Pooling of resources in housing development through strategic alliances:
Theoretical framework and options for the Swedish market

by

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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 interfim 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
<table>
<thead>
<tr>
<th>Potential benefits of strategic alliances in construction</th>
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<tbody>
<tr>
<td><strong>Project level benefit</strong></td>
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<tr>
<td>Reduced risk,</td>
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<tr>
<td>Improved quality;</td>
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<td>Reduced cost,</td>
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<td>Completion on time,</td>
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<td>Reduced rework.</td>
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<tr>
<td><strong>Business level benefit</strong></td>
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<tr>
<td>Increased profits,</td>
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<td>Increased market share,</td>
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<td>Corporate level benefit</td>
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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