a firm



(See de Wit and Meyer 2004):

SEPTember distinction

**Socio-cultural actors** (e.g. media, communities and opinion leaders),

**Economic actors** (e.g. Venture capital networks, bank associations, tax authorities),

**Political and legal actors** (e.g. governments, political parties, regulatory bodies, lobbyists), and

**Technological actors** (e.g. universities, research institutes, standardization bodies, patent offices).

Five key alliance research issues:

1. The formation of alliances;
2. The governance structure (choice of alliance type),
3. The dynamic evolution of alliances; (compare project partnering with strategic partnering),
- 4 the performance of alliances, and
5. firms entering alliances (the partnering firms).

**A major alliance strategy challenge is to identify combinations of functions and actors in which there exist good reasons for establishing strategic alliances.**

**Two major type of alliances in housing construction:**

- **Non-financial alliances**
- **Financial alliances**

## Potential benefits of strategic alliances in construction

---

Project  
level  
benefit

Reduced risk,

Improved quality;

Reduced cost,

Completion on time,

Reduced rework.

Business  
level  
benefit

Increased profits,

Increased market share,

---

---

Enhanced competitive position,  
Competitive bidding  
Broadened client base

Corporate  
level  
benefit

Cost effectiveness;

Increased labour productivity;  
Improved efficiency;

Increased opportunity for  
innovation;

Continuous improvement of  
quality, products and services.

---

## **Examples of non-financial alliances**

- Developer, contractor, subcontractor and suppliers
- Alliances involving a local government
- For instance: A local government has legal and political resources, but might lack knowledge and economic resources.
- Alliances related to land ownership

## Financial alliances in housing construction

Two alliance strategies a developer can employ in order to reduce the need for financial capital:

1. By establishing alliances with *non-financial actors* (e.g. architects, land owners, contractors, brokers, buyers, local government), and
2. By establishing alliances with *financial actors*.

## **Goal:**

- To reduce the amount of money a developer has to invest in a development project, and/or
- To reduce the developer's need for external capital.
- Risk sharing.

## **Financial alliances with *non-financial actors***

- Financial alliances with landowners
- Financial alliances with suppliers of professional services and building contractors

## **Financial alliances with capital providers or financial partners**

Investor or money partners:

Landowners, lenders, insurance companies and other financial institutions, private equity funds, other developers, or wealthy persons

- Financial alliances with *equity* capital partners.
- Financial alliances with *mezzanine and hybrid debt-equity* partners

## **Other money-providers**

- Small capital providers (not necessarily alliances)
- Syndications
- Pre-sold homes and housing partnerships

