

STRATEGIC ALLIANCES IN CORPORATE REAL ESTATE

by

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ABSTRACT

The increase in business competition resulting from the globalization of commercial activity and increasingly rapid advances in computer-based technologies has changed how corporate real estate professionals manage their responsibilities. Because they are responsible for a significant portion of the company's assets, the decisions corporate real estate managers make can greatly influence the value of the firm.

As corporate leaders review their overall operations to find ways to maintain a competitive advantage, more and more they are directing their business unit managers to focus attention and resources on core competencies. Meanwhile, they are seeking strategic alliances for required services that are not core competencies with expert outside suppliers. Value is created through this combination of strengths. The phenomenon of collaboration is being observed across a wide range of business activities.

This thesis will examine the theories associated with strategic analysis and will review specific cases of how and why corporate real estate managers are using strategic alliances to add value and increase the competitive advantage of their companies.

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CHAPTER 1  
INTRODUCTION

FORCES OF CHANGE

The business environment is becoming more and more competitive. By many accounts, two basic forces are changing the way business is being conducted; the globalization of markets and the rapid rise in the application of technology (Bremner, 86-94; Crouse, 4-8; Nourse, 18-21; Stevens, 50-51; "The Global Firm: RIP", 69). These forces are pervasive. The forces of change are affecting all firms regardless of where they are located, the products or services they make or sell, or what markets they compete in (Lewis, 15).

DILEMMA

One of the most common reactions to this increased competition has been for firms to re-focus their attention on their central business strengths. This response has become known as "getting-back-to-basics" or "sticking-to-the-knitting." However, while engaged in the process of re-focusing on its basic business strengths, an interesting dilemma has been constructed for many corporations. As global competition has raised the standards for quality, performance, differentiation, and price competitiveness - the range of core activities the firm performs alone has been narrowed.

This dilemma has created an environment ripe for the

application of strategic alliances. To meet the demands of the market-place, corporations are finding it necessary to join forces with other organizations who are dedicated to and capable of delivering high quality services at competitive prices (Bleeke and Ernst, 17). The record contains many examples where corporations are recognizing and embracing strategic alliances for enhancing their competitive position regarding the products and services they make available to the market-place (Stevens, 50; Sabath, 10-14). However, it is important to note that many alliances do not achieve success. Bleeke and Ernst studied 49 strategic alliances. They discovered that while 51% of the alliances were successful for both partners, a remarkable 33% resulted in failure for both partners. In their opinion, the most important criterion for success was the ability of the alliance to evolve beyond initial expectations and objectives.

#### IMPLICATION FOR CORPORATE REAL ESTATE

Just as these competitive issues are being addressed by executives at the corporate level, they are similarly being confronted by the corporate real estate managers responsible for delivering real estate services to the corporations' business units. Many real estate industry experts believe the global economic pressures forcing corporations to concentrate on their core business efforts and the speed at which data and information are processed represent a structural, not

transitory, change in the way work will be accomplished in the future (Walton, 29). It is likely managers of corporate real estate units will more carefully examine their business operations; seeking improvements for increasing their competitiveness.

These circumstances are being seen as a widening window of opportunity for real estate service providers to offer their expertise to the corporate real estate units. Expert service providers who can demonstrate they are capable of adding value to the business relationship will be welcomed as strategic partners.

#### IMPORTANCE OF CORPORATE REAL ESTATE

Keeping in mind the effects of globalization and the increasing importance of information technology, this research will examine how corporate real estate units are using strategic alliances as they strive to meet the needs of the corporations' business units. It will investigate why strategic alliances have been formed and how have they performed. This is an interesting and important topic for three main reasons.

First, the conduct of business, whether the scale of the operation is large or small, is inherently integrated with real estate issues. Businesses occupy real estate (Nourse, 1). Strategic decisions on the management and operation of a firm's real estate assets will have a direct affect on the

other aspects of its business. Notwithstanding the current real estate depression, the level of inflation over the past 20 years has brought about large differences between book values and market values of real estate assets held by corporations. Real estate experts have demonstrated how the value of these assets can be captured by the corporations through a variety of techniques including sale-leasebacks, tax-deferred exchanges and redevelopment.

Second, real estate - the offices, factories, warehouses, stores and land - typically accounts for 25% - 35% of a corporation's assets (Walton, 26-29; Radding, 56-73). Because of this significant percentage, it is important to the economic performance of the corporation to have effective management of its real estate assets aimed at maximizing shareholders value. Effective management of such a significant asset base requires integrating the corporate real estate strategy with the overall business strategy (Lyne, 998).

Third, occupancy costs are the second largest expense at many companies, following labor costs. By extension, the argument is that since labor costs are certainly strategic then so must be occupancy costs (Parker, 22). Few expense categories offer as good an opportunity for improving corporate performance as do occupancy costs. For example, Shearson Lehman Brothers recently made a thorough analysis of its branch offices and headquarters office space and found it



could save \$20 million annually from its occupancy costs (Apgar, 124). To help understand the scale of this opportunity, consider that the ratio of occupancy costs to revenue for 1989 ranged from 0.3% - 7.9% with an average of 4.3%. Today, most corporate real estate units do not act as profit centers. The recently published report, "Strategic Management of the Fifth Resource: Corporate Real Estate" (Joroff, 26), noted the results of a 1990 study which concluded 80% of the corporate real estate units surveyed operated as cost centers while less than 10% operated as profit centers. Whether structured as a profit center or cost center, all corporate real estate units can make important contributions to the corporate bottom line, net operating income, by their ability to influence operating expenses.

As corporate real estate units managers align their operations to a more strategic posture for maximizing value, three conditions will help integrate real estate activities with overall corporate goals (Valencia, 67-72). First, there must be a close alliance between the real estate function and the senior management of the corporation including the Board of Directors. Second, the real estate function has to actively participate in the strategic planning efforts of the company. Third, the real estate department must adopt the philosophy of organizing its efforts to the goal of real estate profit maximization.

## STRATEGY

### DEFINING TERMS

Because words have different meanings for individual readers, it is useful for clarity to define terms. James Brian Quinn uses the following definition for strategy.

"Strategy is a pattern of plan that integrates an organization's major goals, policies, and action sequences into a cohesive whole. A well-formulated strategy helps to marshal and allocate an organization's resources into a unique and viable posture based on its relative internal competencies and shortcomings, anticipated changes in the environment, and contingent moves by intelligent opponents" (Quinn, 1980).

Quinn distinguishes between tactics and strategy in the following way. Tactics are short-duration, adaptive, moves and counter-moves used by competitors to accomplish limited goals. Strategy defines a continuing basis for the use of tactics to achieve more broadly defined purposes. Quinn qualifies the need for using strategy. In his view the requirement to use strategy depends on the ability of competitors to intelligently affect one's success in achieving goals. Absent that ability by the competition, coordinated planning will suffice (Quinn, 1988, 3).

An interesting perspective on strategy formulation has been identified by Henry Mintzberg (66-75). Mintzberg observes that strategies need not be deliberate; they can also emerge. His concept of emerging strategy involves the simultaneous processing of some seemingly contradictory notions.

"Therefore, to manage strategy is to craft thought and action, control and learning, stability and change."

Mintzberg notes that strategy is usually associated with future activities, but its links to the past are important. To further illustrate this point he uses the analogy that just as life is lived forward but understood backward, managers should plan strategies for the future by understanding the past.

#### STRATEGY AND CORPORATE REAL ESTATE

There is a growing awareness that corporations need to apply more skillful management to its real estate portfolio in order to realize the greatest benefits (Nourse, 1991, 18-21). Minimizing operating costs and maximizing the return on real estate assets requires selecting real estate strategies that complement the main corporate strategies.

Nourse has identified how real estate ownership for the corporate account can be considered a form of backward

vertical integration - the well know strategy for controlling supply (Nourse, 1990, 67). The strategic benefits of vertical integration include the ability to control the real estate resource and the possibility of earning an above average return on the investment. For example, Nourse cites the Disney Company's decision to locate its Florida vacation resort, Disneyworld, in the middle of several thousand acres of undeveloped land. This allowed Disney to maximize its capture of the real estate value created by its attraction. In contrast, Disneyland in California had earlier been developed on a much smaller parcel and other surrounding land owners capitalized on the value created by the success of Disneyland.

Another perspective on the role of corporate real estate relative to corporate strategy is focused when consideration is given to mergers, acquisitions and leveraged buyouts (Joseph, 16). Firms must develop and execute a corporate real estate investment strategy that is responsive to operating and financial strategies in order to maximize the real estate function's contribution to shareholder value. Companies should continually assess the market value of their properties and evaluate their relevance to the firm's overall strategy.

#### CONCEPT OF STRATEGIC ALLIANCE

The primary concept of a strategic alliance is where two parties agree to cooperate out of mutual need while jointly

sharing risks to achieve a common objective (Lewis, 1). The motivation that drives the formation of a strategic alliance is the belief by each party that through joining forces and working together the two partners will be able to accomplish goals neither is capable of doing alone.

Business is conducted along a continuum of working relationships.

"Purely transactional relationships exist where the customer and supplier focus upon the timely exchange of basic products for highly competitive prices anchor one end. Purely collaborative relationships, or partnerships, anchor the other end. In the context of the service industry, partnering is defined as the process where a customer firm and a supplier firm form strong and extensive social, economic, service and technical ties over time, with the intent of lowering costs and/or increasing value, thereby achieving mutual benefit" (Anderson and Narus, 95-113).

William T. Agnello of the of the real estate brokerage firm CBC/Madison Advisory Group, recently described the "RELATIONSHIP CONTINUUM" model which is used at CBC/Madison to define the concept of a real estate strategic alliance (Agnello). According to this model, a successful strategic alliance requires a relationship of trust between the customer

and the service provider. According to Agnello, the element of trust allows the relationship to develop on many dimensions with the objective being to increase the mutual gains of the two parties. The following three paragraphs further describe the model.

A Vendor relationship is that which had been least developed. It is a purchasing transaction where the emphasis is on meeting the project specifications at the lowest cost with no opportunity for additional cost improvement. The trust between the parties is unidentified and there is limited communications. Performance measurements are rarely defined.

Next on the relationship continuum is the Preferred Supplier status. Here the service provider has been pre-qualified which builds a minimum level of customer trust. The vendor is assured a stream of business so some cost savings materialize because of lower marketing expenses. There are greater communications between the parties and the performance measurements, while still being project focused, are defined.

The Alliance Partner represents the fully developed relationship on the continuum. Here the partners view each other as trusted stakeholders. The focus of the relationship is on providing higher quality services while lowering the cost structures of both partners. All cost improvement opportunities are explored, there are extensive communications between the partners and performance measurements are defined in terms of total value (Agnello).

Obviously, the purpose of business is to earn a profit. A business profit is the positive difference in the price a customer will pay for a product or service (how much the product or service is valued) and the cost (direct and indirect) involved in making the product or providing the service (Pappas and Hirschey, 10). Value is created if a strategy yields efficiencies, reduces costs, improves quality and effectiveness, or enhances bargaining power. A premise of a recently published book on strategic alliances is the prediction that the days of flat-out competition between companies are over. Instead, companies are collaborating to compete (Bleeke and Ernst, 5). Firms are discovering they can create the highest value for customers and stakeholders by selectively sharing control, costs, capital, access to markets, information, and technology with competitors and suppliers alike. Increasingly, corporations are turning to strategic alliances as a way to achieve competitive advantages in the pursuit of profits.

As corporations' strategies call for alliances to increase competitive advantage, the theme will be communicated throughout the organization. In order to work effectively within the corporate framework, business units and staff groups have to internalize, adapt, and reflect the mission, direction and conduct of the corporation. Corporate real estate unit managers will recognize and respond to the situation.

## STUDY QUESTION

Whether the real estate unit operates as a cost center or a profit center, it has a primary responsibility to act in the manner that maximizes value creation for the firm and the shareholders (Joseph, 16). The question of this study is, how and why do corporate real estate units use strategic alliances with outside service providers to create value while meeting the needs of the business units they serve?

## PROPOSITIONS

Several study propositions have been listed below. Each proposition is intended to direct attention to a specific area of the study question that deserves special attention. In addition, the propositions have been identified to help focus the study in the right direction to maximize the learning (Yin, 36).

A basic assumption of the propositions is that corporate real estate managers who have selected to use strategic alliances have done so to achieve a competitive advantage. It is assumed there has been a careful and thoughtful analysis of internal and external resources relative to the mission and objective of the real estate unit before any strategic alliance has been formed.



#### 1. STAGE OF EVOLUTION OF THE CORPORATE REAL ESTATE UNIT

Corporate real estate groups that have evolved past the level of tactical skills only (technical, analytic and problem-solving) are able to articulate their strategic goals and can identify how those strategies support the mission of the corporation.

#### 2. DETERMINATION OF CORE COMPETENCIES BY THE REAL ESTATE UNIT

Corporate real estate managers who enter strategic alliances have determined their groups' core competencies and can demonstrate a well considered process for identifying those services best provided by outside resources.

#### 3. PROCESS OF SELECTION OF STRATEGIC ALLIANCE PARTNERS

For real estate issues corporations select their strategic alliance partners based on rigorous and formalized evaluation processes to ensure they are partnering with the industry leaders just as is done elsewhere in the corporation for other business strategic alliances.

#### 4. EXPECTATIONS OF BENEFITS OF STRATEGIC ALLIANCES

Corporate real estate managers who enter strategic alliances typically expect:

- 4.1. To gain organizational flexibility to match changing (and unpredictable) work loads;
- 4.2. To have top performers equipped with the

latest technologies and trained in the most effective industry skills assigned to their projects;

- 4.3. To have instant access to the best market information;
- 4.4. To have services provided at below market rates since the strategic partner does not have to further compete for the corporation's business.

Service providers who enter strategic alliances expect:

- 4.5. To have a long-term relationship with the corporation carrying through industry cycles;
- 4.7. To have an exclusive agreement for a broad range of services over a specified geographical area;
- 4.8. To have current access to corporate information that will affect real estate issues;
- 4.9. To have frequent access to and regularly scheduled conferences with the corporate executive who manages the real estate group.

## CHAPTER 2

### LITERATURE REVIEW

#### TWO APPROACHES

This study started with research on the theories that have been developed on the topic of strategic alliances. In my review of the literature it became apparent that there are two distinct emphases: structural and behavioral.

#### STRUCTURAL ANALYSIS

Through his work and writings during the past decade and a half, Harvard University's Professor Michael E. Porter has defined a structural model for dealing with strategy that has significantly influenced the current generation of American business managers. The concepts he has defined and the models he has put forth have become part of the daily vocabulary of business men and women when discussing their methods for achieving success. It is possible the views and logic of Porter's work represent the prevailing structural model for strategic analysis.

#### FIVE FORCES

According to Porter, the essence of strategy formulation is coping with competition. His theory is that competition in an industry is rooted in its underlying economics. And, in

his view, customers, suppliers, potential entrants and substitute products are all competitors. The degree of competition from each depends on the particulars of the industry. Porter's view of competition applies equally well to industries dealing in services and to those selling products. The general principles of his argument apply to all types of businesses (Porter, 1980).

The state of competition in an industry depends on five basis forces:

- Threat of entry
- Threat of substitutes
- Bargaining power of suppliers
- Bargaining power of customers
- Intensity of rivalry

An important premise of Porter's theory of competitive forces is that the collective strength of the five forces ultimately determine the profit potential for an industry. A "perfectly competitive" situation provides the worst prospect for long term profitability.

Every industry is characterized by the fundamental economic and technical structures that influence the competitive forces of the industry. In order to chart a successful strategy it is necessary for the strategist to analyze and measure the strength and underlying source of power of each of the forces. This knowledge will clarify the

company's position in the industry and help identify where strategic changes are likely to yield the greatest pay off.

Porter defined the characteristics of the five forces in his essay.

#### THREAT OF ENTRY

New entrants to an industry cause a shake-up by bringing new resources to bear in the fight for customers. The threat of entry is countered by barriers to entry and the expected reaction of existing competitors. There are six major barriers to entry:

1. Economies of Scale - A significant capital investment may be required to compete on the large scale or else the new entrant will have to accept a cost disadvantage.
2. Product Differentiation - Brand identification creates a barrier by forcing entrants to spend heavily to overcome customer loyalty.
3. Capital Requirements - The greater the financial requirements to enter the industry, the smaller will be the pool of likely entrants.
4. Cost Disadvantage Independent of Size - Some entrenched companies have cost advantages not available to aspirants such as favorable locations, exclusive access to the best supplier, patent rights, etc..

5. Access to Distribution Channels - A new competitor to an industry faces the problem of securing distribution of his service.
6. Government Policy - Certain industries face significant government regulation and control over the activities in the market-place.

In addition to the above points, a potential entrant must also contemplate the reaction of the existing competitors. Their ability and willingness to fight back must be recognized and accounted for in the decision to enter.

#### SUBSTITUTE PRODUCT

Substitute products place a ceiling on the price that can be charged for a product. This limiting factor will ultimately lead to profit deterioration.

#### POWERFUL SUPPLIERS

Suppliers can exert bargaining power in an industry by raising prices or reducing the quality of purchased goods. The sources of power for suppliers are:

1. Few suppliers;
2. Unique or differentiated product;
3. Suppliers represent a credible threat to forward integration;
4. The industry is not important to the suppliers.

### POWERFUL BUYERS

Customers can force prices down, demand higher quality or more service, or pit competitors against each other. The sources of power for buyers are:

1. The products or services are standard;
2. The product or services is unimportant to the quality of the buyers' products;
3. The product or service represents a significant cost leading the buyer to shop for price;
4. The product or service does not save the buyer money;
5. Buyers represent a credible threat to backward integration.

### INTENSITY OF RIVALRY

Rivalry is the competition that exists between existing industry participants. The degree of intensity is determined by:

1. The number and size of competitors;
2. The product lack of differentiation;
3. Capacity is normally augmented in large increments;
4. Exit barriers are high.

With an assessment of the forces of competition and the knowledge of his or her own company's strengths and

weaknesses, a strategist can formulate a plan of action. Porter recommends three approaches. First, positioning the company, accepts the structure of the industry as given. This approach can be viewed as building defenses against competitive forces or finding positions in the industry where the forces are weakest. The second alternative, influencing the balance, calls for applying external factors (new capital investments, vertical integration) to alter the market. The final approach, exploiting industry change, calls for anticipating the future and pending changes in the forces of competition brought about by industry evolution. By correctly assessing the evolving situation, the strategist exploits opportunities earlier than others.

#### GENERIC STRATEGIES

Another important contribution by Porter in the field of strategy analysis deals with the concept of sustainable competitive advantage. In Porter's view, there are two basic types of competitive advantage: low cost or differentiation. Cost advantage and differentiation are a function of the industry structure and the firm's ability to cope with the five forces better than its competitors do. The strengths and weaknesses of a firm determine its relative cost or degree of differentiation (Porter, 1985).

Porter's theory holds that the combination of the two basic competitive advantages and the market scope the firm



chooses to compete in, results in a framework of three generic strategies for achieving above average performance. The three generic strategies are: cost leadership, differentiation, and focus. The focus strategy has two variants, cost focus and differentiation focus. The model is illustrated below.

THREE GENERIC STRATEGIES		COMPETITIVE ADVANTAGE	
		<u>Lower Cost</u>	<u>Differentiation</u>
COMPETITIVE SCOPE	<u>Broad Target</u>	1. Cost Leadership	2. Differentiation
	<u>Narrow Target</u>	3A. Cost Focus	3B. Differentiation Focus

The cost leadership and differentiation strategies are applicable to a broad range of industry segments. The focus strategies aim at either cost advantage or differentiation in a narrow segment of the market.

The essence of Porter's theory of generic strategies is that competitive advantage is the core of the firm's strategy. In order to secure and sustain a competitive advantage, the firm has to make a decision about the advantage it seeks and the market range in which it will compete.

### COST LEADERSHIP

Cost leadership is probably the most readily understood generic strategy. The objective if this strategy is to become

the absolute low-cost producer in the industry. This is achieved by finding and exploiting all sources of cost advantages while maintaining parity or proximity in the bases of differentiation to its competitors. Successful implementation of this strategy allows the firm to earn an above average return and it is particularly dependent on preemption unless a technology change alters a competitor's cost position. There can be only one cost leader in each industry.

#### DIFFERENTIATION

The second generic strategy is differentiation which means offering unique products that are relatively more valuable to buyers. A firm that can achieve differentiation will earn above average returns if its price premium exceeds the extra cost of being unique. A strategy based on differentiation requires the firm to achieve parity or proximity of cost relative to its competitors. An industry can support several differentiators provided each one features a different unique attribute.

#### FOCUS

The third generic strategy is focus. The primary distinction of the focus strategy is the firm selects a narrow segment of the market as the target for its services. This strategy rests on the premise that there are narrow segments

within the industry that have unusual needs not well served by either the industry cost leader or the existing differentiated competitors. Firms that select to compete for these narrow segments do so on the basis of cost focus or differentiation focus. Focused firms are able to exploit the mismatch between the narrow segment buyer's specific needs and the standard offerings of the broad target based competitors. There is often room in most industries for several focused competitors provided each focuser chooses a different target segment.

#### STUCK IN THE MIDDLE

Porter describes the consequences for a firm that fails to achieve any of the generic strategies as being one that is "stuck in the middle." His prediction is that firms stuck in the middle usually will be less profitable than rivals who achieve one of the generic strategies. He does recognize a stuck in the middle firm can earn attractive profits if its industry is highly favorable or its competitors are also stuck.

The concepts of the generic strategies identify several ways to achieve competitive advantage while providing alternative routes for earning above average returns. In theory, if all competitors in an industry followed the principles of competitive strategy, each would select a different basis for its competitive advantage.

## VALUE CHAIN

The need to capture the benefits of relationships between businesses has never been more important. Technological developments and common objectives already link many businesses, and are creating new possibilities for competitive advantage. To understand the role of relatedness (synergy) in corporate strategy, Porter has developed the notion of the value chain (Porter, 1990).

Every business performs a series of discrete activities ranging from sourcing supplies to selling and servicing products. The firm's value chain shows the interrelationship among the activities. Porter identifies them as value activities because it is at this level, not in the company as a whole, that a business achieves competitive advantage. Value is measured as the amount the customer's are willing to pay for a company's product or service. The objective of business is to create value that consistently exceeds the company's cost of creating it. The value chain is a useful framework for managers to measure how each value activity uses information, technology and human resources as the work is processed. Porter's model has nine categories. Primary activities are directly related to the product (in-bound logistics, operations, out-bound logistics, marketing and sales, and service). Support activities provide the input and infrastructure that allow the primary activities to occur (firm infrastructure, human resource management, technology

development, and procurement). Because the value activities collectively define the company's competence, they subsequently determine its competitive advantage. By closely analyzing the value chain, managers seek to identify sources of cost advantage or product differentiation. Similarly examining a competitor's value chain helps clarify organizational differences that can be exploited for competitive advantage.

Effectively using the value chain concept requires a careful examination of all activities a firm does, and those its competitors do, and considering how things can change (Bhambri, 49). Typical questions to consider are:

- Can an activity be performed differently?
- Can a group of linked activities be reordered?
- Can coalitions with other firms lower costs?

Porter's value chain model helps explain how synergy is created in one of two ways. First, if two companies have similar value chains, there is the opportunity to share activities. For example, two businesses can share the same logistics network. Second, companies can transfer skills or expertise among similar value chains. This second type of synergy will only create a competitive advantage if three conditions are met:

1. The shared expertise is meaningful because the activities are very similar;

2. The transferred skills pertain to activities important to a competitive advantage;
3. The transferred skills are advanced and proprietary enough to be beyond the capability of competitors.

According to Porter:

"Both the strategic logic and the experience of the companies I have studied over the last decade suggest that a company will create shareholder value through diversification to a greater and greater extent as it moves from portfolio management. Because they do not rely on superior insight or other questionable assumptions about the company's capabilities, sharing activities and transferring skills offer the best avenues for value creation."

The transfer of skills is an active process that significantly changes the strategy of the receiving unit. To be successful it requires the participation and support of high level management.

## BEHAVIORAL ANALYSIS

Toward the end of the 1980s a second approach for studying corporate strategy was developed by C.K. Prahalad and Gary Hamel. Their view emphasizes the behavioral aspect of strategic activities.

### CORE COMPETENCIES

Traditionally, a company's competitiveness depended on its ability to deliver products or service at either a price lower than the competition or with performance attributes that others were unable to provide. Globalization and rapid technological advances are tending to eliminate the ability of companies to differentiate on either of those two measures. Prahalad and Hamel point out that:

"In the long run, competitiveness derives from an ability to build at lower cost and more speedily than competitors, the core competencies that spawn unanticipated products" (Prahalad and Hamel, 79-91).

They reason that the most important advantage will be the ability to consolidate corporate-wide technologies and production skills into competencies which can be quickly adapted to changing opportunities in the market-place.

Prahalad and Hamel defined three tests that can be used

for identifying the core competencies in a company. First, the core competence provides potential access to a wide variety of markets. Second, it should make a significant contribution to the perceived customer benefits. And finally, the core competence should be difficult for competitors to imitate. Their argument is it will be difficult for competitors to imitate especially if the core competence is a complex harmonization of individual technologies and production skills.

Core competencies should be thought of as the collective learning in the organization. The concept is especially applicable to how the organization coordinates diverse production skills and integrates multiple streams of technologies. It is about the organization of work and the delivery of value including communication, involvement and the ability to work across organizational boundaries. And, core competencies do not diminish with use. They are enhanced as they are applied and shared.

The metaphor the Prahalad and Hamel use to describe their theory of core competence is that a corporation is like a tree which grows from its roots. Core competencies are like the roots of the tree. Two or three core competencies join together to form core products which are likened to the trunk of the tree. From the trunk spreads the branches of the tree that can be thought of as the business units of the corporation. Finally the business units offer the end products of



the corporation to the market-place which in the metaphor are thought of as the fruit of the tree.

An interesting point of their theory is that the embedded skills that give rise to the next generation of products cannot be "rented out" by outsourcing without surrendering core competencies.

"Outsourcing can provide a shortcut to a more competitive product, but it typically contributes little to the people-embedded skills that are needed to sustain market-place leadership... When it comes to core competencies, it is difficult to get off the train, walk to the next station, and then reboard" (Prahalad and Hamel, 79-91).

Prahalad and Hamel recommend that core competencies are the source of new business development.

"Managers have to win manufacturing leadership in core products and capture global share through brand-building programs aimed at exploiting economies of scope. Only if a company is conceived of as a hierarchy of core competencies, core products, and market focused business units will it be fit to fight."

## CAPABILITIES-BASED COMPETITION

An extension of the core competence theory and an addition to the behavioral approach was recently written by George Stalk, Philip Evans and Lawrence Shulman (Stalk, 57-69). This new concept of corporate strategy is called "capabilities-based competition." The authors argue the success of the nation's largest retailer, Wal-Mart, is based on a set of strategic business decisions that transformed the company into a capabilities-based competitor. Wal-Mart employs a logistics technique known as "cross-docking" that the authors claim represents the fullest expression of this strategic vision. Cross-docking is a highly coordinated material handling system that allows Wal-Mart to achieve economies by purchasing full truckloads of goods while avoiding storage and handling costs. Goods are continuously delivered to Wal-Mart's warehouses where they are repacked and dispatched to retail stores. Often the goods do not spend time in the warehouse, instead they flow in one loading dock and out another. The economies are passed along to customers in the form of lower retail prices. Cross-docking was made possible by Wal-Mart making strategic investments in a variety of interlocking support systems. Judged individually on conventional ROI (return on investment) criteria, these logistics investments could not be justified.

The authors identified four principles of capabilities-based competition:

- "1. The building blocks of corporate strategy are not products and markets but business processes;
2. Competitive success depends on transforming a company's key processes into strategic capabilities that consistently provide superior value to the customer;
3. Companies create these capabilities by making strategic investments in a support infrastructure that links together and transcends traditional SBUs and functions;
4. Because capabilities necessarily cross functions, the champion of a capabilities-based strategy is the CEO" (Stalk, 57-69).

In today's more dynamic business environment, it should be expected that strategy has to become correspondingly more dynamic. The authors describe the business competition today is a "war of movement." Success depends on a company's ability to anticipate market trends and formulate quick responses to changing customer needs.

"Successful competitors move quickly in and out of products, markets, and sometimes even entire businesses - a process more akin to an interactive video game than to chess. In such an environment, the essence of strategy is not the structure of a

company's products and markets but the dynamics of its behavior. And, the goal is to identify and develop the hard-to-imitate organizational capabilities that distinguish a company from its competitors in the eyes of the customers" (Stalk, 57-69).

The theory for competing on capabilities is that a capability is strategic only when it begins and ends with the customer. The combination of many processes becomes the organizational capability. The irony of this theory is the longer and more complex the string of business processes, the harder it is to transform them into a capability. But the reward is, once the capability is constructed it will be harder for the competition to imitate it.

Just as many companies are looking to outside suppliers to perform non-core activities, capabilities-based competitors are integrating vertically. This is a strategy for gaining synergy by integrating businesses that perform related activities directly upstream or downstream of your business. Firms that integrate vertically are trying to ensure they have direct control of key business processes.

One of the significant features of capabilities is that they are collective and cross-functional. Every capability is a small part of many people's jobs. Capabilities are not a large part of a few people's jobs. It is the primary agenda

of the Chief Executive Officer because only he or she can focus the entire company's attention on creating capabilities that serve customers.

Becoming a capabilities-based competitor requires the following actions:

- Shift the strategic framework to achieve aggressive goals;
- Organize around the chosen capability and make sure the employees have the necessary skills and resources to achieve it;
- Make progress visible and bring measurements and reward into alignment;
- Do not delegate the leadership of the transformation.

The authors argue that capabilities are often mutually exclusive so choosing the right one is the essence of strategy.

According to Stalk et al, competencies and capabilities represent two different but related aspects of an emerging model for corporate strategy. Both concepts emphasize the behavioral aspects of strategy in contrast to the structural model defined by Porter. Core competence is the combination of individual technologies and production skills that allow a company to successfully compete. The distinction between core competencies and capabilities is that core competence

emphasizes technological and production expertise at specific points along the value chain, while capabilities take in the entire value chain. Because of this distinction, capabilities are visible to the customer, whereas core competencies rarely are.

#### COMPARE AND CONTRAST

The structural analysis approach to strategy formulation rests on the premise that an industry's competitiveness is a function of underlying economics and several measurable attributes of industry participants. A successful strategy requires evaluation of the five forces that collectively determine the situation. Armed with data the strategist selects to position the company where the forces are weakest; influence the balance by applying new, external factors; or exploit changes by anticipating the future. Then, by using a generic strategy (low cost, differentiation or focus), the company can earn an above average return.

In contrast, the behavioral approach contends globalization and rapid technological advances are eliminating the ability to compete on low cost or differentiation. Rather, competitiveness depends on the collective learning of the organization and the people-embedded skills known as core competencies. Core competencies allow the company to quickly adapt to changes and respond to new market opportunities. Core competencies have wide market application, contribute to

perceived customer benefits and are difficult for competitors to imitate. The theory of capabilities-based competition contends the building blocks of corporate strategy are the processes that create value which can be passed on to the customer. The processes are collective and cross-functional.

Corporate strategy determines the business or businesses the company will be involved in. It establishes the unity of purpose of the organization. According to Kenneth R. Andrews:

"Although it evolves with the development of markets, company strengths, and institutional values, corporate strategy marks out a deliberately chosen direction, and governs directly the investment decisions, organization structure, incentive systems, and indeed the essential character of the company" (Montgomery, 451).

A business unit strategy is less comprehensive than the company as a whole; it identifies the product or service and the market in which the business unit will compete (Weremiuk, 7). Business unit strategy is more concerned with market position versus the higher level concepts that are the domain of corporate strategy. It is at the business unit level where value creating activities are most identifiable. Consequently, it is at the business unit level where strategic alliances are most likely to be found; in either primary activities or support activities.

CHAPTER 3  
STRATEGIC ALLIANCE

USING STRATEGIC ALLIANCES

In a strategic alliance, organizations work and cooperate out of mutual need and they agree to share the risks in striving to achieve a common objective. In PARTNERSHIPS FOR PROFIT, Jordan D. Lewis provides insight in structuring and managing strategic alliances. His premise is cooperation among firms is changing the business world. Cooperation is growing and is here to stay because of globalization and the rise of technology. According to a September 21, 1992 FORTUNE article "ARE STRATEGIC ALLIANCES WORKING", alliances have become an integral part of contemporary strategic thinking (Sherman, 78). To highlight this trend, the article cites information from David Ernst and Joel Bleeke of the McKinsey management consultant firm that the rate of joint venture formation between U.S. companies and international partners has been growing by 27% annually since 1985. (Note: In the referenced article the terms joint venture and strategic alliance are used as synonyms. Usually, however, a joint venture is considered to be a jointly owned but independent organization of two or more separate parent firms while a strategic alliance does not necessarily involve the formation of a new, independent entity).

When the management of a company determines it is in the



firm's best interest to expand its business into new product lines or new geographic areas, it is necessary to select a strategy for doing so. According to Lewis, there are four ways to build strength: internal growth, acquisition, arm's length transactions and strategic alliances (Lewis, 19). The decision making process for choosing depends on the resources and risks involved and the need for control of the activity.

	Internal Activities	Acquisitions	Arm's Length Transactions	Strategic Alliances
Scope	<ul style="list-style-type: none"> <li>• Core strengths</li> </ul>	<ul style="list-style-type: none"> <li>• Closely related to core strengths</li> <li>• Need most of purchased firm</li> </ul>	<ul style="list-style-type: none"> <li>• Cannot add competitive edge</li> <li>• Limited by risks others willingly take alone</li> </ul>	<ul style="list-style-type: none"> <li>• Add competitive strength</li> <li>• Most extensive access to outside resources</li> </ul>
Control	<ul style="list-style-type: none"> <li>• Full</li> </ul>	<ul style="list-style-type: none"> <li>• Full</li> </ul>	<ul style="list-style-type: none"> <li>• Via initial terms</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing mutual adjustments</li> </ul>
Risks	<ul style="list-style-type: none"> <li>• Taken alone</li> </ul>	<ul style="list-style-type: none"> <li>• Taken by buyer</li> </ul>	<ul style="list-style-type: none"> <li>• Taken separately</li> </ul>	<ul style="list-style-type: none"> <li>• Shared</li> </ul>

Through strategic alliances, firms can combine resources to meet individual and collective objectives and control of the alliance can be negotiated between the partners to arrive at the balance point. However, McKinsey's study suggests the best results are achieved when one or the other following alternatives is selected: Either give one partner sole control or set up an independent operation that is directed by its own board (Sherman, 78).

Lewis outlines several advantages associated with strategic alliances. First, with alliances, firms can achieve

the same economy of scale as industry giants. Second, as the cost of research and development spiral upward, companies are finding it increasingly more difficult to individually remain the source of their own technological vitality. Forming a strategic alliance can provide a company access to a new technology ahead of its competitors. Third, competitive advantage is now judged by the combination of abilities of companies versus a company's individual strengths. The combined power of strong corporations allows easier penetration in new markets and quick movement to dominant positions. Lewis points out that through strategic alliances opportunity exists for structuring exclusive commitments with suppliers of critical capabilities which effectively places those resources beyond the reach of your competitors. Additionally, Lewis notes that alliances increase the level of competition by strengthening firms and easing market entry at home and abroad. This adds pressure for each firm to focus more tightly on its core strengths. This focus makes it easier to maintain the needed investment scale in those core competencies to enhance the firm's ability to stay at the frontier of the technology. And having this sharp focus in turn helps a corporation win new partners.

As corporate real estate managers plan their work for achieving the property goals of their companies, they should evaluate various combinations of internal and external resources. Depending on the particulars of the situation

being evaluated and for specific facets of the work, strategic alliances may be used to help lower costs, spread risks, or release internal resources for other more critical activities.

#### RELATED TREND

CBC/Madison's William Agnello noted an interesting related trend where two or more service providers have chosen to join forces to collaborate through strategic alliances as a way to further differentiate the combination of services they offered together to the market.

According to Agnello, to enhance their ability to provide the high quality service demanded in the market, real estate service providers have retrenched and focused their attention on selected skills that set them apart from other competitors. Meanwhile, because of the restructuring that has occurred throughout corporate America, their customers at the corporate real estate units demanded a wider range of services. Agnello noted three alternatives available to service providers to meet this paradox: they could acquire capital to support internal growth; they could merge with another firm and form a new, bigger organization; or they could join strategic alliances with firms that offer complimentary services. In his view, the strategic alliance option offered service providers the best ability to leverage organizational resources for marketing, sales and the pursuit of new business

opportunities. Agnello said:

"In the past to be successful in real estate required control of three things: location; location and location. Now, the key to success in real estate will depend on your ability to deliver three new things: service; service; and service."

The general framework for strategic alliances among service providers he described was much more than a loose agreement for cross referrals. It was an situation where two organizations, each with a different core competence, would join forces to create a new capability unavailable elsewhere in the marketplace. A successful strategic alliance between service providers required companies with compatible cultures and operating styles and the leadership of each company to believe strategic alliances were vital to insure future success (Agnello).

#### ALIGNING REAL ESTATE WITH CORPORATE STRATEGY

Corporate real estate managers need to work in ways that help their companies deal with the structural changes being brought about by the forces of globalization. Also, as technological advances continue to make information and data more readily available in real-time, real estate managers need to determine what data to collect and analyze to improve the quality of decision making on real estate issues. The

corporate real estate situation is changing due to the ongoing devaluation of real property, high vacancy rates, and corporate downsizing. Corporate real estate executives will be challenged to ensure the firm's real estate assets match the overall corporate strategy ("The Changing Roles...",7). A facilities and real estate strategy review should be structured to provide information that will help corporate planners find the optimal match among corporate business units and available or planned facilities (Wilson, 26).

#### FIVE STAGES OF EVOLUTION

Depending on the size and nature of the corporation and the level of sophistication of the corporate real estate group, it can be expected a company's real estate strategy will be designed to match the overall corporate strategy. A significant part of the research presented in the Corporate Real Estate 2000 report "Strategic Management of Fifth Resource: Corporate Real Estate" deals with the model which describes the evolution of capabilities of corporate real estate staffs. The CRE 2000 researchers identified five stages of development and named them: 1. Taskmaster; 2. Controller; 3. Dealmaker; 4. Intrapreneur; and 5. Business Strategist (Joroff, 26). According to the model, the mission and objective of real estate unit will evolve to match the needs of the corporation. As the real estate unit evolves, it advances to successive stages of development from a technical

orientation to a strategic effort.

#### TASKMASTER

This stage of organizational development is characterized by the unit's focus on technical issues involving building maintenance and cost cutting. The real estate unit is not integrated with larger corporate issues, the posture of the organization is reactionary to the initiatives of other business groups throughout the corporation. And most significantly, the researchers believe the Taskmaster stage appears to be value-neutral.

#### CONTROLLER

For senior management to recognize the potential costs and benefits that the company's real estate portfolio represents, the real estate unit must have the analytical skills of the Controller stage. Having command of the facts and details associated with operating costs, allocation formulas, depreciation charges as well as the ability to analyze and compare the company's real estate performance with industry experience is the measure of success at this stage.

The work done in the Controller stage is illustrated in an article written by Joel Parker. Introducing a new corporate system for how occupancy costs are collected and charged to the business units is a task that requires careful planning (Parker, 22-25). The primary objective of an

occupancy-cost system should be to support the corporation's strategic objectives. But, business units are apt to resist changes to the system of definitions and allocations because changes may diminish their profitability. To ensure acceptance of the new system by the corporate business units it must be perceived as objective. The prospects for acceptance will be improved if the new system has been worked out in a process that builds internal company consensus.

#### DEALMAKER

The feature that best describes the Dealmaker stage of development is the focus on market value. When the real estate unit moves into this stage its mission becomes one of seizing opportunities to create value. The skills that are most important to the Dealmaker are problem-solving abilities. The real estate unit will take a more proactive approach to working with other business units to standardize building usage and optimize real estate needs with company needs.

An example of the Dealmaker stage was the experience of Digital Equipment Corporation. The Digital sales and service organization for the state of Connecticut decided to consolidate its operation from 7 locations to 1 central office. This represented a need for 80,000 square feet. Digital wanted to lease the space but it also wanted to capture some of the value represented by the lease. DaQui Belding Partnership, a Hartford, Connecticut real estate

developer, and Digital formed a joint venture. Digital took a 40% minority position. The joint venture bought a building pad in DaQui Belding's office park and developed a 160,000 square foot office building. Digital signed a long term lease with the joint venture for half of the building at just under market rents. The remainder of the building was leased at market rates.

#### INTRAPRENEUR

When corporate real estate units evolve to the Intrapreneur stage they begin to operate more like an independent real estate company would and it is not unusual for the unit to start acting as a profit center. The emphasis on performance shifts to benchmarking services and costs against two measures; outside suppliers and competitors. The real estate unit becomes very involved in the business planning process. Usually, a direct organizational connection is established with the Chief Financial Officer.

The Hobbs Brook Office Park in Waltham, Massachusetts was started in 1955 and is claimed to be the first suburban office park in Boston. The start of its development preceded construction of Route 128, the famous Technology Highway that circles most of Boston. Today, there are eight buildings at the park with more than a million square feet of office space. Many of the nation's leading businesses are leaseholders at Hobbs Brook. Hobbs Brook is owned by Middlesex Mutual



Building Trust, the corporate real estate operation for and a wholly owned subsidiary of Arkwright Mutual Insurance Company. MMBT is managed as a real estate business with its own balance sheet and financial reporting requirements. The manager of MMBT reports directly to the Arkwright senior vice president in charge of investments.

#### BUSINESS STRATEGIST

As Business Strategists, real estate executives operating in Stage 5 will look beyond real estate issues. They will be concerned with the larger business trends influencing the corporations strategic advantage, productivity and stakeholder value. The researchers note the mission of the real estate unit will be to convene the work force. An important skill will be the ability to create real estate strategies that are fully integrated with the global initiatives of the business units.

One example of the close alignment of the real estate function with corporate strategy is the experience of the Eastman Kodak Company (Russell, 42). Kodak is convinced it can create the most value by looking at their real estate - land, buildings and space - as a financial asset. They use their real estate assets to create value, and they run their real estate operations as a business. The Kodak corporate real estate office, CREO, is operated as a "not-for-profit profit business." CREO's objective is not only to provide

real estate solutions but to examine how it can improve the return on assets, to look at cash flow, and to evaluate the operating performance of the company's business units.

#### NEW SKILLS REQUIRED

In the future, corporations will continue the trend of cutting back on staff size to reduce fixed costs and become more competitive. Accordingly, the role of the corporate real estate function in the future will have different characteristics. Radding makes the case that the smaller real estate departments will be led by senior employees skilled in finance, accounting and integrative planning with other business units (Radding, 56-73).

In a recent article, several industry executives stated their views on the growing importance of strategic planning in the corporate real estate arena (Jaben, 79).

Jones Lang Wooten's Steven Scruggs, director of corporate services for New York, was quoted as saying that the corporate real estate departments have become:

"a more integral part of the strategic process, requiring greater skills of the people there."

According to John F. Powers, senior managing director of Edward S. Gordon Company in New York:

"The emphasis will move to people in corporate real estate who understand their organizations

and what they need and who understand the market for service providers. Thus, they'll be well-educated buyers of real estate services rather than practitioners."

In the view of Steven F. Pope, executive vice president of Commercial Investment Real Estate Institute:

"You'll find a different kind of person getting into corporate real estate. It was disposition or acquisition people. Now the person will need financial analysis skills. The level of sophistication is increasing."

The five stage model illustrates how the real estate unit evolves as it becomes more closely aligned with the activities of corporate management. The transformation is marked by a shift from a real estate orientation to a business focus. The corporate real estate group becomes increasingly concerned with corporate productivity, competitive advantage and shareholder value. The CRE 2000 researchers observed the use of strategic alliances by corporate real estate units begins when the criteria for performance shifts to benchmarks found in the market-place. This shift occurs at Stage 4, the Intrapreneur stage. The use of strategic alliances was also observed by real estate units that operated at the Business Strategist level of Stage 5.

## MOTIVATIONS AND RISKS

### MOTIVATIONS FOR ENTERING STRATEGIC ALLIANCES

One of the greatest appeals of strategic alliances is that the combination of resources that can be achieved is open to wide range of possibilities. For example, entrepreneur Ruth Owades recently founded Calyx & Corolla, a flower catalog business that guarantees next-day delivery of high quality, fresh cut flower arrangements exactly as described in the catalog. The flowers are shipped directly from the grower to the recipient so they are 6 to 10 days on average fresher than those ordered from a local florist (Brokaw, 96-104). What makes this example interesting is that when she created this strategic alliance with several flower growers and Federal Express, the overnight delivery company, entrepreneur Owades didn't even have a company.

Alliances are not tools of convenience. What makes an alliance perform effectively is the faith of both parties that they will be stronger together than either one is separately (Ohmae, 143-154). Each partner contributes skills and abilities the other lacks. In effect, business has become a team sport rather than an individual event (Bleeke and Ernst, 54).

Insightful research on the advantages of strategic alliances has been performed by several academicians and practicing professionals. During my thesis research I read

several articles and books where the benefits and risks of strategic alliances were discussed. The Lewis work on these issues was very helpful. The following several pages summarize some of those important concepts with acknowledgement to the original authors. Partnering provides the ability to:

- **Focus on core competencies** - In today's business context, probably the primary reason firms decide to enter strategic alliances is they had previously decided to re-focus the company's resources on its own core competencies. By deciding what skills and processes it has mastered (and through which it achieves competitive advantage), the organization can then partner for everything else (Crouse, 5; Lewis,25).
- **Leverage internal investments** - Managers are continuously faced with the problem of making decisions about the allocation of limited resources. By deciding to join strategic alliances to have certain required products or services provided by others, there will be fewer competing interests within the firm contending for a share of finite corporate resources (Crouse, 7; Lewis, 25).
- **Leverage core competencies of others** - Service providers who join strategic resources hope to be able to achieve economies of scale by increasing

the utilization factors of its organization. When these economies of scale are realized, the cost of producing the service or product will be lowered so the price they charge can be reduced (Crouse, 7).

- **Overcome market entry barriers** - Probably the classical business reason for entering a strategic alliance is to gain access to closed markets. Whether the barrier is due to government restrictions, local market conditions, lack of geographic coverage or some other situation, alliances with established insiders have often provided the missing key to success (Crouse, 8; Lewis, 36).

- **Reduce operating costs** - The trend for companies to re-focus on core competencies has resulted in a significant loss of employment in corporations. This is especially true in those functional areas that are not directly related to the core competencies. The ability to enter strategic alliances with outside service providers has given corporations significant latitude in the ability to reduce operating staffs while still being able to obtain the needed level of service (Lewis, 46).

- **Broaden product or service offerings** - Other firms may be in a position to offer support for the product or service your organization provides.

Joining forces with those firms helps add value to your customer by expanding the range of service you offer (Crouse,7; Lewis, 33).

- **Create synergy** - Creating well-considered strategic alliances achieves a synergy that could lead to additional benefits. When two organizations are aligned for mutual gain they become more aware of each other's strengths. Over time they begin to seek new opportunities for additional gain (Lewis, 48).

- **Gain flexibility for changing markets** - Joining forces with another organization offers the opportunity for increased organizational capability for responding to changing demands from the market being served. The flexibility is present on two counts; capacity for changing work loads and wider range of capabilities for dealing with variations of services required (Crouse, 8; Lewis, 36).

- **Spread risk** - By allowing each partner to focus on its own specialty, strategic alliances reduce operating errors thus reducing the risk of failure. In the event of a failure, the partners share the consequences so the effects are lessened than if one party had to bear the responsibility alone (Crouse, 8).

- **Improve quality** - Quality improvement is one of the benefits that can be realized by using strategic alliances. Essentially, by joining forces with a selected provider in a long-term commitment and with a mutual reliance on success, there is an enhanced environment for raising the standards of quality of the product or service (Crouse, 8).

- **Gain access to advanced technologies** - Presumably the partner selected to participate in the strategic alliance has superior competencies in its area of expertise. By extension, the technologies and processes used by the partner are expected to be the most advanced forms used in that industry. By entering strategic alliances a company can anticipate having access to the advanced technologies of its partner as they are applied for the common objectives of the alliance (Lewis, 41).

- **Provide competition to in-house developers** - As managers join strategic alliances for selected aspects of the business and benefits accrue, the propensity will be to find other opportunities for application of the technique throughout the organization. This "threat of substitution" will often encourage existing staff groups to achieve higher levels of productivity and efficiency to



protect their employment (Crouse, 8). Notice the recent example where the Massachusetts Bay Transit Authority took competitive bids from its own repair shop as well as outside service providers for refurbishing buses. Without threat of competition the cost for refurbishing each bus in the MBTA shop was \$101,000. When the process was opened to outside competition the MBTA shop manager was able to able to re-examine the process and submit a fixed price bid of \$80,000. The low bid was \$59,500 per vehicle from the Midwest Bus Rebuilders Corporation. MBTA officials decided to have 40 buses refurbished by the less expensive Michigan contractor and eight buses rehabilitated by its own union workers (Palmer, 33).

Strategic alliances have become an integral and responsible part of every corporate strategist's repertoire. They are not merely tools of convenience but rather very important instruments in serving customer's needs in a global environment (Ohmae, 143-154).

#### RISKS OF STRATEGIC ALLIANCES

Strategic alliances are increasingly being used in business because of the many advantages they offer. However, there are certain drawbacks that managers should keep in mind.

- **Shared control** - Using the definition of cooperation among two parties while sharing risk to achieve common objective, an inherent feature of strategic alliances is the need for shared decision making. Americans are used to acquisition and control yet strategic alliance means sharing control (Ohmae, 143-154; Sherman, 78). The cost which managers must be willing to pay for the benefits of working in a partnership is the lack of control that will be associated it.

- **Implementation issues** - Merging two organizations will require managerial capabilities for dealing with unexpected events. To ensure the smooth implementation of a cooperative strategy decision makers must carefully address four considerations before entering into substantive discussions with the partner (Lorange and Roos, 25-30). To be successful certain political consideration need to be recognized. The people in organizations that will be combined must be convinced of the benefits and not feel threatened by the change. And the strategic benefits have to be clearly recognized. Giving sufficient thought to several aspects of each of these considerations will help the cooperation evolve harmoniously over time without conflicting with other strategic concerns of either

partner.

- **Protect core competencies** - Collaboration may be necessary to achieve a desired results and close cooperation will be required in a strategic alliance. But the skills or processes that distinguish your company from your competitors represent your "crown jewels" (according to Lei and Slocum) and they must be protected at all costs. Otherwise, there will be no reason for one or the other of you to continue and competitive forces will lead to the elimination of the weaker party. Firms that rely on strategic alliances as an outsourcing mechanism to secure access to competitive products may find their internal skill sets deteriorating as they become "locked out" from learning new skills and technologies critical to participating in industry evolution. Alliances can be used as an indirect strategic weapon to slowly "deskill" a partner who does not understand the inherent risks. All alliance mechanisms create direct and indirect windows of opportunity for gaining access to a partner's skills, technologies, core competencies, and even strategic direction (Lei and Slocum, 8-97).

- **Safeguard important relationships** - It is probably not possible to evaluate the importance of

current information in business transactions. The sources of information, customers, colleagues, and suppliers, are highly valuable commodities for business people and they need to be nurtured and not compromised as a result of strategic alliances (Lewis, 53).

Managers ability to deal with cultural differences between the two partners companies will enhance the success rate for business partnerships (Sonnenberg, 49). These and other dangers associated with strategic alliances should be considered before making commitments to joining forces with outside firms. The next section will examine how, under certain conditions, corporate real estate groups organize and conduct their work to meet the strategic objectives of the corporation.

## CHAPTER 4

### NORTH AMERICAN GOOD FOOD CASE

North American Good Food (NAGF), a pseudonym for this case report, was one of several operating companies that comprised a global consumer products company which manufactured and marketed food, beer and tobacco brands around the world. The global company's objective was to answer daily consumer needs for low-priced, high-volume, quality products. The 1992 revenues for the global company were nearly \$60 billion. All operating companies earned positive income in 1992. 1992 revenues for NAGF was approximately \$20 billion and income was more than \$2.5 billion. NAGF's real estate portfolio included over 1,000 owned and leased properties throughout North America (Hiller).

#### CORPORATE STRATEGY

In 1993 the overall corporate mission of the parent company was to be the most successful consumer packaged goods company in the world. The strategies for achieving that mission called for managing with a global perspective, hiring and developing the highest quality employees, protecting and building brand loyalty, maximizing productivity, and expanding its Total Quality Management concept. The corporate culture emphasized sales and marketing leadership, and strong financial performance with decisions based on economic

considerations. Because they were involved in distinct businesses, each operating company was managed independently.

#### OPERATIONAL CHANGES

By the early 1990s, the NAGF real estate unit had been in operation for 50 years. The size of the real estate portfolio was awesome, 53 million square feet. In approximate terms, NAGF owned 300 properties (42 msf) and leased 770 properties (11 msf). The product mix was manufacturing, 57%; warehousing, 20%; office, 15%; and retail (and other), 8%. This huge portfolio triggered 200 to 250 real estate transactions every year. The corporate real estate unit provided services to approximately 20 business units. Its strategy was to help the business units by securing real estate at the lowest attainable marginal cost. The corporate real estate unit and the work it performed was supervised by a vice president who directed four managers. Each manager was responsible for a different function and in total they were supported by a group of 14 professionals and 4 administrative support people.

In 1991 NAGF decided to incorporate strategic alliances to the management of its real estate portfolio. The primary objective was to concentrate its volume of business with a small number of service providers so NAGF would receive cost breaks due to the volume discount theory. This was consistent with how other NAGF departments were dealing with the demands

of higher competitive pressures in the global market-place. Other objectives were to improve the quality of services to the business units; increase administrative efficiencies; reduce transaction costs; and have the real estate department professionals focus on strategic issues that would create value for NAGF.

By 1993 the Strategic Supplier Alliance program had been in place for one year and the real estate unit at NAGF had changed significantly. The title of the person in charge of the real estate unit was changed from Vice President of Real Estate and Financial Services to Assistant Treasurer for Real Estate Services. His staff had been reduced to two professional managers. The level of service provided to the business units had not changed. There were still more than 200 transactions to be performed annually. What changed was that two service providers, both were nationally recognized full service real estate firms, had been brought on as Strategic Supplier Alliance (SSA) partners to do the transactional work.

#### FINDING PARTNERS

NAGF was interested in identifying 2 SSA partners who would do real estate brokerage, tenant representation, and real estate development tasks throughout North America. The process for selecting SSA partners took 8 months and included evaluating 30 candidates. These candidate firms were judged

on their commitment to and capability for dealing with all aspects of the NAGF real estate portfolio; having a national account capability; being a recognized industry leader and having no conflict of interest. Based on these judgments the field of candidates was reduced from 30 to 6.

NAGF next issued Requests for Proposals to six firms. The responses were rated on five key areas: strategic commitment; capabilities; administrative and financial support systems; professionalism; and, fee splitting arrangement (mechanism for volume discount). Two firms were contracted to be Strategic Service Alliance partners in 1992. One of the factors that caused the selection of these two firms was the location of their respective headquarters, San Francisco and New York, correlated with the locations where NAGF had its second and third highest concentrations of properties. NAGF has balanced the work load between the two partners.

#### BENEFITS

The strategic alliances delivered several benefits to NAGF. The fee splitting arrangement provided a new source of income to NAGF. Since they were guaranteed a level of annual business, the SSA partners agreed to rebate a portion of their commission payments to NAGF. A schedule was agreed to that called a no profit sharing (between NAGF and the SSA partner) on small transactions up to a threshold value for commissions earned on a deal. For transactions where the threshold was



exceeded, the commission was split with NAGF on a three-tier basis. The greater the commission, the greater the share NAGF received.

Next, service response time improved because there was increased organizational capability for responding to business units' demands. The quality of service improved due to the application of standard operating procedures for all transactions, large or small.

As part of the RFP process and to define its expectations from the SSA partners, the NAGF real estate unit created an operations guidebook for the first time in its history which defined and recorded the NAGF business methods for real estate transactions. Quality performance of the SSA partners was measured on every transaction by the business unit person being served. The report was an evaluation from 1 to 10 on twelve measures: knowledge of the assignment; communications; professionalism; market knowledge; delivery; quality of work; flexibility; planning; problem-solving; personality; ethics; and overall performance.

Weekly reports were filed electronically by the SSA partners on every assignment. This up-to-the-minute information was available to all business unit customers through the NAGF electronic mail system. The updates reported all the specific project information and current project schedule information in a proscribed format. It also included a notes file that listed all the relevant and timely

information about the current situation. This system was an example of "informating" as defined by Zuboff (Joroff, 71).

The Lori Verner (not her real name) was the manager for corporate accounts at a regional office in a large full service real estate company. She was the account manager for the NAGF strategic alliance and she identified how the arrangement helped her firm. She noted the fact that the strategic alliance represented a steady stream of repeat business for which she did not have to market the firm; a big benefit. Also, the ability to claim their partnership with an industry leader such as NAGF was a positive feature for the firm's other business development efforts. And, as the trust and team spirit grew over time, the transaction process became more structured and routinized. This allowed the service provider team the ability to concentrate more fully on enhancing the economics of each deal as well as the opportunity to negotiate for non-economic, tenant friendly considerations (Verner).

Verner also noted that the process and the RFP used by NAGF was so well organized and so well conceived, she was noticing significant similarities in more recently issued RFPs coming from other corporations who were also organizing strategic alliances.

#### FUTURE EXPECTATIONS

Having the strategic alliances up and operating for the routine transactions, the time and talent of the real estate

department has been focused on value-added opportunities. For example, multiple property locations in a given city can be closely evaluated to identify possible advantages by consolidating. A real estate plan can be prepared for each business unit taking into account its specific business plan and operating plan to capture value-added opportunities.

## EASTMAN KODAK CASE

In 1993 Eastman Kodak Company was a large, multinational corporation with four main business segments: Imaging, Chemicals, Health, and Information. Headquartered in Rochester, New York, Kodak's 1992 revenues were \$20.2 billion and net earnings were \$1.1 billion (\$3.53/share). Kodak had 132,600 employees worldwide including 77,100 in the United States (Eastman Kodak 1992 Annual Report). Because of its global reputation for quality, reliability and trust, the Kodak name brand was estimated to be worth almost \$9 billion in 1992 by a leading business publication.

### CORPORATE STRATEGY

In 1992, according to Mr. Kay R. Whitmore, Kodak's Chief Executive Officer, the driving business force at Eastman Kodak was increasing shareholder value. The corporate strategy was to develop new technologies and enter new markets while improving financial results. Implementation of this strategy included using the concept known as "right sizing," aligning the company's structural costs with sustainable growth projections. Consequently, Kodak was in the process of divesting certain assets considered by management to be outside the company's strategic core. The Eastman Kodak Corporate Real Estate Organization, CREO, was actively involved with the disposition of the company's real estate

assets.

#### ALLIANCE PARTNERSHIP

Starting in 1992 CREO began applying what it called the Alliance Partnership process to its real estate activities. This model had initially been developed in 1987 for improving over-the-road delivery of Kodak manufactured high performance copiers to customers throughout North America. John Englert, a logistics manager at Kodak, was the person responsible for developing and managing Kodak's transportation strategic alliance with Bekins, the long distance moving company. Englert transferred into CREO in 1992 to help implement strategic alliances in the real estate function (Englert).

Recently Englert explained the Alliance Partnership process as straightforward and readily transferrable to a wide variety of business situations.

"For us, strategic alliances are operationally simple but organizationally painful."

In his view the biggest obstacle to overcome was organizational inertia that resisted change. Some of the issues to be addressed included: people's concerns that proprietary information would be revealed to outsiders to the detriment of Kodak; the loss of employment that would result for Kodak employees whose work would be transferred to Alliance Partners; and the negative opinion of those who had

had disappointing experiences with previous efforts involving "trading partners" where the promised benefits had failed to materialize. Englert expressed confidence the Alliance Partnership process he designed would meet these challenges and bring improved financial results to CREO. In his view the foundation of the Alliance Partnership process was the commitment of both partners to the long term success of the relationship.

#### BEST OF CLASS

Englert described the mission of CREO was to conduct its business so well it would be recognized as the "Best of Class" by other corporate real estate units and by independent real estate developers. The criteria for achieving "Best of Class" status involved creating value. Essentially, value creation meant using effective work practices or processes that reduced cost, increased asset utilization, or created a measurable differential through an increased level of service. By achieving these objectives, value was created for Eastman Kodak. At Kodak in 1992 the primary financial performance evaluation was ROA, return on assets. To determine how CREO added value to Kodak, measurements were regularly made on three dimensions: utilization of assets; achievement of cost reductions; and divestment of assets.

To be "Best of Class" the results had to be greater than what could have been achieved by using the best available

alternative offered by competitors in the marketplace. The combination of financially based measurements and market-place comparison led Kodak to the use of strategic alliances to meet its objectives.

#### CORE COMPETENCIES

CREO defined its core competencies as the skills and knowledge it wanted to maintain internally. These core competencies were directly related to improving financial results. The CREO core competencies included:

- Asset Management & Strategic Business/Real Estate Planning;
- Value Added Property Development;
- Value Added Support Services;
- Financial Approach to Renovation and Construction;
- Market Driven Property Management;
- Innovative Working Environments;
- Project Delivery Process;
- Non-Traditional Funding Sources;
- Internal Space Brokerage.

CREO was a small and flexible operating group that knew the Kodak culture and understood the business units' objectives relative to overall corporate strategy. The managers at CREO thought of themselves as "process drivers"

who helped the business unit managers reach a decision point in real estate matters. When a decision was reached, CREO acted as the bridge between the business unit and the resource that implemented the real estate transaction.

#### ESTABLISHING PARTNERSHIPS

Establishing an Alliance Partnership first involved identification of a function which was not considered a core competency but for which the company had a regular need. Englert defined these as Core Functions. For example, CREO had an Alliance Partnership for real estate brokerage service. Next, the CREO management determined who were the recognized experts in that function and it decided how a strategic alliance with a recognized leader would add value to Kodak. Contract documents were drafted including a carefully prepared scope of work and a detailed specification with performance measurements. The scope of work included a finite timetable. CREO then invited the predetermined list of qualified suppliers to a common meeting to have the business opportunity explained. At the meeting the CREO manager carefully outlined to the participants the opportunity was for a defined scope of work that would immediately transform into an ongoing relationship. The message was communicated that Kodak wanted to select a partner for a strategic relationship that would grow and be everlasting. The invitees were then asked if they wanted to prepare a proposal in response to CREO's Request for



Proposal. Interestingly, not all invitees selected to submit proposals. In one case 19 companies were invited to propose but only 10 decided to do so. Once the proposals were received, they were evaluated by a small team of Kodak managers. They determined the "short list" of candidates (from 3 to 5) from which the partner would be selected. This group of short listed proposers was then notified of their initial success and requested to make a one hour presentation to the Kodak team. The purpose of the presentation was for each service supplier to explain how its proposal would create value for both parties of the Alliance Partnership. All presentations were made on the same day. The Kodak team used a quantitative system for ranking each presentation and a partner was selected by consensus that day.

Typically a new Alliance Partnership was launched in a small scale program mode to allow both partners the opportunity to observe and adjust for maximum effectiveness. When the level of performance was deemed ready, the Alliance Partnership was made available for broader application throughout the Kodak Company.

From 1992 to 1993 CREO entered five Alliance Partnerships. The services included real estate brokerage, electric energy services, construction management, janitorial services, and mailroom/copy center services. Three more were being investigated: a second energy services alliance; a telecommunication partnership; and one for loading dock

operations. Also, Englert noted that CREO had used the process to identify a mechanical trade partner but ultimately the decision was made to award the work to the existing internal staff. Nevertheless, the process achieved measurable results for Kodak. In the face of competition from external sources, the internal mechanical staff re-engineered its work practices, reduced its size from 30 to 18 employees, and agreed to ease the collective bargaining restrictions on using contract labor during periods of peak demand.

#### MOTIVATIONS AND BENEFITS

The motivations to CREO for using Alliance Partnerships were several:

- Improved Performance;
- Reduced Cost Structure;
- Increased Organizational Flexibility;
- Reduced Investment in Assets;
- Improved Customer Satisfaction.

Englert used the case of the Alliance Partnership with ISS International Service System, Inc., for janitorial services to illustrate the point. ISS was a Danish company that performed cleaning and other building services throughout the world. It had annual revenues of nearly \$3 billion. Because it was their area of specialization, ISS used more efficient cleaning techniques and made far greater investments

in training than had been the case when Kodak employees did the cleaning. Before the ISS Alliance Partnership was established, Kodak had 60 janitors, 2 supervisors and 1 manager assigned to the work. After the Alliance Partnership was formed Kodak had one employee assigned to manage the relationship with ISS. And, because the ISS crew was more efficient, Kodak realized an additional bonus of \$100,000 in annual savings by being able to turn off the lights earlier each evening.

Mr. Jan Kaupas, president of ISS North America, recently observed a primary benefit to Kodak was the reduction in the cost of the service. Also, he claimed, there was a 25% improvement in the quality of service performed by ISS versus the quality that had been performed by the in-house staff. According to Kaupas, these benefits meant there was an increase in customer satisfaction, the customers being the people whose facilities were being cleaned (Kaupas).

Other values potentially being created for Kodak included the business services ISS was considering purchasing from Kodak. ISS was exploring having the Kodak Imaging Services group provide office services (copying and records' management) to their 150 office locations throughout the United States. Second, ISS was interested in buying cleaning supplies on a nationwide basis from an Eastman Chemical Company subsidiary. Another benefit for Kodak was the referral mechanism that had developed because of the trust and

credibility the strategic alliance had created between ISS and Kodak. Whenever Kaupas learned one of his other customers was in need of a service that Kodak offered, he made Kodak aware of the opportunity and helped introduce the Kodak people to the new potential customer. According to Kaupas, this referral mechanism worked both ways. Kaupas defined the strategic alliance as a long term business relationship with excellent potential for future business development for the services ISS provided to the market-place.

#### FUTURE EXPECTATIONS

According to Englert the future at CREO will bring a growing reliance on outside resources to accomplish the work of the company. Englert described the organizational changes that are likely to unfold. He said Charles Handy's 1989 work, The Age of Unreason, provides the road map for Kodak in particular and corporate America in general. The CREO plan for meeting its future workload is based on the Shamrock Organization model (Handy, 90). Like the shamrock, the CREO organization will have three leaves. The first leaf represents the core workers of qualified professionals, technicians and managers essential to the organization. The second leaf will be made up of people who perform the non-essential work of the corporation. This is the work that can be sensibly contracted out to people who specialize in the function and so are able to do it better at lower cost. The

third leaf of the organization will be the flexible work force. This will include part-time workers and temporary workers who expand and contract their services to match the needs of their customers.

The benefits of using Alliance Partners are being recognized at CREO more and more as the practice expands and evolves. Englert predicted that the process will continue to build on its success.

## ALEXANDER & ALEXANDER CASE

Alexander & Alexander was a professional organization of nearly 15,000 employees that provided risk management, insurance brokerage and human resource management consulting services to its clients around the world. To conduct its global business, A&A maintained offices in more than 80 countries. The corporate operating results for 1992 included revenues of \$1.35 billion and income of \$54.9 million from continuing operations. Because of a \$145 million loss from discontinued operations, A&A reported a net loss for 1992 of \$90.1 million (Alexander & Alexander 1992 Annual Report). For its business in the United States, Alexander & Alexander had offices in more than 35 cities.

### CORPORATE STRATEGY

The corporate strategic plan in 1992 was characterized by a restructuring initiative that produced an operating expense savings of \$27 million. The restructuring objective was to refocus the services of individual offices to be more aligned with the needs of each local client base. The savings were realized by consolidating several local operations and closing marginal offices. A&A's Chairman and Chief Executive Officer, Tinsley H. Irvin, claimed the refocusing improved client retention and aided new business development. Consequently, not only were operating expenses reduced but revenues

increased. Irvin stated the business environment at Alexander & Alexander in the 1990s would be shaped by consulting-oriented relationships with its clients.

#### REAL ESTATE STRATEGY

The corporate real estate activities were managed by Mr. Ray Celli, Vice President of Facilities Management. In addition to real estate matters, he was responsible for all purchasing, fleet operations and corporate travel activities (Celli). For his areas of responsibility, Celli had several strategic alliances with outside service providers. His primary principle for deciding when to use a strategic alliance was his ability to define a discrete activity that a specialist could perform more efficiently. His operating style was to establish broad and general service agreements that were perpetual. As a general rule, A&A's strategic alliance partners were also corporate customers. Celli noted this situation of mutual benefit tended to strengthen the relationship between A&A and its service provider partners.

Alexander & Alexander's corporate real estate staff for the United States operations was small; one vice president and three real estate managers with one of the three manager positions unfilled in 1993. The people on this staff concentrated on performing the strategic planning activities associated with managing the real estate portfolio. Celli explained that the strategic nature of the work done by the

real estate group often involved investigating and researching several options. Frequently, considerable effort was expended before a judgment could be made on the value any particular alternative had relative to A&A's overall business objectives. For those alternatives judged to be of little or no value to the firm, work was performed from which no measurable benefit would accrue. The indeterminate nature of this kind of strategic analysis meant it could not be defined well enough for Celli to organize a strategic alliance to have it done.

When the analysis concluded a routine real estate transaction was the best course of action, Alexander & Alexander depended on outside resources to execute the deal. For much of the United States geography, tenant representation and lease negotiations were performed by LaSalle Partners. Other real estate services, such as design and construction activities for tenant improvements, were performed by other strategic alliance partners. Celli clarified that legal, financial and accounting work for real estate transactions were handled by other Alexander & Alexander departments.

#### BENEFITS

The strategic alliances Celli organized provided several benefits to Alexander & Alexander. For example, according to Celli, the strategic alliance with LaSalle Partners allowed him to leverage the utilization of his internal resources. Because of its relationship with the LaSalle organization, it



was natural for the A&A real estate group to tap into LaSalle's knowledge of market data and industry trends. This knowledge was folded into the strategic analysis work performed by the real estate unit. Celli noted the benefit of efficiency that derived from having the operational procedures codified. By using LaSalle Partners for most of the real estate transactions throughout the United States, Alexander & Alexander managers did not have to become acquainted with the idiosyncracies of different service providers.

Celli identified two important benefits that the service provider gained from a strategic alliance partnership with Alexander & Alexander. Once again he cited the real estate strategic alliance was a typical example. Because of the long term nature of the deal, LaSalle could accurately predict the annual volume of business the strategic alliance with Alexander & Alexander would generate. LaSalle managers confidently used this information to plan its own operations and to look for economies to lower its cost structure. Second, because it did not have to compete for the Alexander & Alexander work, the LaSalle organization did not have to allocate precious marketing resources to the that account.

#### FUTURE EXPECTATIONS

The ultimate real estate strategic alliance in Celli's opinion would be one that would cross international boundaries. He quickly noted such a situation would not be

available in the foreseeable future. But the evidence was plentiful that the fragmented nature of the real estate industry caused inefficiencies and lost time.

## CHAPTER 5

### ANALYSIS

#### CONTEXT

A major assumption of this research was that increased global competition has caused fundamental changes to corporate business practices. Increasing shareholder value has become a maxim. Managers are expected to evaluate the full range of company activities, primary as well as support activities, to identify every source of competitive advantage. One of the most noteworthy changes this has brought about has been the increased application of strategic alliances aimed at helping companies gain a competitive edge in the market-place.

I reviewed the structural analysis theory and the behavioral theory concerning strategy formulation. According to Porter, analysis of the company, its industry and the operating environment gave managers the data needed to create a successful strategy for earning an above average rate of return. Prahalad, Hamel and others theorized the key to success was developing core competencies; the work processes and human resource skills that allowed a company to capitalize on new opportunities in ways that competitors are unable to do. The core competencies of a business unit such as Kodak's CREO are at a different level from the corporate core competencies. The managers at CREO focused their organizational strengths on the internal activities that

allowed them to maximize their contribution to corporate value through their knowledge of the corporate objectives and company culture. The managers at CREO considered themselves to be "process drivers" acting as the bridge from internal needs to external partners.

A review of industry literature indicated there was a growing management awareness about the significance of a corporation's real estate assets relative to the financial performance of the company. Consequently, corporate real estate managers have become more strategically oriented in their job performance.

This was the context in which corporate real estate units operated in 1993. My expectation was research would show that corporate real estate unit managers could demonstrate how their operating strategies added value to the corporation. Strategic alliances with outside service providers were expected to be a significant element of the operating strategies. The cases I studied provided different examples of how corporations have used strategic alliances to meet the increased level of business competition. And, two of the cases have illustrated how the strategic alliances have evolved beyond initial expectations to provide more benefits to the partners.

## COMPARISON OF CASES

The cases I studied included three large American-based multinational corporations. NAGF and Kodak were manufacturers while Alexander & Alexander was a professional services firm. All companies were significant global enterprises. NAGF and Kodak both were several times larger than Alexander & Alexander in revenues and number of employees. All corporations earned more than a billion dollars in revenues in 1992. NAGF was a North American operation. Kodak and Alexander & Alexander both took in two-thirds of their annual revenues from their North American operations with European operations being the next major source of revenue. All three companies had thousands of employees working in dozens of locations.

At NAGF, the real estate unit was also led by the assistant treasurer who directed a staff of two managers. At Kodak the corporate real estate unit was managed by a vice president who directed a group of 4 functional managers (property manager, asset manager, financial manager, and director of field real estate) who were supported by several professionals and administrative staff members. At Alexander & Alexander, the real estate unit was also lead by a vice president who directed a staff of two managers. The real estate units at Kodak and NAGF were independent operating units that focused on financial performance measurements. The real estate unit at Alexander & Alexander was integrated

in an organization that including corporate purchasing and other related support services.

#### ALIGNMENT WITH CORPORATE STRATEGY

One of the most interesting issues considered was how the corporate real estate unit strategy related to the corporate strategy.

The mission for the parent organization at NAGF was to be the most successful consumer packaged goods company in the world. The strategies for doing that included maximizing productivity, improving total quality and focusing on financial performance. The corporate real estate unit was recently re-engineered to rely on strategic alliances for all market transactions. The partnership structure allowed NAGF to share the commissions on deals in return for the steady level of business. This gave the real estate unit a source of income that was reported on the corporate bottom line. Every transaction was measured for quality performance. Organizing the strategic alliances caused the real estate unit to write an operating guidebook. Having it ensured a consistent approach was used on all transactions. Performance was measured against defined criteria so quality was quantified. This type of system allowed trends to be monitored so performance could be continuously adjusted and improved. And, the implementation of the electronic project status report advanced organizational productivity by making all data

available to all organizational members in real-time.

The corporate strategy at Kodak was to develop new technologies and enter new markets while improving financial performance. The mission at Kodak's CREO was to achieve "Best of Class" status by creating value. The strategic alliance with ISS created value several ways. The cross referral mechanism was opening up new markets for Kodak to capture. Also, due to the alignment of interests between Kodak and ISS resulting from the office cleaning strategic alliance, ISS was investigating using Kodak manufactured cleaning chemicals throughout its multi-billion dollar cleaning business. And due to the greater productivity of the ISS crew, Kodak was realizing an unexpected annual bonus of \$100,000 on lower energy costs. Financial performance was judged on the basis of return on assets and the results were compared to marketplace. CREO's financial emphasis on operational activities was consistent with corporate strategy.

At Alexander & Alexander the corporate strategy was centered on a restructuring initiative. Its objective was to refocus the company on customer needs. The real estate unit concentrated on analytical work required to ensure the real estate needs of its customers, the Alexander & Alexander operating units, were satisfied. All real estate market transactions were performed by outside experts. By using LaSalle Partners for the routine transactions, the procedures were codified across the country. This repetition provided

for higher quality of service. Because the performance was consistent from transaction to transaction, there was a greater efficiency involved for the Alexander & Alexander offices that were being serviced. Therefore, the A&A managers in the field were freed to spend more of their time with their customers rather than being forced to coordinate LaSalle's efforts. Again the mission and operation of the real estate unit were aligned with corporate strategy.

#### DETERMINATION OF STRATEGIC ALLIANCES

The NAGF process for determining the scope of work to be performed by the strategic alliance service provider partner has been identified as a model of excellence for the industry. Other corporations are using it as a guide. It was clear to all participants what the objectives were, what the requirements were and what the benefits would be. The process followed by NAGF was consistent with recommendations in the article by Bowersox on strategic alliances (Bowersox, 36-45). In the article he recommended sharing information, establishing clear roles, measuring performance, and ensuring all participants involved consider their roles in terms of value-added processes.

At Kodak, functional activities that were to be performed by the corporate staff were identified as the group's core competencies. In the same way the business unit strategy is more narrow in scope than corporate strategy, it is consistent



and makes sense for the core competencies of the business unit like CREO to focus on functional responsibilities. The managers at CREO have identified those functions they consider essential to the organizational success. These process-related capabilities have been maintained internally. All other functional activities that CREO was responsible for providing to corporate business units were considered suitable for strategic alliances. Decisions about the scope of an alliance and the partners to work with are made using financially-based considerations.

The Alexander & Alexander process was somewhat different. Analytical work and non-routine activities were performed by the corporate real estate staff. All ordinary real estate market transactions were performed by strategic alliance partners. Although the corporate real estate unit was using strategic alliance partners for routine transactions, not all Alexander & Alexander departments were. For example, the legal work associated with real estate transactions was performed by staff lawyers.

#### SELECTION PROCESS

In the NAGF case, the evaluation methodology was careful and deliberate. The strategic nature of the alliance was commonly understood by both partners before the deal was finalized. NAGF's objectives in organizing real estate strategic alliances were to capture some of the value that

would be created by consolidating the transactions associated with its portfolio with two service providers while improving quality. The selection process it followed did that.

The Kodak selection process for strategic alliance partners followed the theoretical expectation. When a scope of work for a strategic alliance was determined, a methodology was followed for identification and selection of a partner who had a demonstrated plan for adding value to the Kodak real estate operation. The objectives at CREO were to achieve "Best of Class" status by using effective work practices or processes that reduced cost, increased asset utilization or increased the level of service. The selection of ISS as a strategic partner met the objectives.

At Alexander & Alexander, strategic alliances for real estate services were based on broadly defined service agreements with recognized industry leaders who were also Alexander & Alexander customers. Alexander & Alexander assigned to its strategic alliance partners all the discrete and definable real estate market transactions its own internal analysis deemed necessary. The basis for strategic alliance partner selection used at Alexander & Alexander, aligning with an existing corporate customer, may have been driven by the real estate unit being integrated in the purchasing department where there is frequent interaction between buyer and seller. Or, the small size of the real estate unit may have been the driver of the selection process.

## RECOGNIZED BENEFITS

The NAGF case and the Kodak's CREO case were excellent examples of how a corporate real estate units forged strategic alliances with external service providers to create value for the parent corporation. In both cases the strategic alliance partners (the service providers) benefitted by knowing they would have the corporations' work forever. Since they did not have the threat of competition the service providers saved money by not having to market their services to NAGF or Kodak. Instead the emphasis was on developing a long range, collaborative relationships and building trust. The common goals were to improve work processes, shorten cycle time, standardize methods and generally lower the cost structure so profit margins would increase. The benefits were split between the partners.

The major benefit the strategic alliances brought to Alexander & Alexander's real estate operation was the ability to leverage the work of a small staff while all transactions were performed by industry leaders. Alexander & Alexander received services at lower than market cost because its relationships were perpetual. And, because its partners were also its customers, there was an inherent level of trust and cooperation.

## CHAPTER 6

### CONCLUSION

Increased economic pressure from global competition has been the primary reason corporate real estate units have recently displayed more willingness to enter strategic alliances. To meet the challenge of greater global competition, parent corporations have had to market their products and services at lower prices with higher quality. In turn, this has caused corporations to examine their entire cost structure and at the same time evaluated in the context of a total quality management framework. The objective has been to insure all company efforts were focused on delivering higher value products or service to the paying customers. The activities evaluated included work performed by internal employees as well as that being provided by external suppliers. These activities were evidenced in the cases examined and the interviews conducted.

For the managers of corporate real estate units, recent corporate strategies have often dictated a reduction in staff with an increased demand for higher performance, i.e., higher quality and lower cost. In the face of constrained resources, corporate real estate managers have rethought how they were organized to deliver the land and building needs of their companies. In 1993 and for the foreseeable future the organizational response for corporate real estate units will

be a marked increase in the use of strategic alliances with expert service providers.

#### SLOW START

The real estate sector has been slower than other parts of American industry to embrace the concept of strategic alliances to improve the quality and lower the costs of its service. Three reasons why were noted by William Agnello. First, the real estate industry has traditionally operated in a cyclical pattern. This pattern created a willingness of many in the industry to accept business downturns as acceptable consequences. Second, even though it is a huge industry, it is highly fragmented. And third, since the business does not involve the import and export of products, leaders in the real estate industry have not considered themselves as participants in the global economy. This myopic view, according to Agnello, prevented most from recognizing the fundamental shift that occurred in the business environment.

Another reason that contributed to the slow start is the traditionally bureaucratic nature of corporate organizations where change is slow. Also, corporations are cautious institutions and several agreements are required before a major policy change can be implemented. And, control is a major consideration in corporate real estate units so sharing control with a partner will not be given freely

## CONDITIONS FOR SUCCESS

Based on the cases examined and the interviews conducted, a conclusion of this study is the rate of success of strategic alliances for real estate services will be enhanced if the following conditions are present.

An agreement is needed which defines how the partners will work together. The agreement will describe the objectives of the alliance, the resources to be applied by each partner, the framework for communicating information and data, the performance criteria, and a system for measuring quality.

The strategic alliance must be organized for specific goals while being responsive to the market-place. The Kodak example identified how partnerships provide new opportunities for leveraging the business of the two organizations as the partners begin to understand and appreciate each others capabilities.

The partners must agree to make mutual investments with mutual sharing of risk and reward. For example, the NAGF real estate unit had to prepare an operating manual for the first time in its 50 year history to properly specify the duties of its strategic partners. In return, the strategic partners had to agree to share large commissions in order to secure a steady level of business.

The characteristics of the corporate real estate units most likely to enter strategic alliances include those who

commit to total quality performance in every aspect of its business. Units charged with broad missions such as improving the work environment, lowering occupancy costs, or reducing the corporate asset base are interested in exploring the innovative business arrangements strategic alliances allow. There must be a corporate culture receptive to long-term relationships with leading service suppliers. This is more often the case when corporate real estate units are managed by business generalists versus real estate specialists. For example the several strategic alliances noted in the Kodak case were established under the direction of a real estate director who had transferred into the real estate function after many years of service in other corporate areas.

#### FUTURE

The trend for corporate real estate units will most likely include a greater emphasis on strategic activities such as long-range planning and risk analysis. The technical and administrative work and the market transaction will be assigned to strategic alliance partners. These partners will be outside service providers who are recognized industry leaders who can deliver quality products at the lowest price. Maximizing the contribution of the real estate assets to shareholder value will be the organizational goals.

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