

## MASTER

### Ally or acquire?

non-organic growth strategy and decision model for the international real estate developer :  
an explorative study

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# Ally or Acquire?

Non-organic growth strategy and decision model  
for the International real estate developer

*An explorative study*

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Strategy without tactics is the slowest route to victory,  
Tactics without strategy is the noise before defeat

*(The art of war, Sun Tzu)*

## I Abstract

This research provides an approach for non-organic growth within ING Real Estate Development. A framework is elaborated, distinguishing the strategic corporate positioning on non-organic growth and a decision model for the local realization of partnerships. Non-organic growth provides a sound opportunity for ING Real Estate Development to realize sustainable growth, taking into account the market conditions.

## II Management summary

### ING Real Estate:

ING Real Estate is an integrated real estate Group focused on the development, investing, financing and management of quality real estate. ING Real Estate is part of the ING Group, a global financial services institution. This research is performed in the business line, ING Real Estate Development, which value proposition is to develop plots, visions, trends and client needs into happy places to shop, live and work.

The promise of ING Real Estate Development (ING RED) is to develop environmentally, economically and socially balanced (urban) structures, to realize long-term appealing and satisfying environments enabling future generations to shape and improve their environments.

Market conditions have clearly changed dramatically since the beginning of September 2007. Ongoing turmoil in the global financial markets is putting pressure on property valuations in some markets and segments. The global real estate markets are becoming more interrelated and thus more complex.

### Research introduction:

ING RED focuses on a well-balanced country portfolio and a good mix of asset classes of smaller and larger projects in order to deliver stable profit despite the cyclical characteristics of real estate developments. When considering the changing market conditions, the realization of healthy profit levels (and thus value) in the real estate market is challenged.

ING RED has classified their specificity of growth into building blocks, indicating the possible strategies for the achievement of the corporate growth targets. Non-organic expansion in current countries to deliver continuous additional profit is defined as one of the building blocks. ING RED wants to more proactively consider non-organic growth as a complementary approach, next to organic growth, to realize their corporate growth objectives, therefore the central question addressed in this research is:

*“How can a strategic approach towards non-organic growth for ING RED be defined, in order to contribute to sustainable corporate growth?”*

To increase successful execution and integration of non-organic growth, to create more value for the organization, the potentially involved risks of non-organic growth need to be minimized. Besides an effective deal-making process, proactive consideration of the strategic direction for non-organic growth will ensure that sustainable value is created; therefore the objective in this research is formulated as follows:

*“Develop a corporate non-organic growth strategy for ING RED, supported with a model for proactive decision making regarding the proposition and implementation of partnerships”.*

The objective of the research can be divided into the following three sub objectives;

1. Specify a framework for ING RED’s non-organic growth approach.
2. Develop a corporate non-organic growth strategy for ING RED.
3. Design a decision model for the proposition and implementation of partnerships.

The research model (figure a), is elaborated with the objects and their relations.

Supplementary to the ING RED corporate growth strategy and after analyzing the internal and external environment of ING RED, a non-organic growth strategy can be specified.

Subsequent, resulting from ING RED expert interviews, case studies and external benchmark, the key considerations in partnerships are addressed. Based on the partnership considerations a decision model has been developed that supports the proactive decision-making for the proposition and implementation of partnerships.

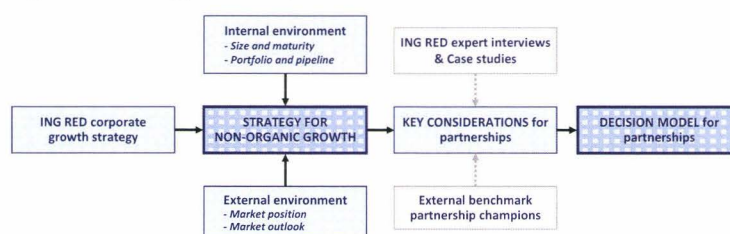


Figure a; research model

## 1. Framework for non-organic growth:

Three research fields can be distinguished in this research, the business drivers, the cooperation concepts and the identification of partners.

- *Business drivers* – Define the motivation for partnerships in terms of product market investment decisions and competences to be developed. Business drivers answer the question of ‘why’ partnerships should be initiated.
- *Cooperation concepts* – Specify the organizational structures that can be applied between organizations. Cooperation concepts define ‘how’ partnerships can be concluded.
- *Identification of partners* – Determines the process towards identifying and selecting partners, based on comparative and complementary capabilities. Identification of partners underpins the decision with ‘whom’ to partner.

The framework is built upon two axes (*figure b*); vertically, difference is made between the corporate level strategy (*strategic positioning*) and the country level decision model (*local realization*) to endorse the transnational strategy of ING RED (local responsiveness, global integration).

By means of the analysis of the internal and external environment input is obtained for the framework on corporate and local level.

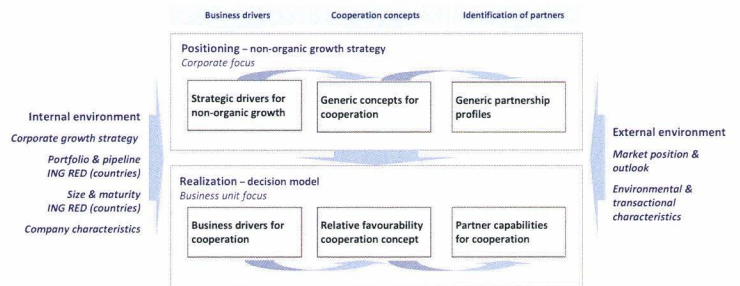


Figure b; Strategic framework for non-organic growth

*Strategic drivers for non-organic growth* – define the overall objectives of non-organic growth.

*Generic concepts for cooperation* – concepts that are developed to realize the objectives of non-organic growth.

*Generic partner profiles* – each profile indicates the type of partner, which is required for a cooperation concept.

*Business drivers for cooperation* – the specific objectives and deliverables of the partnership are determined.

*Relative favourability cooperation concept* – articulates the relative most opportune concept for the business case.

*Partner capabilities for cooperation* – the features the partner need to possess within a specific partnership.

## 2. Strategy for non-organic growth:

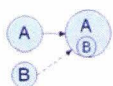
Based on the *environmental context*, which analyses the strategic considerations for non-organic growth, four distinctive focus areas for non-organic growth can be defined. The environmental context regards the corporate growth strategy, a swot on non-organic growth, the internal composition of the country organizations and the external relative non-organic growth position.

The following focus areas were identified focused on the strategy (1,2) and conditions (3,4):

- *Deepen development expertise* - proactive approach on specific development and market expertise to stay ahead of the market, cooperate for the realization of innovation, with the condition that additional high qualitative human resources capacity are attracted
- *Intensify client involvement* - involve clients during non-organic growth considerations, set up partnerships with clients and subsequently joint expansion with existing clients.
- *Strengthen finance engineering* - smarten finance engineering to attract new capital and strengthen the internal finance competences to exploit investment opportunities.
- *Organize dedicated resources* - allocate people for the non-organic growth process, to create an improved expertise level on the proposition and implementation of partnerships.

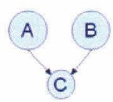
With the focus areas as a starting point, three strategic drivers for non-organic growth are defined which provide input for the generic cooperation concepts and partner profiles per strategic driver.

1. *Investments in strategic markets* - Increase the investment value in strategic markets, which provide considerable growth opportunities and healthy profit levels (penetration of the market).



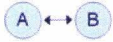
- Cooperation concept; acquisitions to obtain local market knowledge and management.
- Partnership profile; regional/national real estate developer with focus on retail, residential and area developments with a solid reputation.

2. *Joint business development* - Explore new business opportunities with clients to access additional capital and reduce investment costs (market development).



- Cooperation concept; joint ventures to realize a better spread of risk and smaller investments.
- Partnership profile; partner with similar (geographical) target markets, supporting ING RED's core business and active in the real estate value chain.

3. *Development of innovative real estate* - Evolve new business concepts for the real estate market, to anticipate on the changing needs of clients (product development).



- Cooperation concept; alliances to access innovative non-core business capabilities.
- Partnership profile; organizations with a (inter)national coverage which stretch the value chain and core process but operates in another core industry.

A partnership growth model can be elaborated, providing the total overview of the generic cooperation concepts that can be applied for a strategic driver (figure c). The arrows represent the possible advancements of partnerships, depending on the three specified drivers. The routing is not obliged to succeed. In general the higher the level of integration, more capital is required, but the potential direct returns are also higher. An increase of the level of interaction implies more management attention required to successfully evolve the partnership, while flexibility is maintained.

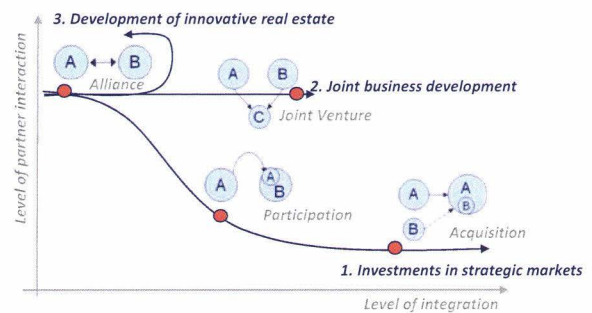


Figure c; Partnership growth model

### 3. Decision model for partnerships:

As an input for the decision model, the *key considerations for partnerships* are elaborated, obtained by means of external benchmarking and internal expert interviews and case studies. The considerations are based upon a comprehensive question per research field;

- *Business drivers for cooperation* – originate from fulfilling a client need, access to specific knowledge and creating distinctive capabilities in the market.
- *Relative favourability for a cooperation concept* - determined by the purpose of the partnership, relation of the partnership to the core business and the feasibility of the cooperation concepts.
- *Partner capabilities for cooperation* – relevant are the position of the partner, assessment on complementary values and the alignment of business and management principles.

The decision model (figure d) is a model that can be applied on the country level and anticipates on the corporate non-organic growth strategy. The decision model can be divided into a number of phases:

- Phase 0: Landscape partnership opportunities – analysing the need for partnerships.
- Phase 1: Business drivers – describing the motivation for a partnership to be initiated.
- Phase 2: Cooperation concept – defining the relative most favourable cooperation concept.
- Phase 3: Identification of partners – specifying the capabilities in terms of partner criteria.
- Phase 4: Partnership proposition – elaborating the total value proposition of the partnership.

Approvals to proceed to a next phase are done by the management board of ING RED. Iterations between phases can be required. The decision model facilitates in the structured approach towards a partnership proposition in the country organizations. The model considers all critical elements and involves all stakeholders within the ING organization. This approach will support in the underpinning of partnerships for stakeholders. Main deliverable of the decision model is a well-founded partnership value proposition.

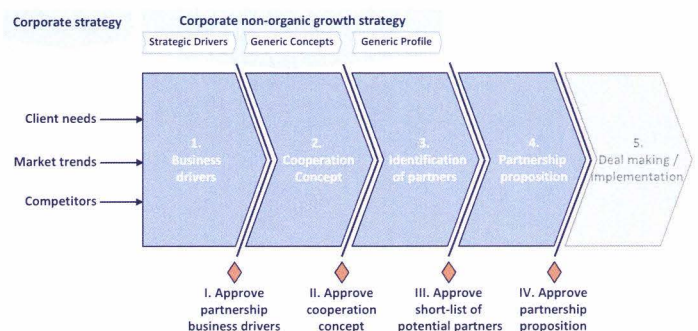


Figure d; Decision model non-organic growth



**Implementation:**

Requirements are for specified for the implementation of the three deliverables of the research into the ING RED organization, each element is separately regarded.

*Establishment of the framework* – The approach has to be formalized to secure the process in the organization. Partnerships have to be seen as an alternative next to organic growth by integrating the approach into the corporate strategy. Continuous benchmarking will facilitate the learning process on partnerships.

*Realization of the strategy* – Commitment and open mindset for partnerships are essential for the implementation of non-organic growth into the business fundamentals. To proceed, further execution of the deliverables need to be determined.

*Utilization of the decision model* – A core team for partnerships with finance engineering knowledge has to be installed. The decision model has to be shared into the organization and success stories need to be created, to strengthen the approach and to share expertises.

**Conclusions and recommendations:**

The research can be perceived as successful, the objectives are achieved within the required specifications and conditions. Limitations of the research are threefold;

- The applicability of the relative non-organic growth position model is limited.
- Subsequent, no real direction could be determined regarding the geographical product-market investment decision.
- The decision model has not been executed for a partnership opportunity.

**Conclusions:**

Non-organic growth provides a sound opportunity for ING RED to realize their growth ambitions. The delicate relationship with the ING Group limits ING RED to execute their business, especially during turbulent market situations. Nevertheless, the non-organic growth approach provides an alternative method to realize the growth ambitions within the current internal and external conditions.

Additional conclusions can be drawn:

- ING RED is limited in the execution of their business due to their dependency on the ING Group.
- During turbulent market situations ING RED cannot optimally execute their business, because ING Group wants to minimize risks, which limits the opportunistic real estate developer.
- The developed framework fits within the organizational structure of ING Red, emphasizing global integration and local responsiveness.
- The defined strategy offer opportunities for growth, despite market conditions.
- ING RED needs to further refine their client focus, besides key account management; also more thorough research of the markets is required.
- Not only real estate developers, but also real estate investors and service providers can be potential companies for partnership.
- Continuous landscaping of the market for non-organic growth opportunities is essential to exploit the non-organic growth approach.
- No explicit consideration between organic and non-organic growth has been made, still the strategic drivers provide the playing field for non-organic growth.
- Balance should exist within partnerships, consisting out of complementary and comparative capabilities both partners deliver. Alignment of business and management principles is essential.
- The decision model is a defined process with clear activities and approvals, still iterations are needed to define the best partnership proposition. Iterations are possible during the actual proposition but also during the deal-making process.

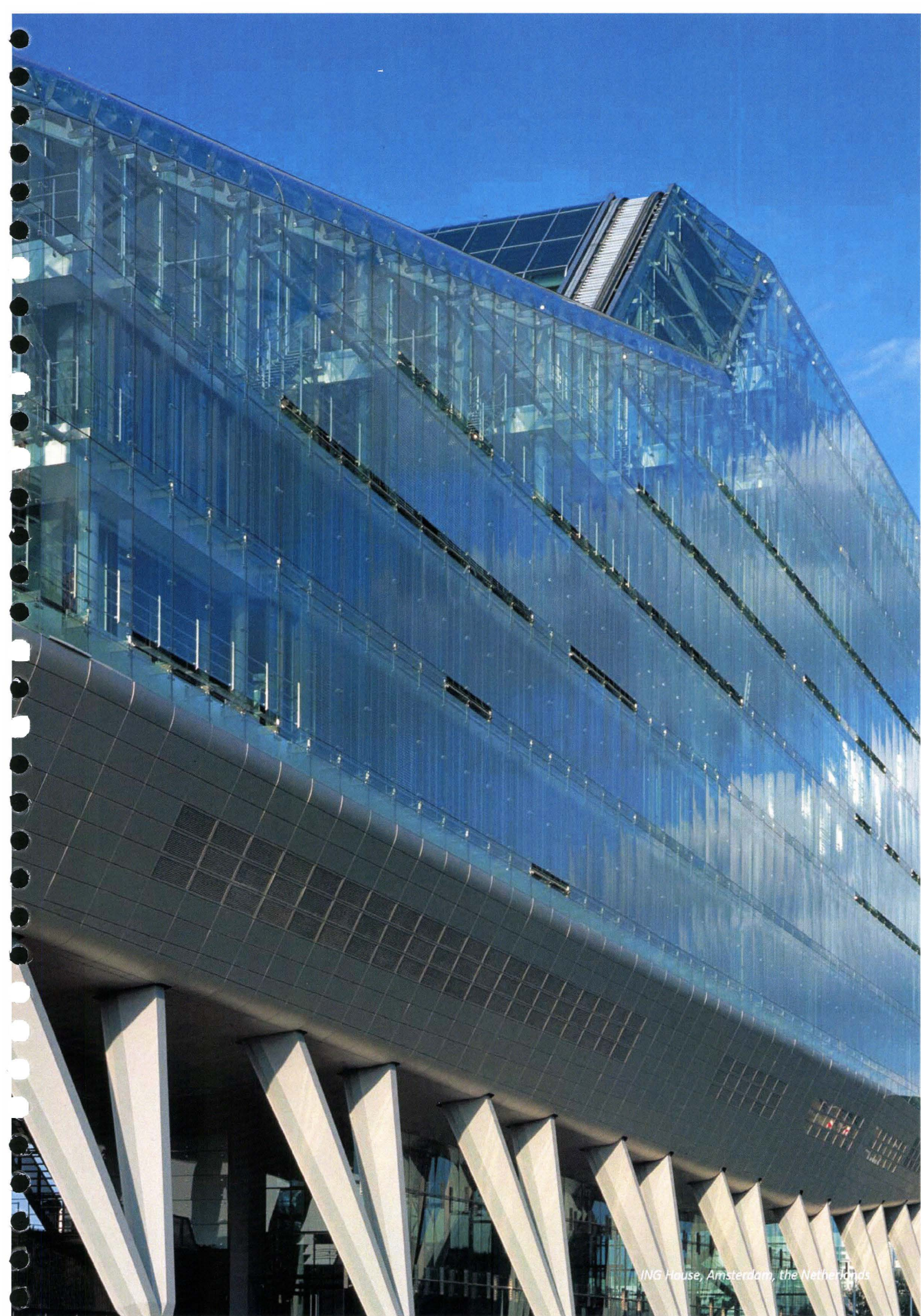
**Recommendations:**

- Review the ING RED business model, especially on the finance of property developments.
- Improve focus towards clients, to anticipate on the changing market situation.
- Create commitment from the ING RED management board and educate on partnerships.
- Define a clear roadmap for the total non-organic growth process.
- Research; review the project joint ventures and alliances, in order to define the partnerships on project level and create more long-term benefits.
- Research; consider the integration of real estate developers in the non-organic growth process.

### III Table of content

<b>I</b>	<b>Abstract</b>	<b>III</b>
<b>II</b>	<b>Management summary</b>	<b>IV</b>
<b>III</b>	<b>Table of Content</b>	<b>VIII</b>
<b>1</b>	<b>ING Real Estate</b>	<b>1</b>
1.1	Company profile	1
1.2	ING Real Estate Development	1
1.3	Real estate market	2
<b>2</b>	<b>Research introduction</b>	<b>4</b>
2.1	Motivation behind the research	4
2.2	Assignment and assumptions	5
2.3	Research approach	7
2.4	Relevance of the research	10
2.5	Outline report	11
<b>3</b>	<b>Framework for non-organic growth</b>	<b>12</b>
3.1	Organizational context	12
3.2	Business drivers	13
3.3	Cooperation concepts	14
3.4	Identification of partners	17
3.5	Strategic framework	19
3.6	Summary	20
<b>4</b>	<b>Environmental context</b>	<b>21</b>
4.1	Corporate growth strategy	21
4.2	SWOT on non-organic growth	22
4.3	Composition of the country organizations	23
4.4	Relative non-organic growth position	24
4.5	Summary	27
<b>5</b>	<b>Strategy for non-organic growth</b>	<b>28</b>
5.1	Confrontation matrix	28
5.2	Strategic drivers for non-organic growth	29
5.3	Generic concepts for cooperation	31
5.4	Generic partnership profiles	33
5.5	Summary	34
<b>6</b>	<b>Key consideration for partnerships</b>	<b>35</b>
6.1	Research method	35
6.2	Drivers for partnership propositions	36
6.3	Characteristics for cooperation favourability	36
6.4	Criteria for partner capabilities	37
6.5	Discussion on the key considerations	38
6.6	Summary	40

<b>7</b>	<b>Decision model for partnerships</b>	<b>42</b>
7.1	Principles of the decision model	42
7.2	Phase 0: Landscape partnership opportunities	44
7.3	Phase 1: Business drivers	44
7.4	Phase 2: Cooperation concept	45
7.5	Phase 3: Identification of partners	46
7.6	Phase 4: Partnership proposition	47
7.7	Summary	47
<b>8</b>	<b>Implementation</b>	<b>48</b>
8.1	Establishment of the framework	48
8.2	Realization of the strategy	48
8.3	Utilization of the decision model	49
8.4	Summary	49
<b>9</b>	<b>Conclusions and recommendations</b>	<b>50</b>
9.1	Evaluation	50
9.2	Conclusions	51
9.3	Recommendations	53
	<b>Reference list</b>	<b>i</b>
	<b>Appendix</b>	<b>iv</b>
A.1	SWOT ING RED, mid-term planning 2008-2010	iv
A.2	Country abbreviations	iv
A.3	Data relative non-organic growth position	iv
A.4	Detailed background information discussion groups	v
A.5	Overview key considerations partnerships	vi
A.6	Main considerations between control and strategic flexibility	vii
A.7	Main variables for inter-company fit	vii
A.8	Overview decision model on activities and resources	viii
A.9	Internal analysis; value chain Porter for real estate developers	ix
A.10	External analysis; PEST analysis for the macro environment	ix
A.11	External analysis; five forces of Porter in the real estate industry	x
A.12	SWOT analysis and confrontation matrix	xi
A.13	Method to determine relative favourability	xii
A.14	Elaboration of the cooperation concepts	xii
A.15	Method for determining variables fit analysis	xiii
A.16	Method for long- and short listing	xiii
A.17	Business model according to Morris	xiv



*ING House, Amsterdam, the Netherlands*

# 1 ING Real Estate

This chapter provides general insight in the organization where the research is conducted. Subsequent, the real estate market is illustrated to give insight in the current market conditions and emerging trends within the industry.

## 1.1 Company Profile

ING Real Estate is an integrated real estate group focused on the development, financing and management of quality real estate in all major global markets with a total portfolio of over EUR 100 billion. ING Real Estate is market leader in terms of total assets invested in real estate.

As a global leader ING Real Estate combines local market knowledge with global experience to offer comprehensive solutions in the development, finance and investment management activities. Strong client focus, global research capability and highly disciplined development, lending and investment processes are the drivers of performance, which in turn underpin the business. The dedicated team of 2,500 people worldwide serve a broad client base, including individuals, medium-sized businesses, large corporations and institutions, from offices in 21 countries in Europe, North America, Asia and Australia.

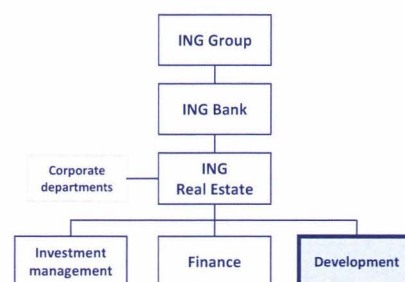


Figure 1; Organization chart ING Real estate

ING Real Estate is part of the ING Group (figure 1), a global financial services institution offering banking, insurance, investments and retirement services to over 75 million private, corporate and institutional clients in over 50 countries.

Source: ING Real Estate – 2007 annual report

## 1.2 ING Real Estate Development

As part of ING Real Estate (ING RE) the promise of ING Real Estate Development (ING RED) is to develop environmentally, economically and socially balanced (urban) structures, to realize long-term appealing and satisfying environments enabling future generations to shape and improve their environments.

Key strengths of the business:

- Local teams in 11 European countries
- Retail, residential and area developments
- Global vision on the European markets
- Multidisciplinary

### Business model<sup>a</sup>:

**Offer** – the value proposition of ING RED is to develop plots, visions, trends and client needs into happy places to shop, live and work.

**Customer** – the target audience of ING RED are property investors on the one hand and tenants on the other hand. ING RED also maintains relationships with other key stakeholders in their property developments (e.g. municipalities). Key accounts are managed to strengthen the relationships.

**Infrastructure** – Core to the business fundamentals of ING RED is the reputation of ING RED in the market, with a controlled development process, combined with specific expertise regarding the peculiarities of real estate developments. The local teams ensure local knowledge and social ties in the market. Being part of the ING Group results in financial strength. ING RED develops in close cooperation on project level with all involved stakeholders with long-term commitment.

**Finance** – Property development require long-term investments before and during construction (e.g. acquiring land positions, design phase, construction costs). Revenues are mainly obtained by the sales of realized properties. Value is created when land positions are transformed into new areas for living, working and shopping.

<sup>a</sup> Business model description is based on the business model design template.

**The real estate development process:**

The project development process (figure 2) can be divided into different stages, depending on the level of detail. For the purpose of broad insight in the way of doing business, five distinct phases are used. Within each phase of the process a proposal is drafted to obtain approval and funding to continue on to the next phase. By splitting up the development process a balance can be realised between keen entrepreneurship and effective risk management.

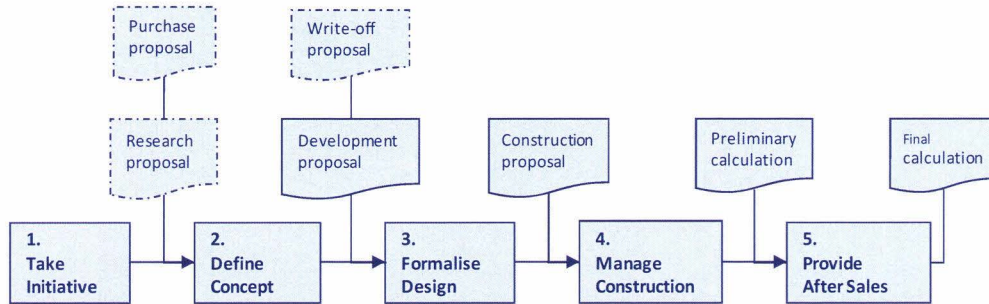


Figure 2; Real estate development process ING RED

**Project portfolio:**

ING RED focuses on Europe only and has presence in the following countries: Belgium, Czech Republic, France, Germany, Hungary, Italy, the Netherlands, Poland, Romania, Spain and UK. From these countries ING RED also engage activities in Luxembourg, Portugal and Switzerland. Among other countries, country expansion is considered in the Nordics, Russia and Turkey.

ING RED has a strong presence in the Dutch domestic market and focuses on the retail market, due to its origin, while the strongest position remains the residential market (figure 3, 4, 5).

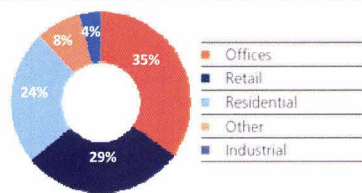


Figure 3; Portfolio by real estate type

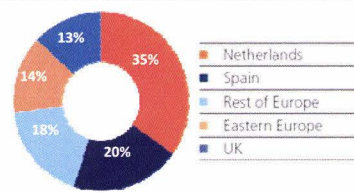


Figure 4; Development pipeline by region

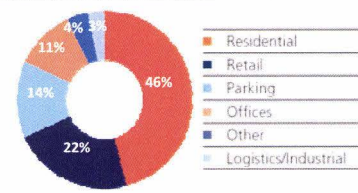


Figure 5; Development pipeline by real estate type

As per 2007 year end, over 200 projects are in development and construction, which represent a total forecasted sales value of more than EUR 10 billion. In 2007 the total development portfolio grew by 36% to EUR 3.0 billion.

Sources: ING Real Estate development – MTP 2008-2010  
ING Real Estate – 2007 annual report

**1.3 Real estate market**

Market conditions clearly have changed dramatically since the beginning of September 2007, caused by the financial turmoil. Market uncertainty has resulted in tighter and more expensive debt and a stronger appreciation of risk leading to a slowing in activity, more willing vendors coming forward and in some markets, an increase in investment yields.

Several important short-term trends suggest that, real estate will remain competitive. First, despite cooling of the global economy from a record pace of expansion, growth rates are expected to remain above trend thus supporting demand for commercial real estate. Second, the flow of capital to real estate remains strong. Third, real estate is becoming a less risky asset class given its improved liquidity and transparency across the world. Lastly, with real estate fundamentals generally healthy and improving, earnings growth should continue to support steady income returns.

After several years of unprecedented performance, real estate has emerged as a global accepted asset class. Investors have increased their exposure to commercial property and therefore competition for available real estate is heightened. This will make it difficult on the one hand side to seek the right developments projects and on the other hand to recruit talented staff.

**European market:**

The overall European market is still in recovery. European economic growth, while moderating, is expected to remain sufficiently high to generate demand for commercial floorspace with employment levels continuing to rise. Europe has a rapidly aging population, which requires a large workforce to support the increasing number of retired workers. An aging population and a large number of unemployed are both inconsistent and unsustainable.

Expectations are there that the European market to be one of the strongest global real estate markets, which should enable to continue to attract investments from abroad. Furthermore, in an environment where investors will increasingly be prepared to accept lower returns, the return forecasts for European property look relatively attractive.

**Credit crunch:**

The credit crunch will have an effect on global economic growth, largely arising from a slowdown in consumer expenditure in the US. The effect of the credit crunch is highly dependent on the inflation effects that might occur when the decreasing interest rates of the central banks will not be sufficient. In addition, it is worth noting that European consumers generally have a lower level of debt compared to consumers in the UK and US and are therefore less affected by difficulties in the credit market.

The impact of the credit crunch has been most severe on some mortgage companies and the lower-rated bond market. In the real estate market the impact has been most apparent on secondary assets where there is a greater reliance on debt funding. The impact in Continental Europe has been less than in the UK and US.

The global real estate markets are becoming more interrelated and thus complex. For ING RED the ongoing turmoil in the global financial markets is putting pressure on property valuations in some markets and segments. At the moment, being part of the ING Group makes it difficult for ING RED to perform in the market. The current turmoil makes that the ING Group wants to decrease the risk exposure and therefore limiting the possibilities for further growth of ING RED.

**Increasing construction costs:**

Since January 2007 an increasing pressure can be signaled on the construction costs of real estate properties (figure 6). This trend can be seen throughout Europe and is mainly caused by; 1) a high demand and low supply of construction capability, partly due to the fact that there is a lack of qualified staff, 2) increasing prices of basic materials due to the enormous and still increasing demand from China. Especially, the maintenance of high oil prices will keep the construction costs under pressure.

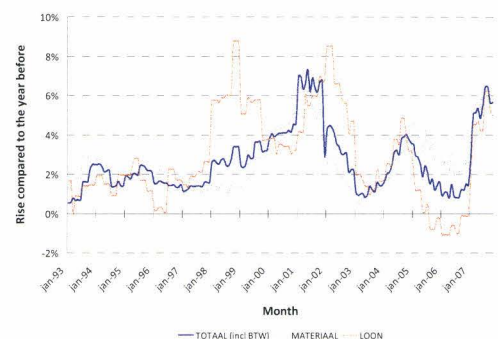


Figure 6; Construction price index, offices NL

**Vertical integration in the industry branch:**

Within the industry branch a shift can be noticed where real estate related companies expand their business activities towards real estate. Two main integration shifts can be spotted; construction companies that initiate real estate developments to be able to secure their construction pipeline (e.g. Heijmans vastgoed). The second group are investor management companies who want to get directly involved in real estate by participating in real estate companies (e.g. Morgan Stanley and Multi). These trends increase the competition but also expand the possibilities of real estate developments; it results in a more dynamic market where traditional market considerations are challenged.

Sources: Cushman & Wakefield – Market beat annual review 07/08  
ING Real Estate - European & Global view 07/08



900 Third Avenue, New York, USA



## 2 Research introduction

This chapter describes the background of the research by motivation the research and subsequent the assignment and assumptions. The approach how to satisfy the assignment is elaborated in the approach. The relevance of the research is defined and the outline of the report provided.

### 2.1 Motivation behind the research

The overall ambition of ING is to create value for its shareholders; to give them a higher total return than the average of that of ING's peers over the longer term. Value is created by delivering superior (financial) performance, realized by minimizing the sum of fixed and continuous costs (transaction cost theory)<sup>1b</sup> and by effective resource allocation (resource-based theory)<sup>2</sup>.

The value proposition of ING is realizing growth and return, aimed to keep improving the execution of the ING business fundamentals. Investments in growth are viable when investments occur in businesses and markets with good long term potential. ING RED, as a subdivision of ING Group, pursues this ambition by means of realizing sustainable growth in volume and profit. ING RED focuses on a well-balanced country portfolio and a good mix of asset classes of smaller and larger projects in order to deliver stable profit, despite the cyclical characteristics of real estate developments.

#### Creating value through growth:

When considering the changing market conditions, the realization of healthy profit levels (and thus value) in the real estate market is challenged. Where the European market will remain one of the strongest global real estate markets, market conditions will sharpen in terms of, among other things, stronger appreciation of risk and an increase in investment yields. In order to consolidate and strengthen its position on the real estate market, and thus delivering value to the ING Group, ING RED needs to strengthen position as a large, trustworthy and leading pan-European real estate developer. Further corporate growth will result in realizing economies of scale, enhancement of portfolio diversification and deepening of market knowledge and skill set<sup>1</sup>.

A strategic reorientation took place within ING RED in 2006 with the focus on sustainable profit growth towards 2012. ING RED redirected the focus towards the European market, based on the assessment of the ING RED markets on developments in the real estate market in general and the development market in particular. Mid 2007 growth scenarios were identified (figure 7).

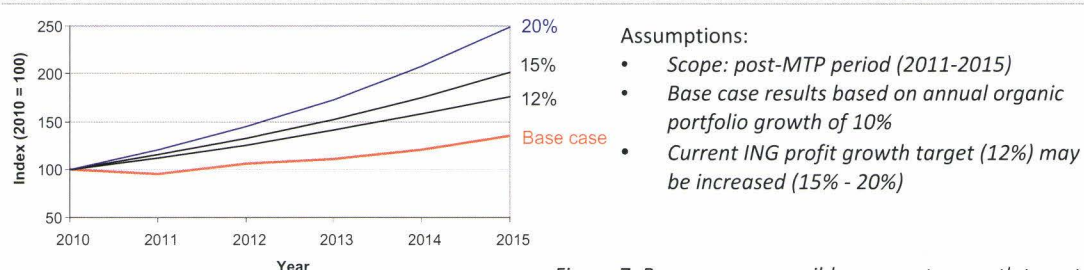


Figure 7; Base case vs. possible corporate growth targets

#### Building blocks for growth:

Corporate growth to be realized is based on an ongoing consideration between the exploitation of existing resources and the development of new ones, obtaining business sustainable competitive advantages - organizational resources that are superior to those of its competitors<sup>2,3,4</sup>.

The specificity of growth - the increased value of resources when they are used for a particular purpose, as opposed to other alternatives<sup>5</sup> - is driven by the choice of development methods applied (organic vs. non-organic growth). The resources required to complete the set of firm resources determine the development method in order to implement the growth strategy, under the condition that economic efficiency is pursued<sup>6,7,8</sup>.

<sup>b</sup> All references to literature are superscripted with a number; in the reference list the corresponding number can be found.

ING RED has classified their specificity of growth in four building blocks for growth, indicating the possible strategies for the achievement of the corporate growth targets;

- Intensify autonomous growth - increase the secured portfolio
- Non-organic expansion in current countries - deliver continuous additional profit
- Entry of new countries - broaden the country coverage based upon thorough research
- Invest in business support - empower country organizations and stay in control

Autonomous organic growth will increase the secured portfolio, herewith increasing the level of secured result and further increasing the predictability of the long term profitability levels. Non-organic growth can potentially deliver continuous additional profit in current and new countries, ING RED wants to apply non-organic growth as an additional option for the realization of the corporate growth objectives.

**Realization of non-organic growth:**

Main motivation for non-organic growth to develop is when a firm needs additional resources that cannot be purchased and cannot be built internally with acceptable cost (risk) or within an acceptable time<sup>7</sup>. In other words, effective resource allocation (resource-based theory) shifts focus from cost considerations towards value (revenue) considerations<sup>8,9</sup>.

Non-organic growth has higher risk levels in the realization of value, but the upsides of non-organic growth, among other things, is the fast realization of market positions and the gain of new capabilities, offering substantial opportunity for obtaining sustainable growth<sup>10,11,12</sup>. The downsides (integration failure, control issues, mistrusted relations) stress the importance of a well-considered strategy and process towards non-organic growth, which will increase the level of successful performance of sustainable non-organic growth<sup>13,14</sup>.

ING RED wants to more proactively consider non-organic growth as a complementary approach, next to organic growth, to further professionalize their business fundamentals and to realize their corporate growth objectives. The higher risk levels of realizing value from non-organic growth, emphasize the importance of a well defined approach, therefore the central question addressed in this research is:

*“How can a strategic approach towards non-organic growth for ING RED be defined, in order to contribute to sustainable corporate growth?”*

To answer this question the following three sub questions are relevant:

1. *How can a non-organic growth approach be developed?*
2. *What are the corporate strategic considerations?*
3. *Which business-level decisions need to be examined?*

A tangible assignment can already be filtered from the central question, due to the small research focus, therefore the assignment can be formulated with the central question as a starting point<sup>15</sup>.

**2.2 Assignment and assumptions**

**Starting point:**

The building blocks for growth specify the strategic directions for growth. The differentiated growth matrix (figure 8), reflects the geographical focus of ING RED. Both will serve as an input for this research and considered as fixed, due to the timeline and scope of this research.

*Differentiated growth matrix:*

The markets were identified, resulting in a market outlook and a focus towards further growth, combined with organizational size.

- Mature markets – strengthen and expand market position
- Focus markets – increase investment levels
- Growth markets – improve the market position on a project basis
- New markets – opportunity based acting on project level

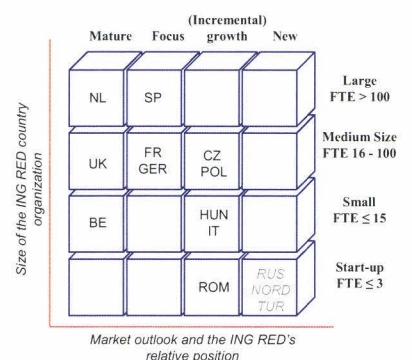


Figure 8; Growth matrix of ING RED

**Research assignment:**

Originally ING RED had an impulsive strategy towards non-organic growth - reactive behaviour on market opportunities, with limited process and strategic orientation<sup>16</sup>.

To increase the successful utilization of non-organic growth and to ensure that non-organic growth will be compliant with the ING Group fundamentals, the process for M&A was evolved by ING Real Estate<sup>c</sup>. This process was further elaborated in a deal guide within ING RED (figure 9).

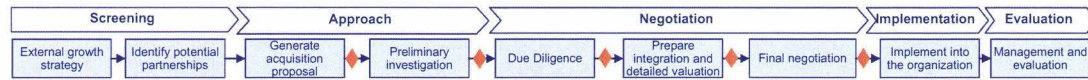


Figure 9; Based on the M&A process of M. Post

A first transition was made from an impulsive strategy towards a learning process – proactive deal making when facing market opportunities (figure 10)<sup>17</sup>. This transition increases the chance of successful deal-making when an opportunity arises.

To increase successful execution and integration of non-organic growth, to create more value for the organization, the potentially involved risks of non-organic growth need to be minimized. Besides an effective deal-making process, proactive consideration of the strategic direction for non-organic growth will minimize risk and ensure that sustainable value is created.

By means of defining a strategy and identifying potential partners for non-organic growth not only the process is in control but also the strategic direction for non-organic growth is proactively managed. A more strategic approach shifts focus from more short-term gains towards long-term continuity for the organization as a whole<sup>6</sup>.

A more strategic approach implies a shift towards logical incrementalism - proactive behaviour within strategic markets resulting in defined opportunities (figure 10). The strategic management approach requires, in the screening phase, a strategy to provide direction for non-organic growth and a decision model to facilitate the identification of partners.

Therefore the objective in this research is formulated as follows:

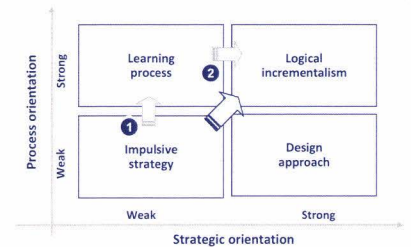


Figure 10; Strategic management approach

*“Develop a corporate non-organic growth strategy for ING RED, supported with a model for proactive decision making regarding the proposition and implementation of partnerships”.*

The objective of the research can be divided into the following three sub objectives;

1. Specify a framework for ING RED's non-organic growth approach
2. Develop a corporate non-organic growth strategy for ING RED
3. Design a decision model for the proposition and implementation of partnerships

**Research assumptions:**

*Focus on non-organic growth* – this research will only consider non-organic growth. Although organic growth is a building block for growth, this research will only describe organic growth structures versus non-organic growth structures, but will not articulate preferences or considerations regarding a growth structure.

*Strategic objectives* - The strategic objectives of ING RED, as described in the MTP 2008-2010, are considered as given. In 2006 ING RED has performed a strategic reorientation and focussed towards 2012, the practical relevance of the research will be lost, when neglecting this elaborated strategic focus of ING RED.

<sup>c</sup> Memo M. Post d.d. July 3<sup>rd</sup> 2007

*Deal guide* - The M&A process (figure 9), will be used as a guideline during the research, to ensure that the strategic approach is aligned with the overall process. ING RED will apply the deal guide for their future deals, so neglecting this deal guide will result in different approaches towards non-organic growth.

*Tailored approaches* - The country growth matrix reveals substantial differences in size and maturity of the ING RED countries. The research will make contributions applicable for all ING RED countries, irrespective of the position and outlook of the country organization.

## 2.3 Research approach

The research fields provide direction for the specification of the framework and support the strategy and decision model. The research model focuses on the application of the framework with respect to the non-organic growth strategy and the decision model. The methodological justification and the roadmap explicate the applied methods and activities to ensure reliability and validity in the research.

### Relevant research fields:

Non-organic growth is defined as; obtaining additional resources to expand operations with the aim to realize additional added value<sup>7</sup>. In this research non-organic growth will be considered from a corporate strategic level and on a decision making level.

- *Corporate strategy for non-organic growth* - the strategy of an organization is the pattern of choices within the organization related to the realization of goals, the approach applied to achieve the goals and the resources that are dedicated within the organization to achieve these goals<sup>17</sup>. A strategy for growth is determined by considering the internal and external environment of the organization; this will result in opportunities and threats in the external environment and strengths and weaknesses in the internal environment, leading to strategy identification and selection<sup>14</sup>. When developing a non-organic growth strategy, DePamphilis argues that also the corporate strategy of the organization needs to be taken into consideration<sup>13</sup>.
- *Decision making for partnership propositions* – decision making can be regarded as an outcome of processes leading to the selection of a course of action among several alternatives. Every decision making process produces a final choice. Partnerships are all formal legal agreements between organizations, based on equity or non-equity, with the aim to conduct business which delivers more value (often financial) than the value created by the two organizations separately.

Strategy and decision making for non-organic growth can be divided into three specific research fields, which are considered as most important and provide a secure basis for a framework.

The research fields provide an answer to the most elementary questions of non-organic growth.

- *Business drivers* – value creation motives for expanding on a non-organic basis. Provide insight in the motivation and objectives for non-organic growth in order to create sustainable competitive advantages on corporate level as well within specific business cases<sup>18, 14</sup>. Business drivers for non-organic growth answer the question of ‘why’ a partnership should be initiated.
- *Cooperation concepts* – the organizational structures that can be applied between two organizations. Different cooperation concepts can be applied within organizations depending on the internal and external environment. Within a specific business case further refinement is needed, where also transactional characteristics influence the decision for a cooperation concept. Cooperation concepts define the ‘how’ partnerships can be concluded<sup>7, 13, 14</sup>.
- *Identification of partners* – the process towards identifying and selecting a comparative and/or complementary partner. The identification of partners limits the choice of organizations in order to select a partner which will contribute to sustainable growth in terms of value for the organization. Besides general profiles for partners, in business cases specific criteria can be applied to identify the most attractive partner. Identification of partners underpins the decision with ‘whom’ to partner<sup>18, 19, 20, 21</sup>.

### Research model:

The research model is displayed with the objects and their relationships (figure 11). Supplementary to the ING RED corporate growth strategy and after analyzing the internal and external environment of ING RED, a non-organic growth strategy can be specified. Subsequent, resulting from ING RED expert interviews, case studies and external benchmarks, the key considerations in partnerships are addressed. Based on the partnership considerations a decision model has been developed that supports the proactive decision-making in the proposition and implementation of partnerships.

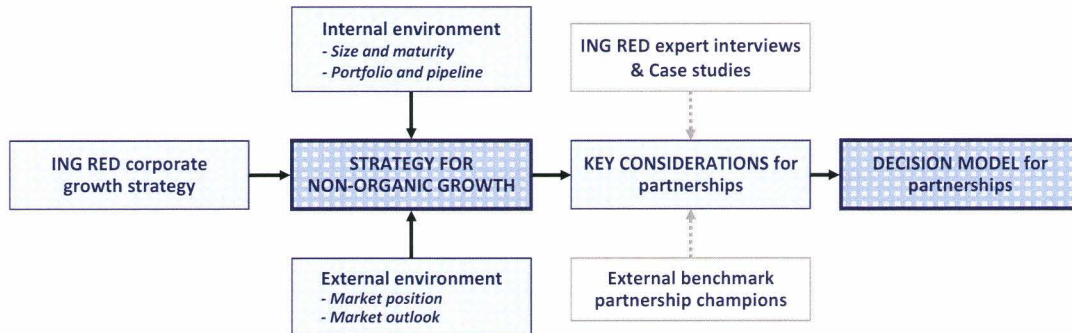


Figure 11; Research model

### Methodological justification:

The research applies academic perspectives and will focus on the practical relevance for ING RED. The project as specified in (section 2.2) can be characterized as a project focused on organizational improvement by means of an explorative study<sup>15</sup>.

The developed strategy and decision model are benchmarked with the stakeholders in order to address all the relevant topics. The regulative cycle of Van Strien<sup>15</sup> is used to ensure methodological quality in this research project; the different deliverables and process steps are described in the roadmap below.

To ensure continuous improvements in the research project the Deming cycle is applied<sup>15</sup>. During the research continuous interactions with the stakeholders of the project has ensured that the outcomes of the research are supported and well defined.

#### Reliability:

The results of the research should be perceived as reliable to be able to draw valuable conclusions. Reliability is considered as the extent to which a project generates the same results when the research is repeated<sup>15</sup>.

Reliability regarding the respondent - During the research different stakeholders of the project are involved to discuss the different topics. The stakeholders are either internal ING RED stakeholders or external experts. Decisions are made based on interpreting the provided feedback and obtaining general consensus; therefore the reliability regarding the respondent can be classified as high.

Reliability regarding the applied methods - The obtained information is gathered and checked by means of triangulation (university – ING – external experts)<sup>22</sup>, furthermore multiple sources (internal documents, literature, interviews, case studies) are used to define opinions and underpin decisions.

#### Validity:

To ensure that the research project delivers an output, which is relevant for ING RED, three validity checks are executed.

Construct validity - The construct validity is specified as the extent to which the research has practical relevance for the organization<sup>15</sup>. The integration of the strategic approach into the overall process and the alignment with the corporate strategic objectives, based on consensus with the stakeholders of the research ensures that the construct validity is perceived as high.

Internal validity - The internal validity can be classified as high. Within the definition phase of the research a specific problem is selected, agreed upon with the direct stakeholders. The provided design provides a solution to this problem and satisfies the needs of ING RED within the research focus.

Acknowledgement validity - The extent to which, stakeholders are committed to the research and participate when requested<sup>15</sup>. During the research a group of direct stakeholders is identified which are involved in the project and considerations are shared, therefore the acknowledgement validity is high.

**Roadmap:**

The steps to be taken during the research are displayed (figure 12). The research is focussing on a framework and a strategy and decision model for non-organic growth. Each step will be further discussed in terms of main goals and focus.

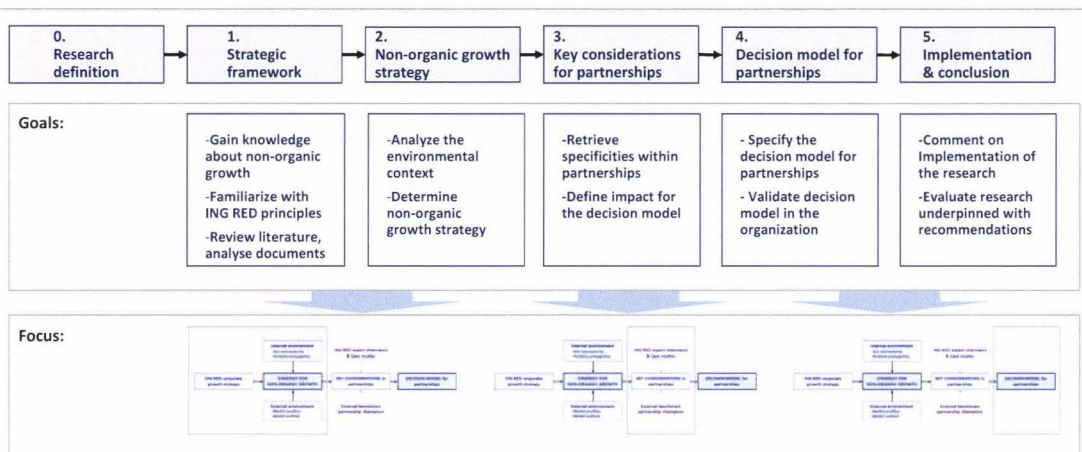


Figure 12; Research roadmap

**Step 1** – A more in depth literature review is performed to gain a better understanding of previous research on strategic approaches towards non-organic growth. Furthermore the available researches within ING RED are studied to determine their relevance and applicability for the research. Based on the literature review and initial interviews with the stakeholders, a strategic framework is developed, providing guidance for the development of the strategy and decision model.

**Step 2** – The non-organic growth strategy is defined based upon an internal and external analysis, supplemented with the corporate growth strategy. The analyses specify the requirements and boundaries for non-organic growth. The strategy is specified by defining:

- *Strategic drivers for non-organic growth*: drivers that motivate non-organic growth in the various ING RED countries and segments focussed on sustainable growth.
- *Generic concepts for cooperation*: define the generic concepts that can be applied when considering a partnership.
- *Generic partnership profiles*: the preferred profile a potential partner should possess, depending on the cooperation concept.

**Step 3** – A number of discussions is held to acquire specific information, regarding the internal and external influences on partnerships. Distinction is made between expert interviews, case studies with internal stakeholders and external benchmarks.

- *Expert interviews*: to discuss the specificities of real estate and ING RED in relation to non-organic growth.
- *Case studies*: to improve and validate the defined decision model for actual situations.
- *Benchmark meetings*: to gain knowledge from experts in non-related industries.

**Step 4** – The decision model is developed to support in the proposition and implementation of partnerships, by means of defining;

- *Business drivers for cooperation*: how to specify the business drivers for a partnership based on creating value in the cooperation.
- *Relative favourability cooperation concept*: how to determine a preference between cooperation concepts in a specific business case.
- *Partner capabilities for cooperation*: method to specify the extent to which the profile of ING RED and the cooperation profile match with the profile of a potential partner.

**Step 5** – The implementation of the non-organic growth strategy and the decision model is elaborated. The research is evaluated and lastly conclusions and recommendations are made regarding the research and the further execution for ING RED.

## 2.4 Relevance of the research

This research has a twofold purpose; it supports in the realization of the non-organic growth approach and secondly it provides new insights in the academic research of strategic management approaches towards non-organic growth, specified for the real estate industry.

### **Practical relevance:**

To create value from non-organic growth becomes more complex due to deals which are getting rapidly much bigger, the involvement of private equity firms and the increasing dynamics of markets. Furthermore in the current real estate market resources (financial) are getting scarcer, resulting in limited choices for non-organic growth. Not every opportunity can be exploited.

In general, non-organic growth provides solid opportunities for fast realization of market position and attraction of new capabilities, leading to sustainable competitive advantages and value for the stakeholders. Non-organic growth means higher risk levels but can be controlled when the process is systematically managed. Nowadays partnerships should be an integral part of the company's strategic toolkit<sup>d</sup>.

This research anticipates on these trends by providing a strategic management approach, where systematically non-organic growth is considered as an alternative next to organic growth for realizing sustainable corporate growth. More specific, ING RED as a large, trustworthy and leading pan-European real estate developer needs to consolidate its position on the real estate market, to be able to face the changing market conditions and to continue the realization of healthy profit levels. In order to do so, ING RED needs to consider non-organic growth as an additional approach from a strategic value based perspective.

The research delivers a framework for non-organic growth, a corporate strategy for ING RED and a decision model for the proposition and implementation of partnerships. This will result in a more considered process towards non-organic growth, increasing the chance of success for sustainable non-organic growth in terms of profit and volume.

### **Academic relevance:**

Within the academic world, substantial literature has been published discussing non-organic growth. Relatively little is known about integral strategic management approaches towards the realization of non-organic growth. Most literature deals with aspects of the non-organic process, providing in depth research about aspects of non-organic growth.

This research describes an integral approach, built upon different academic and practical insights, for the strategic consideration of non-organic growth, covering the drivers, the concepts and the identification of partners, eventually delivering an underpinned proposition for partnerships.

Furthermore little is known about non-organic growth within the real estate industry, due to its reactive deal driven opportunistic character. The research provides insights in the proactive strategy of one of the leading real estate developers in the industry.

<sup>d</sup> Source; BCG report, *the brave new World of M&A, how to create value from mergers and acquisitions*

## 2.5 Outline report

Below the content of this report is reflected, concisely describing the subjects of each chapter.

### ***Chapter 1: ING Real Estate***

Provides insight in the organization where the research is conducted, in combination with the market outlook for the real estate industry.

### ***Chapter 2: Research introduction***

This chapter describes the motivation, assignment, approach and relevance of the research, providing the general structure of the research report.

### ***Chapter 3: Framework for non-organic growth***

Result of the literature review and interviews with stakeholders in the project, a strategic framework is provided as an approach for non-organic growth.

### ***Chapter 4: Environmental context***

Regarding the considerations for the non-organic growth strategy by considering the corporate strategic considerations, divided into the corporate growth strategy and the internal and external environment.

### ***Chapter 5: Strategy for non-organic growth***

A corporate non-organic growth strategy, which defines the business drivers, the applied cooperation concepts and the partner profiles on a corporate level in order to facilitate the proposition in the ING RED countries.

### ***Chapter 6: Key considerations for partnerships***

Considerations on the business-level decisions and their influence on partnerships within ING RED as a result of internal expert interviews, external benchmarks and case studies.

The following questions will be challenged:

1. What are possible business drivers for the proposition of partnerships?
2. Which characteristics can influence the decision for a cooperation concept?
3. Which criteria (comparative and complementary) influence the selection of a partner?

### ***Chapter 7: Decision model for partnerships***

Decision making model, which facilitates decision making towards business drivers, cooperation concepts and partner identification and selection. The decision model can be applied for the proposition and implementation of partnerships.

### ***Chapter 8: Implementation***

Comments on the implementation of the strategy in the organization and the decision model in the deal guide.

### ***Chapter 9: Conclusion***

The research is evaluated and conclusions are drawn. Further recommendations are provided to ING RED for next steps to be taken in the process towards non-organic growth.





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### 3 Framework for non-organic growth

The theoretical foundation of the research is provided, analysing the business model and elaborating the research fields, as described in the previous chapter. The foundation will result in a framework how to approach non-organic growth within ING RED.

#### 3.1 Organizational context

The organizational context is regarded as one of the most important elements during the development of an organizational strategy<sup>17</sup>. It provides insight in the related organizational variables next to strategy. The affecting elements for ING RED will be further elaborated.

##### Internationalization strategy:

In one respect an international organization needs to consider the national differences on market policies, relation management and the ability to create value<sup>17</sup>. Another perspective is that integration on global level can result in significant cost reductions by economies of scale<sup>17</sup>.

The real estate industry is traditionally a local business, where local connections and knowledge of the market is essential. Therefore, local responsiveness is essential for the execution of ING RED's business. Due to the size and experience of ING RED as a real estate developer, additional value can be created by integrating the business. It can be remarked that ING RED made a change from a multinational strategy towards a transnational strategy - combine advantages of global integration with local adaptability (figure 13)<sup>17</sup>.

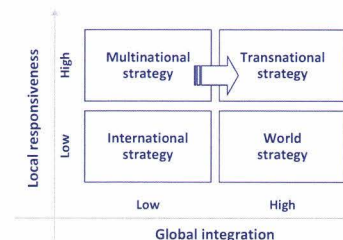


Figure 13; International strategies

##### Organizational structure:

Originating from the local responsiveness, the organizational structure of ING RED is divided in relative autonomous country organizations, supported and controlled by the holding company, ING RED International (ING REDI). This type of modular organization prospers when product complexity is high and market uncertainty relatively low (figure 14)<sup>23</sup>.

Corporate planning is initiated and facilitated by ING REDI, where input is generated bottom-up but strategy development is embodied top down. The actual realization of business is executed within the autonomous ING RED country organization (ING RED CO).

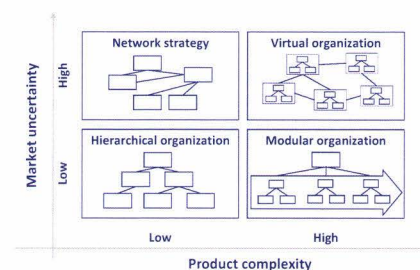


Figure 14; Organizational structure

##### Country size and maturity:

The growth matrix of the ING RED country organizations display that substantial differences exist between the size and the phase in the lifecycle of the organization. Each ING RED CO has different opportunities in their markets and different potential within their organization.

As motivated by Greiner<sup>24</sup>, each lifecycle phase requires a different management approach given the size and time elapse of the organization. The last phase of the 'Greiner curve', phase 6 growth through alliances implies that in a certain phase organizations are dependent for their further development on different types of non-organic growth. In addition, within each phase in the 'Greiner curve' non-organic growth can be applied to foster further development of the organization.

From the organizational context the conclusion can be drawn that;

- The combination of global integration and local responsiveness should be maintained in the approach towards non-organic growth.
- The organizational structure has a clear distinction between the autonomous country organizations and the supporting and controlling holding organization.
- Due to the substantial differences in size and maturity of the country organizations, captured in the growth matrix, the decision model should anticipate on the country differences (size, maturity).

### 3.2 Business drivers

Corporate growth to be realized is based on an ongoing consideration between the exploitation of existing resources and the development of new ones, obtaining business sustainable competitive advantages<sup>2,3,4</sup>. Porter describes that it is essential for companies to have a defendable competitor's advantage at one's disposal to be able to ensure sustainable growth. The best strategy for a company to achieve this competitive advantage is a unique construction of planning and actions developed through time and experience<sup>18</sup>.

Within organizations, strategy can be perceived mainly on three levels, depending on the organization considered. The corporate level defines the overall purpose and scope of the organization, whereas the competitive or business unit level reflects on a certain aspect of the organization. Lastly, the operational strategy provides direction on the execution of the business fundamentals.

Aaker formulated two essential elements each strategy should possess before actions taken can result in a competitive advantage<sup>14</sup>:

1. A decision about the product-market investment decision – which product(s) shall the organization exploit in which market(s) and which investment level(s) will be chosen for each product-market combination?
2. Which competitive advantage will be further exploited in the market(s) the organization wants to compete? – This regards the choice for a strategy that has to be made which functional areas in the organization in relation to the organizational strengths.

#### Product-market investment focus:

Four main strategies can be distinguished when specifying the product-market combinations (PMC's). Main consideration to be made is between the development of existing and new products and markets (figure 15)<sup>25</sup>. Investment levels can be subdivided categories, indicating the amount and the intensity of the investments<sup>14</sup>.

- Investments to foster growth
- Investments to maintain market positions
- "Milking" minimize investments with maximum output
- "Liquidate" withdraw from current position with disinvestments

	Existing products	New products
Existing markets	Penetration	Product development
New markets	Market development	Diversification

Figure 15; PMC's defined by Ansoff

ING RED has redirected her focus on the European real estate market, where constantly new markets within Europe are considered for further expansion. Essentially each real estate development can be regarded as a 'new product'. ING RED has a strong focus towards the retail, residential, office and area development, covering all major asset classes within real estate. New products are mostly developed within those asset classes. Each development requires a significant investment for the realization, often achieved with project alliance<sup>e</sup>. No specific investment focus for the ING RED CO's can be distinguished, partly due to their autonomous position.

#### Competitive advantages:

Besides the product-market investment focus, also the competitive advantages to be extended or to be arrogated need to be defined. Competitive advantages are defined as unique properties of an organization or product which can not be easily be reproduced or obtained, are perceived as valuable by the customer and other organizations do not possess the benefits<sup>14,25</sup>.

Porter defined competitive advantages, based on the competitive scope and the advantage (figure 16)<sup>20</sup>. The matrix provides an initial focus towards competitive advantages to be further exploited or to be developed.

		Competitive advantage	
		Lower cost	Differentiation
Competitive scope	Broad target	Cost leadership	Differentiation
	Narrow target	Cost focus	Differentiated focus

Figure 16; Competitive advantages

<sup>e</sup> Acquisitions and collaborations on a project level are not considered in this research, only corporate level partnerships, due to the different purposes and outlook of these partnerships.

When focussing on the business drivers for a specific partnership, similar considerations can be made. Every partnership should eventually result in an advantage for the partners, to substantiate the proposition for the partnership, instead of solo venturing.

Adapted from the initial elements of Aaker, the business drivers for a partnership should result in the following elements, resulting in new or improved core competences:

1. A decision regarding the portfolio development – how will the partnership affect the real estate developments and which rates of return can be expected?
2. Which core competences in a partnership are going to be developed which will strengthen or develop ING RED's competitive advantages?

### Portfolio development:

The product portfolio of an organization provides further insight in the condition of the available product market combinations of the organization. A portfolio is assessed on external growth opportunities versus the internal position of the organization relatively to the market. The portfolio of ING RED represents the real estate projects which are in development. The portfolio of ING RED can be classified into real estate types and in geographical regions.

Besides the external attractiveness and the internal position also the returns of property developments are of importance when considering the portfolio development. Returns are mostly specified in the return on investments of portfolio and calculated by dividing the sales results by the total investment value captured in the property developments.

### Core competences:

A core competence is a unique combination of technologies, knowledge and skills that are possessed by one company in a market<sup>26</sup>. A firm's critical resources may span firm boundaries and may be embedded in inter-firm resources and routines, resulting in potential sources of inter-organizational competitive advantages. A pair or network of firms can develop relationships that result in sustained competitive advantages<sup>27</sup>.

The business drivers stress two important factors;

- Focus towards product and market in relation to the required investments on the strategy and decision level to determine the impact on the business.
- Competitive advantages to be captured are the result of a collection of core competences obtained by the organization itself or by its relations with other firms.

## 3.3 Cooperation concepts

Non-organic growth can be facilitated by implementing and integrating different organizational structures of partnerships<sup>11, 28</sup>. An initial consideration between cooperation concepts can be made by identifying the strategic options that are most relevant for ING RED. Identification depends, among other things, on the market dynamics in the market (external) and the organizational context (internal)<sup>13, 14</sup>.

A general classification is provided (figure 17). In this research a number of forms of cooperation are not taken into consideration. The various motives are explained. 'Greenfield' investments will only be provided as a benchmark for entering new countries.



Figure 17; Overview of cooperation concepts

**Mergers** – the combination of assets, operation and management of two firms to establish a new legal entity<sup>29</sup>. In the current organizational structure of ING RED (section 1.1), a merger is not possible because of governance and ownership by the ING Group.

**Licensing** – an organization signs a contract with the owner of a brand name, whereby the organization has the right and obligations to exploit the brand name and concept, in return the organization pays a fee to the owner of the brand name<sup>30, 31</sup>. ING RED does not want to risk their reputation in the market by licensing their brand. The highly dynamic and complex process implies that the financial risk and brand quality is hard to control.

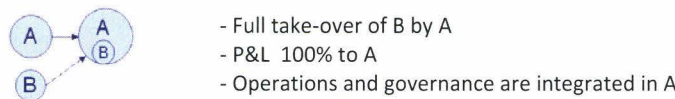
Market transaction/outsourcing - are not regarded as non-organic growth. The previous specified definition (section 2.3) claims that additional resources are obtained which is not the case in these two forms of cooperation.

**Generic partnership structures:**

A number of general partnership structures can be distinguished, the execution of each partnership depends on the specific business case. The considered cooperation concepts in this research are categorized and defined; the implications of the organizational structures are discussed (figure 18).

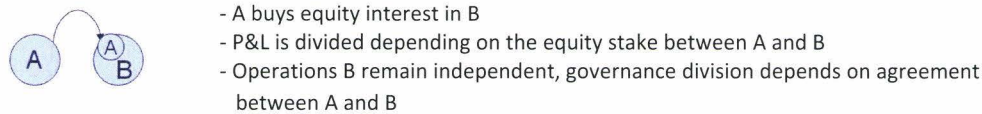
**Acquisition:**

The transfer of control, of assets and operations from one firm (target) to another (acquirer), the former becoming a unit of the latter<sup>29</sup>.



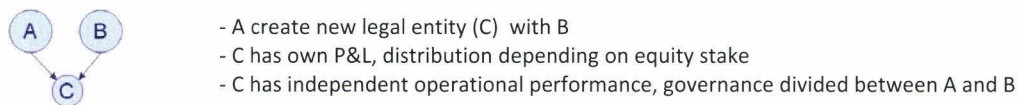
**Participation:**

Equity interest in an organization by one or more organizations with the purpose to profit from the competitive advantages and financial results of the organization<sup>29</sup>.



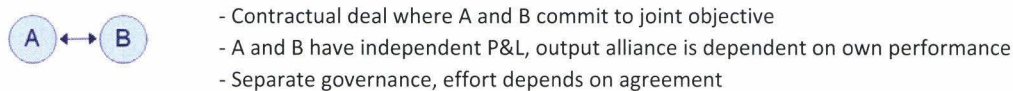
**Joint Venture:**

Agreement between two or more organizations for the participation in an economic joint activity, a new legal entity is created where the organizations participate in, by means of equity investments in the venture. The involved organizations share profits and losses<sup>11, 30</sup>.



**Contractual alliance:**

Contract between two or more organizations aiming for a joint advantage, whereby all organizations remain independent. The alliance aims for a joint profit which is greater than the individual performance<sup>32, 33, 34</sup>.



**'Greenfield investment':**

Creating a new business unit within a new industry branch or market, including new production capacity, sales, marketing and other activities<sup>30</sup>.

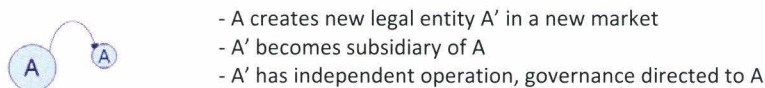


Figure 18; organizational structures of cooperation concepts

**Motivations and risks:**

The different cooperation structures have their specific advantages, disadvantages, motivations and risks. There is no such cooperation mode that always will outperform the others. An overview is provided with the main motivations for of the cooperation structures and the most common risks of the concepts (figure 19)<sup>7, 10, 11, 12, 13, 14, 29, 31, 32, 33, 34</sup>.

Acquisition	Participation	Joint Venture	Contractual Alliance	Greenfield
<b>Main motivations:</b>				
<ul style="list-style-type: none"> <li>• Increase market share and strengthen position</li> <li>• Acquire specific knowledge / expertise</li> <li>• Realize economies of scale</li> <li>• Decrease level of competition</li> <li>• Immediate market presence</li> </ul>	<ul style="list-style-type: none"> <li>• Obtain additional profits with limited effort</li> <li>• Low risk, high control for obtaining additional market share</li> <li>• Predecessor of full acquisition</li> </ul>	<ul style="list-style-type: none"> <li>• Combine different (specific) expertises</li> <li>• Joint risk and responsibility</li> <li>• Overcome current market positioning</li> </ul>	<ul style="list-style-type: none"> <li>• Improve success of market entry</li> <li>• Share expertise</li> <li>• Access to capital and market knowledge</li> <li>• Reduce investment cost</li> </ul>	<ul style="list-style-type: none"> <li>• Maintain control</li> <li>• Preserve culture and management style</li> </ul>
<b>Main risks</b>				
<ul style="list-style-type: none"> <li>• Unsuccessful integration, e.g. culture, management and client positioning</li> <li>• Cost of control can dramatically increase</li> </ul>	<ul style="list-style-type: none"> <li>• Control difficult to maintain through governance</li> <li>• Premium price</li> <li>• Limited influence on strategy and organization</li> </ul>	<ul style="list-style-type: none"> <li>• Dedication of resources and investments difficult to determine</li> <li>• Lack of responsibility of partner</li> </ul>	<ul style="list-style-type: none"> <li>• Partner exploits expertise</li> <li>• Commitment and trust difficult to obtain</li> </ul>	<ul style="list-style-type: none"> <li>• Trade barriers</li> <li>• Start-up difficulties due to inexperience</li> <li>• Time consumption</li> </ul>

Figure 19; main motivations and risks of cooperation concepts

### Partnership growth model:

During time partnerships can change, caused by changing market circumstances or by (inter)organizational dynamics. Rather than selecting one cooperation concept, at the beginning of a partnerships the foreseen or preferred partnership growth model can be enunciated.

Roberts provides an initial thought for technology leaders when to ally and when to acquire, based on the Utterback model of the technology lifecycle<sup>42</sup>. This model argues that in each lifecycle phase a different preference exist for acquisitions and alliances. Abstracting from this initial thought, one could also argue that each partnership undergoes different phases.

The different cooperation concepts mentioned (figure 18) can be successive of each other in a partnership growth model (figure 20). The model displays the possible, most logical, routings of a partnership. The lifecycle model is related to the *level of integration* – the level of integration of the cooperation into the business model of the organizations. The *level of partnership interaction* – the level of required interaction between the organizations. Normally during time the integration will increase, while the interaction will decrease. Alignment of the organizations and learning effects are plausible reasons for this effect.

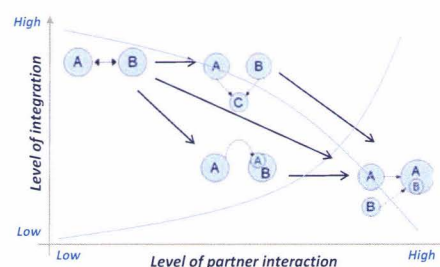


Figure 20; Partnership growth model

### Relatively favourability for cooperation concepts:

There is no general superior strategy for non-organic growth and that meaningful evidence about the performance of different forms of cooperation must take into account the situational context<sup>7</sup>. Strategies for non-organic growth, in terms of various cooperation concepts, can successfully provide access to external resources and utilize synergies. The superiority of one or the other depends on their relative transaction costs and transaction values and is largely determined by contextual factors<sup>7</sup>.

Based on the current theories of the firm existence, the transaction cost theory<sup>35</sup> and the resource based theory<sup>2</sup>, three classifications of characteristics can be specified which influence the relative favourability for cooperation concepts<sup>7</sup>:

- *Company characteristics* - describe the inter-company relationships from the acquirer perspective. It describes the ability to utilize the partner's resources.
- *Environmental characteristics* - describe the external constraints for the most appropriate non-organic growth strategy. The environment influences the company's ability to perform.
- *Transactional characteristics* – describe the specificity of transaction-related investments have a fundamental influence on the cooperation concept selected<sup>36, 37</sup>. These transaction characteristics determine the influence on the specific actions required for the execution of the cooperation.

### Control and strategic flexibility:

The variables of these characteristics can be multiple, yet the implications of those variables are mainly related to the consideration between 'control' and 'strategic flexibility'<sup>7</sup>. Empirical research identified often applied variables for the decision which cooperation concept to apply (figure 21).

The concept of control refers to the process by which one organization influences, to varying degrees, the behaviour and output of another entity through the use of formal or informal mechanisms<sup>19</sup>. Control plays an important role in determining a firm's ability to achieve its strategic objectives, since it affects the organization's ability to monitor, coordinate and integrate the activities of its various business operations<sup>38</sup>.

Strategic flexibility denotes the ability of an organization to respond and successfully adapt to environmental change<sup>39</sup>. Organizations generally improve their chances for being successful in an uncertain environment by creating strategic flexibilities that give them the ability to pursue strategic options in responding to changing environmental conditions<sup>40</sup>. Strategic options require flexibility in resources<sup>41</sup>, where different partners in business activities provide this flexibility.

Both strategies for non-organic growth, acquisition and collaboration, can successfully provide access to external resources and enable the utilization of synergies. Alliances provide advantages in high environmental uncertainty and knowledge dispersion because collaborations provide greater strategic flexibility and foster rapid learning. Acquisitions are superior to alliances in situations with less strategic uncertainty and a lower need for strategic flexibility, and when the transaction aims to make the most efficient utilization of sustaining economies of scale and scope<sup>7</sup>.

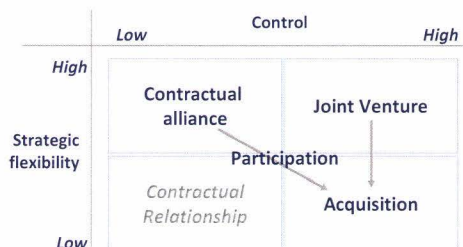


Figure 21; Decision matrix for cooperation

Within the literature of cooperation concepts, the following can be stated;

- Within the variety of cooperation concepts, hierarchy can be indicated. Due to the organizational context of ING RED and the market dynamics, a confined number of concepts of cooperation are taken into consideration (acquisitions, participations, joint ventures and alliances).
- A partnership growth model cooperation concept exists in order to fit the need of the partners participating in the partnership during time.
- A preference for the different forms can be defined, mainly depending on the need for strategic flexibility and the need for control within the partnership.

### 3.4 Identification of partners

Due to the fact that ING RED wants to obtain long-term sustainable growth, the non-organic growth strategy focuses on continuity partnerships. Therefore, not only financial objectives in the short term are regarded, but also continuity objectives are taken into consideration. Obtaining an underpinned fit with a partner and cooperation concepts increases the success rate of long-lasting cooperation based on sustainable growth and continuity.

While an almost unlimited range of alternative criteria may exist, it might be possible to simplify analysis by distinguishing broad categories of these criteria<sup>20</sup>. In literature four main categories are distinguished and translated into the following profiles: strategic, organizational, financial and cultural profile<sup>19, 20, 21</sup>.

- *Strategic profile* is obtained by comparing the ambition both companies have chosen, realized with operational skills and resources. The strategic attributes not only focus on growth but also on innovative activities of the company<sup>19</sup>.
- *Organizational profile* - focuses on the efficiency and effectiveness related issues between companies<sup>19</sup>. It compares how the organizations operate as mechanisms. This fit should demonstrate opportunities for cooperation on an organizational level between ING RED and potential partner.

- *Financial profile* - focuses on aligning the accounting and financial management profile of both companies<sup>20</sup>. The financial alignment indirectly influences the commensurate levels of risk.
- *Cultural profile* - Distinction should be made between corporate culture clash, national culture clash and international culture clash, affecting the success of continuity partnerships<sup>21</sup>.

During the process of partnership formation, the organization must identify what selection criteria should be employed as well as the relative importance of each criteria<sup>19</sup>. The criteria for local partner selection are both extensive and divergent across firms, settings and time<sup>43</sup>.

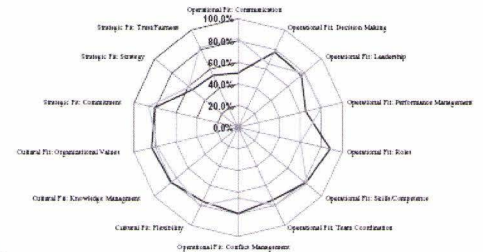


Figure 22; Web diagram for fit analysis

The partner capabilities for cooperation can be summarized in a web diagram, where the objectives and minimal requirements are displayed. The tool can provide support to assess potential partners for a partnership (figure 22)<sup>f</sup>.

To realize a long-lasting cooperation based on sustainable growth, an interactive consideration should be made between the profile of the organization and the joint profile required for the cooperation, resulting in the partner capability profile.

A three-way approach can be argued to define the required capabilities of the partnership and thus the partner within a cooperation concept (figure 23). The capabilities of the organization, the partner and the partnership can be defined, according to the profiles mentioned above.

Three interactions can be specified;

- Joint required features
- Complementary capabilities
- Comparative capabilities

*Joint required features* – define the features ING RED wants to reflect in a partnership and cannot be developed internally.

*Complementary capabilities* – specify the capabilities the potential partner should deliver in the partnership.

*Comparative capabilities* – display the capabilities the potential partner should possess in order to fit in the business model of ING RED.

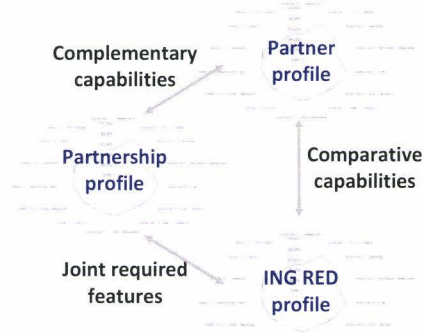


Figure 23; Partnership interaction

By means of ranking and quantifying the indexes of the profile variables, the web diagram can provide insight in the extent to which a potential partner fit in the proposition of the partnership and complies with the ING RED profile.

Regarding the identification of partners, it can be concluded that;

- Four main profile fits can be distinguished in the identification of partners, consisting of unlimited amount of variables. Still, a selection can be made by empirical research. Further specification is required within ING RED.
- To determine the specific profile of a partner, the comparative capabilities and the complementary capabilities need to be determined. The complementary capabilities are determined by specifying the required features for the partnership profile; hereafter the complementary capabilities for the partner can be stated.

<sup>f</sup> Adapted from managing alliances at Lilly (www.Lilly.com)



### 3.5 Strategic framework

Taken into consideration the various theories within literature, a strategic framework (*figure 24*) has been specified, with the key stakeholders of the research, which captures the different aspects of this research and anticipates on a number of basic principles.

The framework is built upon two axes; vertically, difference is made between the corporate level strategy (*positioning*) and the country level decision model (*realization*) to endorse the transnational strategy of ING RED (local responsiveness, global integration).

Horizontally, distinction is made between the three disciplines, business drivers, cooperation concepts and identification of partners, for the proposition and implementation of partnerships. Specific distinction is made to be able to customize partnerships for the ING RED country organizations in order to anticipate on the differences in size and maturity of the ING RED country organizations.

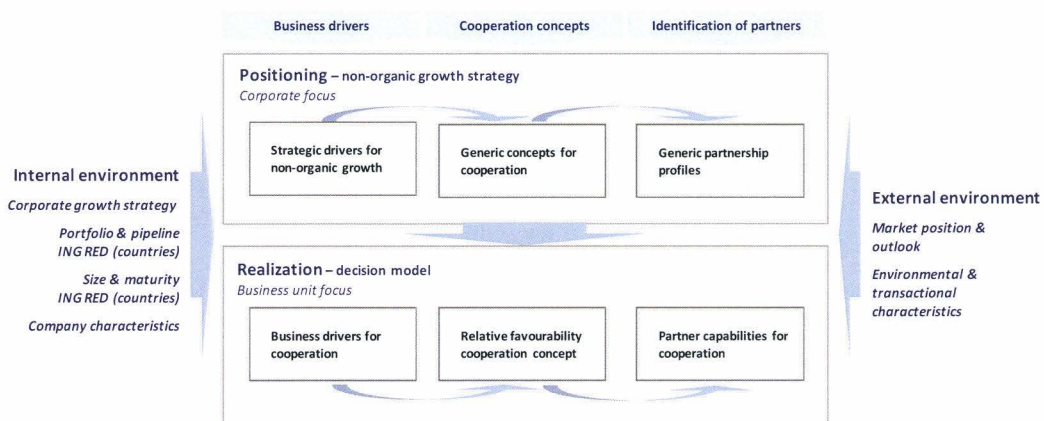


Figure 24; Strategic framework

The objectives of each component and their relation are elaborated.

- *Strategic drivers for non-organic growth* – define the overall objectives of non-organic growth. Provide input for the business drivers for cooperation and the generic concepts for cooperation.
- *Generic concepts for cooperation* – concepts that are developed to realize the objectives of non-organic growth. Between the concepts a relative favourability can be specified within the specific business case. Each generic concept is related to a generic partner profile, which describes the type of partner required.
- *Generic partner profiles* – each profile indicates the type of partner, which is required for a cooperation concept. These generic partnership profiles are the first step to determine the partner capabilities within a business case.
- *Business drivers for cooperation* – the specific objectives and deliverables of the partnership are determined. The business drivers influence the relative favourability of the partnerships.
- *Relative favourability cooperation concept* – articulates the relative most opportune concept for the business case. The selection of cooperation concept affects the capabilities a potential partner should possess.
- *Partner capabilities for cooperation* – the qualitative and quantitative features the partner need to possess within a specific partnership. Initiates the specification of the proposition for the partnership.

*Remark:*

The framework is not process-oriented but specifies the essential aspects for inter-firm cooperation. The structure of the framework is static, but the content is dynamic due to the changing internal and external environment.

### 3.6 Summary

This chapter described the theoretical foundation for the research, with as main result a strategic framework that provides as an approach for non-organic growth.

From an organizational perspective, the combination of global integration and local responsiveness should be maintained in the approach towards non-organic growth. ING RED country organizations are autonomous but vary in size and maturity. The approach should consider both aspects.

Drivers for initiating partnerships for non-organic growth focus towards products and markets in relation to the required investments on the strategy and decision level. Furthermore competitive advantages should be regarded and are the result of a collection of core competences obtained by the organization itself or by its relations with other firms

A variety of cooperation concepts exists, due to the hierarchical contact of ING RED and the market dynamics, the following concepts will be further regarded in this research; acquisitions, participations, joint ventures and contractual alliances. A growth model can be defined between the cooperation concepts, implying that a partnership with another organization can evolve during time; therefore partnerships can be seen as dynamic instead of static. The preference of a cooperation concept is mainly depended on the need for flexibility and the need for control within the partnership.

Four main profile fits, strategic, organizational, financial and cultural can be distinguished in the identification of partners, consisting out of unlimited amount of variables. To determine the specific profile of a partner, the comparative capabilities and the complementary capabilities need to be determined. The complementary capabilities are determined by specifying the required features for the partnership profile; hereafter the complementary capabilities for the partner can be stated.

As a result a strategic framework is developed, distinction is made between:

- **Corporate level** for the positioning of non-organic growth (strategy) and the **country level** for the realization of non-organic growth (decision model) to empower the local responsiveness and global integration approach.
- **Business drivers** to define why a partnership should be initiated, **generic concepts for cooperation** to specify how the partnership is implemented and the **identification of partners** to determine who suitable companies for the partnership are, in order to anticipate on the differences in size and maturity of the ING RED country organizations



*Złote Tarasy, Warsaw, Poland*

## 4 Environmental context

*The environmental context considers the corporate strategic considerations for non-organic growth. Distinction is made between the corporate strategy, SWOT on non-organic growth, the internal composition of the ING RED country organizations and their external growth positions.*

### 4.1 Corporate growth strategy

ING Real Estate has defined a number of strategic themes, which are incorporated in the ING RED's strategic objectives towards the ambition of 2012.

#### **Strategic themes:**

The strategic themes were defined in 2006 and are aligned with the themes of ING RE, for 2008-2010 ING RED added sustainability as an additional theme due to its importance in the industry.

*Accelerated growth* - in order to reach the accelerated growth targets, organic growth in current countries will not be sufficient. Therefore, non-organic growth through partnerships and expansion into new countries is amongst the priorities of ING RED.

*Deepening client relationships* - strengthening the relationship with ING RED's tenants on the one hand and the investors on the other and furthermore satisfying the residential clients. For key retail tenant and key investor relationships key account management has been introduced in the European organization. Other important stakeholders are also involved in this process.

*Innovation* - the environment in which ING RED is operating is highly competitive and is changing rapidly. To achieve the targets, creativity in designing innovative solutions to meet the demands of the global market place is required. This implies develop new product concepts in the business development teams and implementing them in the business.

*Synergies* - new business opportunities by combining knowledge and expertise will be explored. Country platforms capturing all three ING RE business lines need to facilitate this process and pursue a more end user acquisition approach and achieve operational cost benefits.

*Sustainability* - ING RED has the ambition to embrace sustainability as a competitive advantage and integrate it into ING RED's daily business.

#### **Strategic objectives:**

The strategic objectives of ING RED are accentuated to provide further refinement. The objectives anticipate on the internal and external environment of ING RED, elaborated in a SWOT (*appendix 1*).

1. To create sustainable and *accelerated* growth in profit and volume
2. To create a well balanced and diversified portfolio, focused on retail and residential, complemented with offices, industrial and parking
3. To improve the organisation's quality and empower country organisations
4. To integrate risk management in our business-processes
5. To improve the RED brand, support business growth and innovation
6. To *deepen client relationships* and assure development follows investor (and tenant) demand
7. To engage in new business activities (*innovation*), like new products, new markets and land positions, *including synergy possibilities*
8. To become a partner of choice in area development
9. To leverage the organisation's access to knowledge and experience *within ING RED*
10. To improve decision making and financial performance management
11. To incorporate sustainability in our business processes

## 4.2 SWOT on non-organic growth

A SWOT analysis is executed to audit the ING RED organization on non-organic growth within the challenges of the environment (figure 25). The SWOT complements the corporate growth strategy, by providing a more specified analysis of the environmental context.

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>▪ <b>Reputable partner</b> (financial strength, established brand, part of ING Group).</li> <li>▪ <b>Expertise on retail and city residential.</b></li> <li>▪ <b>Pan-European experience</b> with business execution within different cultural backgrounds.</li> <li>▪ <b>Large international client base.</b></li> <li>▪ <b>Dispose of ING Group knowledge.</b></li> <li>▪ <b>Cross cultural mindset</b> and experience of ING people.</li> <li>▪ <b>Improved financial tools</b> for investment proposals.</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>▪ <b>Knowledge regarding partnerships is intangible and mastered by a limited number of people.</b></li> <li>▪ <b>Lack of corporate finance knowledge .</b></li> <li>▪ <b>No specialized dedicated team for partnerships.</b></li> <li>▪ <b>Unclear policy regarding the execution of partnerships,</b> due to the different maturities of country organizations.</li> <li>▪ <b>Reactive opportunistic deal-making instead of strategic proactive</b> (inefficient process).</li> <li>▪ <b>Partnerships are product driven and not client focussed</b> (inward focus).</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>▪ <b>Increasing demand in the capital market for real estate</b> (Pension funds want more return from value add).</li> <li>▪ <b>Improve real estate fundamentals,</b> especially (South)-Eastern Europe.</li> <li>▪ <b>(New) retailers focus on expansion in (new) markets.</b></li> <li>▪ <b>Real estate companies receptive for partnerships</b> due to impact of the credit crunch (short term).</li> <li>▪ <b>Need for innovative real estate concepts,</b> because of increasing complexity of the market.</li> <li>▪ <b>Clients want preferred partners</b> with experience on real estate developments.</li> <li>▪ <b>Formalisation of EU regulation.</b></li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>▪ <b>Delicate relation ING Group and ING RED</b> partly due to the market sentiment.</li> <li>▪ <b>Limited capital in the market / ING Group</b> with as a result increased competition for 'real estate' capital.</li> <li>▪ <b>Deepening competition,</b> market is getting divided</li> <li>▪ <b>Increasing construction costs,</b> power of construction companies.</li> <li>▪ <b>Decreasing human resource availability.</b></li> </ul>

Figure 25; SWOT on non-organic growth

From each element in the SWOT key issues could be defined, providing the most important issues relevant for non-organic growth and the resulting partnerships.

### Strength – Experience

- ING RED is perceived as an experienced and reputable partner, with a pan-European footprint and outstanding results in retail and city residential developments. ING people have a cross cultural mindset which enables them to outperform in cross-border business.

### Weaknesses – Knowledge and Policy

- Knowledge regarding partnerships is limited, especially the possibilities of finance structures. Only a limited number of people master this expertise and a dedicated team is absent.
- There is no clear policy regarding partnerships with as a result that a relatively reactive opportunistic deal making approach instead of a strategic proactive. Partnerships are now internally focused and product driven, the client needs are not considered.

### Opportunities – Demand and Innovation

- Increasing demand for real estate developments, pension funds want more return of their investments and invest in real estate. Furthermore real estate fundamentals increase especially in (south)-Eastern Europe as a result of retailers which focus on expansion.
- The real estate market is getting more complex, resulting in the need for new innovative real estate concepts. Those concepts can only be developed by research-intensive developers with available resources and capacity.

### Threat – Competition

- Competition is getting more complex for obtaining capital in the market for real estate developments, subsequent competition for developments is also deepened. The competition for human resources is intensified due to a lack of qualified employees in the market.

### 4.3 Composition of the country organizations

This paragraph provides more insight is provided in the markets and segments ING RED is operating in. The country organizations in Australia and United states are not considered, due to the fact that these countries are managed by the business line ING Real Estate Investment Management.

#### Segmentation of the portfolio:

The current portfolio of ING RED is analyzed and broken down based on geographical market (figure 26) and real estate type (figure 27)<sup>g</sup>. This segmentation provides insight in the allocation of resources and the relationships between country organizations.

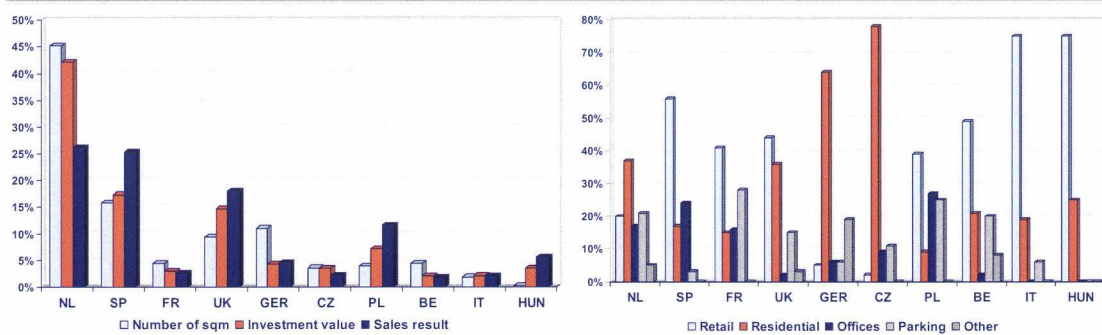


Figure 26; Country portfolio<sup>h</sup>

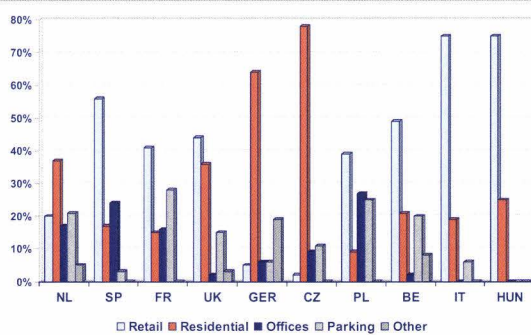


Figure 27; Segmentation by asset type (based on sqm)

#### Contribution to the financial performance:

Three parameters are regarded, representing a general view of the (financial) position of the different country organization within ING RED (figure 28);

- Investment value – the value of property developments within an ING RED country organization.
- Sales result – the sales revenues realized within ING RED country organizations.
- ROI – annual return on investment, relation of investment values divided by the sales results.

Although a representation is given of the financial performance of the country organizations, a critical note is that the investment value and sales result can fluctuate drastically every year, due to the fact that an additional acquisition or sales of a property project can result in substantial differences in the performance of the country organization, especially in smaller country organizations.

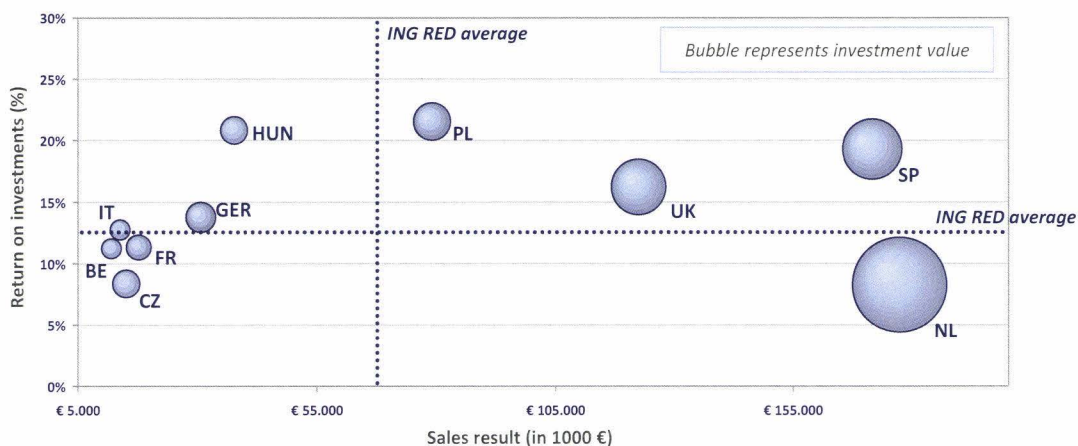


Figure 28; ROI, investment value and sales results

<sup>g</sup> Figures are indicative based on the strategy discussion document of 2006

<sup>h</sup> Explanation of the abbreviations of the ING RED countries can be found in appendix 2

**Size and maturity:**

The theory of Greiner acknowledges the relationship between size of the company and maturity of the organization<sup>24</sup>. Sustainable growth is obtained when a balance exists between both parameters. As an extension to the country typologies of ING RED, research has been conducted to define the country growth positions in relation to their growth segment (figure 29)<sup>44</sup>.

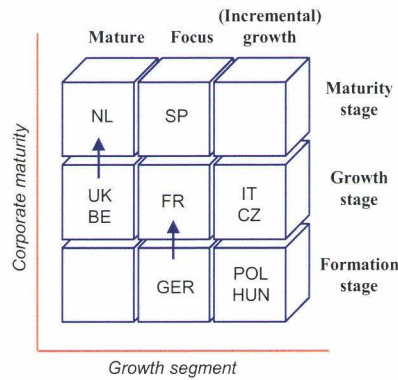


Figure 29; Corporate maturity vs. growth segment<sup>i</sup>

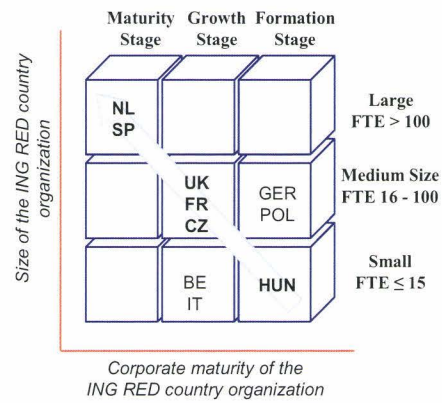


Figure 30; Size vs. corporate maturity

When combining the corporate maturity and the size of the ING RED country organizations, the relation between the quantitative and qualitative growth stage is obtained (figure 30). In an ideal situation the size of the organizations develops according to the stage of maturity<sup>24</sup>. Organizations with a rather large size and early mature stage capture a surplus of capital in relation to their effectiveness, which implies from an internal perspective that a relative ineffectiveness of resources exists. Countries with a rather small size and more mature status could effectively expand, meaning that their maturity remains or improves. New countries are not considered because no statement can be made regarding size and maturity of organizations.

**4.4 Relative non-organic growth position**

To specify the relative non-organic growth potential (external perspective), the position of each country is derived from the relative growth position. This growth position represents the relative potential applicability of the realization of non-organic growth within an ING RED country organization.

Two factors are applied, to determine the attractiveness of non-organic growth;

- *Ease of capture:* relative ease non-organic growth can be realized
- *Size of value:* additional market value that can be captured

**Ease of capture:**

From the selected criteria in the relative growth position<sup>j</sup>, two factors are considered as relevant for non-organic growth; internal resources and external market competition (figure 31).

Criteria	Definition	Valuation
Resources (internal) (quality, availability)	Existing countries: capacity and quantity of current key people (management, developers, researchers) New countries: availability of good staff to ING RED	Existing High = capacity exists/team can absorb growth; New High = availability
Market competition (external)	Extent to which ING RED can utilise its position in gaining market share • Product / industry sophistication • RED competitive position • Market fragmentation	High = High product sophistication, strong current position, many relatively small competitors

Figure 31; Ease of capture for non-organic growth

<sup>i</sup> Arrows represent the organizational development of the specific countries

<sup>j</sup> The relative growth position was applied for the strategic reorientation of ING RED

Internal resources define the ability of an organization / people to successfully implement and execute partnerships. Quality of staff ensures that a partnership is actively managed and controlled. The latest stage of Greiner supports this assumption and argues that a mature organization is better prepared for partnerships than a start-up company<sup>24</sup>.

External market competition provides insight in the extent to which ING RED can enforce additional position in the market and thus is able to realize non-organic growth. A mature market with many competitors provides good opportunities to proactively realize non-organic growth due to its stable outlook and various options for partner selection.

**Size of value:**

The size of value represents the potential additional market value that can be captured, by means of calculating three factors (figure 32):

- Total development market size in a country
- Average development project profitability (ROI) per segment in a country
- Forecasted market share (2012) competitors of ING RED country organization

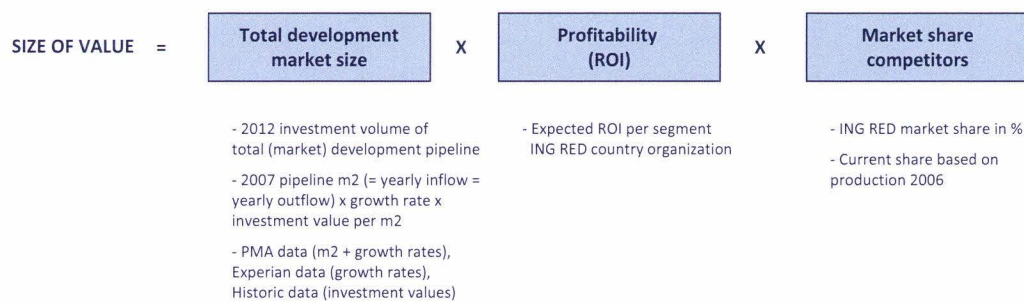


Figure 32; Size of value for non-organic growth

The size of value calculates the maximum additional absolute profit that can be obtained by ING RED. This implies that in this optimal situation ING RED has 100% market share. Although it is unrealistic that ING RED will realize this position, the size of value compares the potential additional market sizes of the ING RED country organizations, where within a large market it is relatively easier to obtain additional market share than in a smaller market.

**Relative non-organic growth position:**

The ease of capture and the size of value provide insight in the relative attractive markets (country organizations) for non-organic growth expansion. Besides the current ING RED countries, also other countries are integrated which have the attention of the ING RED management board (figure 33)<sup>k</sup>.

The analysis specifies which countries show the best opportunities for non-organic expansion. The size of value displays the additional profit that can be obtained, while the ease of capture implies which countries have substantial opportunity for non-organic growth.

On a general level Spain and France both have a progressive position for non-organic growth. Germany has a large opportunity but lacks the ease of capture; organic growth could therefore be an alternative. The ease of capture of some other countries also motivates the realization of non-organic growth (BE, NL, PL, IT).

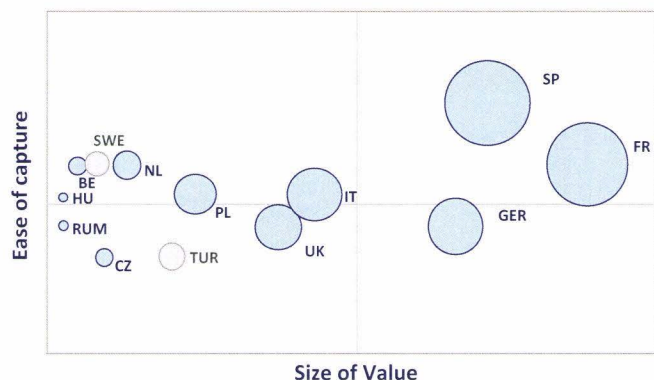


Figure 33; Relative non-organic growth position

<sup>k</sup> The data of the analysis is provided in appendix 3



Further analysis on real estate segments has been performed to obtain more insights in the positions of the different real estate segments and their mutual relationship (figure 34).

- **Residential** – has relatively the largest size of value and therefore has the most influence on the general non-organic growth position. Spain and France show the best opportunities in this segment.
- **Retail** – Italy shows a large retail potential, but a below average ease of capture. Spain shows a better opportunity for further non-organic growth, together with France and the Netherlands.
- **Offices** – The office market is quite diversified. UK has the value potential but lacks ease of capture. Spain shows the best opportunities for further growth.

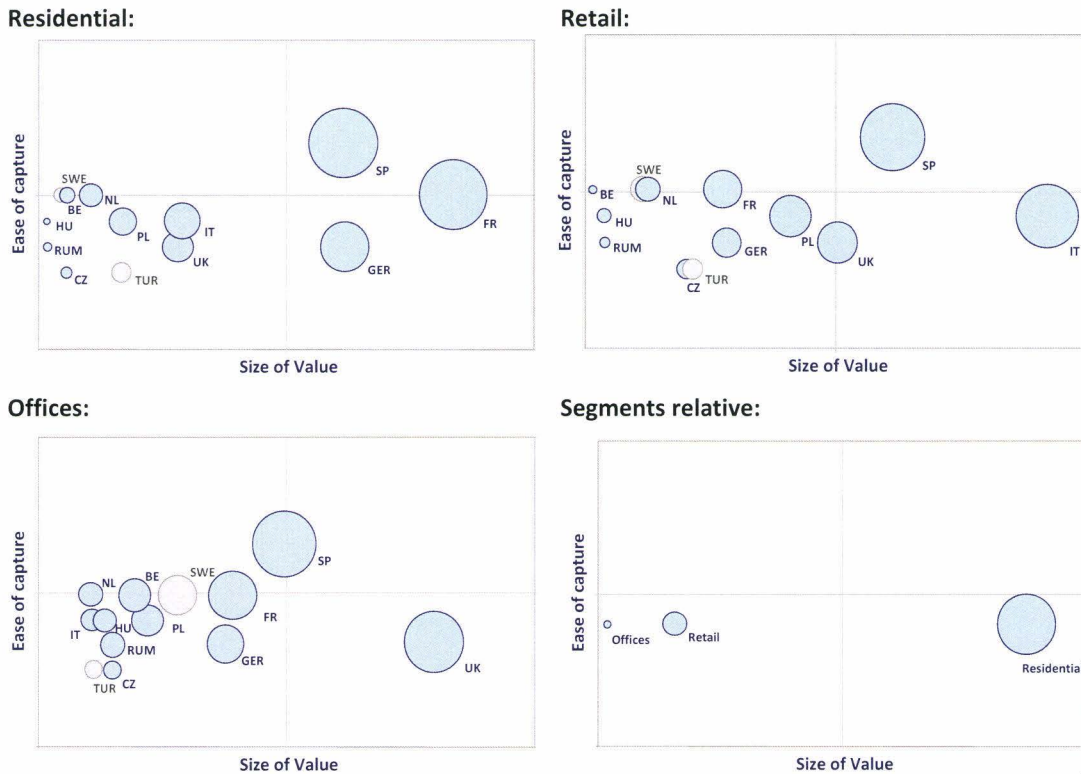


Figure 34; Relative non-organic growth positions<sup>1</sup>

**Key remark:**

The value of the analysis specified above is discussable. Although the applied method provides a good starting point for determining the relative non-organic growth position, the current used data has its limitations. First of all, the method is applied before the effects of the credit crunch were notable on the real estate sector, so it is unknown how the credit crunch affects the relative non organic growth position. Secondly, the ease of capture is a pure qualitative measurement, based on the opinions of a limited amount of experts. Thirdly, the size of value represents an indicative figure, largely dependent on the total size of the real estate market in the countries. A more realistic figure could be obtained by estimating which additional market share could be obtained when execution an acquisition. In the end the size of value would remain a quantitative figure based on qualitative input of experts.

In conclusion; the relative non-organic position provides an opportunity in the future to decide which country organizations have the best opportunity for non-organic growth. At this moment further elaboration of the model is needed which is not feasible within this research. The variables and the input data have to be further refined and updated. Therefore, the relative non-organic growth position will be considered as an indicative input for the non-organic growth strategy.

<sup>1</sup> The segments are not comparable; each graph displays relative positions of the countries within a segment. The mutual relationship between segments is provided in the last graph.

## 4.5 Summary

The provided analyses provide insight in the internal and external position of ING RED. It considered the corporate growth strategy of ING RED, complemented with a specific SWOT on non-organic growth. The composition of the ING RED country organizations and real estate types was analyzed from an internal perspective and their external position for non-organic growth was determined.

The environmental context can be divided in two main contexts:

- *The corporate context* – describing the overall position of ING RED regarding non-organic growth from a general corporate perspective.
- *The product-market context* – defining the specific internal and external influences on non-organic growth from a product-market perspective.

### **The corporate context:**

Market conditions, particularly the credit crunch, in Europe have clearly changed dramatically over the course of the last months<sup>m</sup>; this has affected the corporate strategy and position of ING RED.

The market conditions influences ING RED mainly in two ways;

1. During uncertain market situations it is hard for an opportunistic real estate developer as ING RED to obtain additional capital for (non-organic) growth investments from a conservative bank and insurance company as ING Group.
2. The real estate market faces limited capital for developments in the market, therefore real estate developers get into difficulties with as a result that real estate is again perceived as a risky asset class.

Although market conditions affect the position of ING RED, the corporate direction needs to be maintained in order to face future challenges. Most important for ING RED in general is to realize additional (profit) growth, innovate to stay ahead of the market and to deepen client relationships internally (within ING RE) and externally (investors and tenants).

A SWOT on non-organic growth has been elaborated to define the position of ING RED, which can be categorized into a number of key issues:

- *Strength* – ING Red is perceived as an experienced and reputable pan-European partner
- *Weaknesses* – Limited knowledge regarding non-organic growth and no clear defined policy
- *Opportunities* – demand for real estate development is increasing and there is a need for innovative real estate concepts which can be realized by ING RED.
- *Threats* – Competition is getting more complex for obtaining capital, acquiring real estate developments and to attract qualified human resources.

### **Product-market context:**

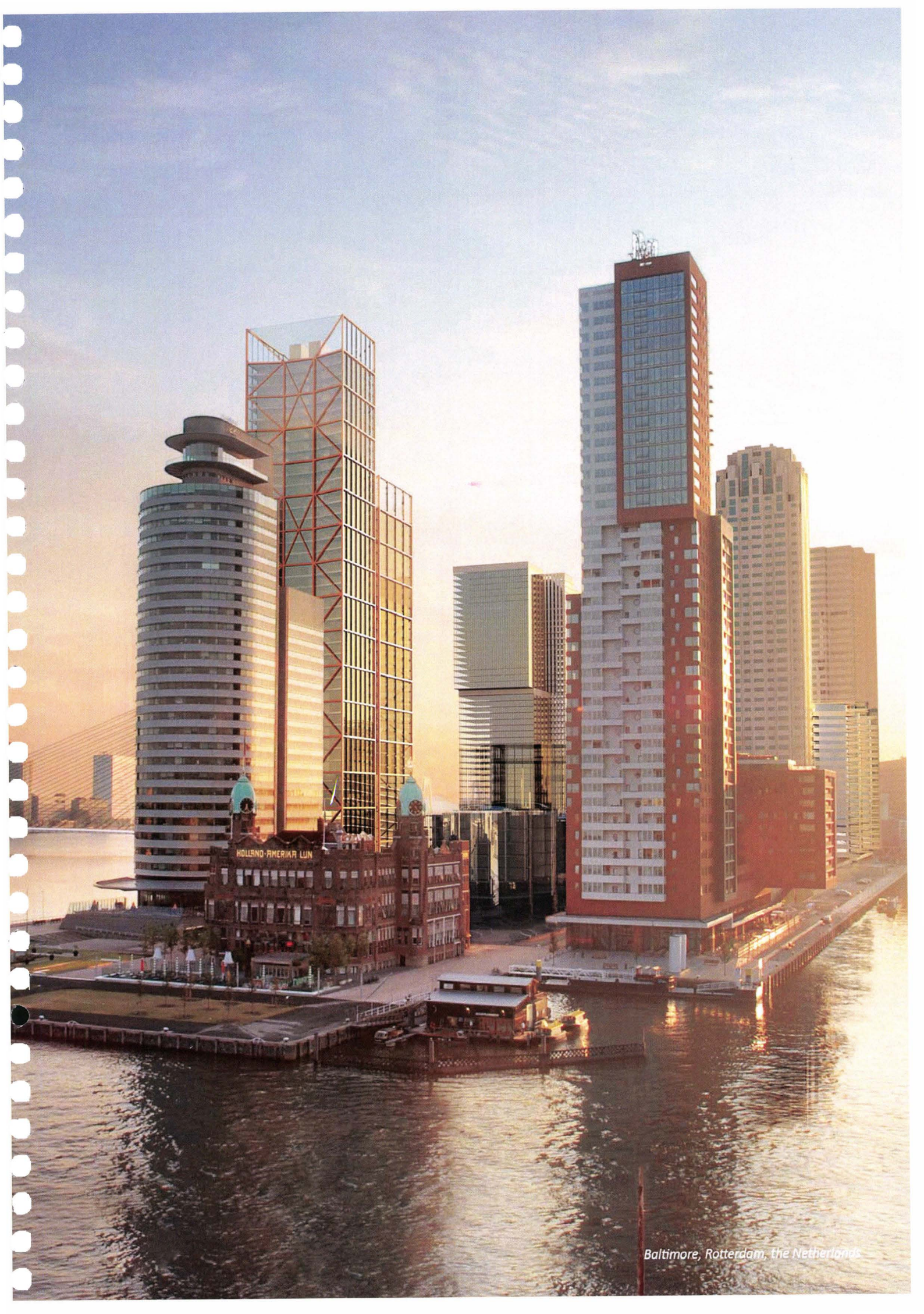
The outlook for real estate fundamentals and returns varies by geography and by property type. Such an outlook offers considerable potential for balanced global portfolios to weigh consideration of investment risk and return with issues of diversification<sup>n</sup>.

The portfolio of ING RED is based on the Netherlands and Spain (50% of investment value, 51% of sales result) and on residential and retail (65% of sqm). France, Germany and the U.K. have the potential for further growth (22% of current investment value) due to their attractive markets and formation stages. The relative non-organic growth position is most positive for Spain and France, especially in the residential segment. Other countries, the Netherlands, Belgium, and Sweden show also opportunities to non-organically expansion. U.K., Germany and Italy have the required size of value to acquire, but encounter difficulties for the realization of non-organic growth.

*Key remark: the applied data to determine the product-market context can only be considered as indicative figures due to unsecure data and methods. Additional analyzes and method development is needed, still these analyzes provide insight in the general position of the countries organizations.*

<sup>m</sup> Cushman & Wakefield – Market beat annual review 07/08

<sup>n</sup> Adapted from the ING Real Estate global vision 2008



*Baltimore, Rotterdam, the Netherlands*

## 5 Strategy for non-organic growth

Based on the environmental context and the strategic framework, the corporate strategy for non-organic growth is elaborated. Initially a confrontation matrix describes the non-organic growth strategic focus areas, subsequent the strategic drivers, the preferred generic cooperation concepts and the generic partner profiles are defined.

### 5.1 Confrontation matrix

Based on the environmental context a confrontation matrix has been specified to identify the strategic focus themes for non-organic growth (figure 35). All quadrants of the SWOT on non-organic growth are combined, resulting in four types of focus;

- *Exploit* – apply strengths to benefit from opportunities.
- *Adjust* – use strengths to anticipate on possible threats.
- *Improve* – reform weaknesses to be able to capture opportunities.
- *Survive* – enhance weaknesses to be in position to prevent threats.

<p><b>Exploit (strength &amp; opportunity)</b></p> <ol style="list-style-type: none"> <li>1. Proactively approach real estate developers</li> <li>2. Cooperate for the realization of innovative real estate concepts</li> <li>3. Joint expansion with existing clients</li> <li>4. Stimulate the capital market through ING Group</li> </ol>	<p><b>Adjust (strength &amp; threat)</b></p> <ol style="list-style-type: none"> <li>5. Acquisition of HR capacity</li> <li>6. Smarter finance engineering to access new capital</li> <li>7. Broaden / Deepening expertise to stay ahead of the market (enlarge the value chain)</li> </ol>
<p><b>Improve (weakness &amp; opportunity)</b></p> <ol style="list-style-type: none"> <li>8. Organize dedicated partnership resources</li> <li>9. Involve clients during non-organic growth considerations</li> <li>10. Set-up partnerships with clients for joint business development</li> </ol>	<p><b>Survive (weakness &amp; threat)</b></p> <ol style="list-style-type: none"> <li>11. Strengthen financing competences</li> </ol>

Figure 35; Confrontation matrix on non-organic growth

From this confrontation matrix, four distinctive focus areas can be defined, existing of a combination of the above provided confrontation matrix. The first two focus areas are directly related to the strategy, the other two are related to conditions for non-organic growth.

#### **Deepen development expertise: (1, 2, 5, 7)**

The strength of ING RED is their thorough expertise on real estate developments and their leading position in the real estate market. Due to the increased complexity of the competition and to maintain their position, ING RED should broaden and deepen their expertise to stay ahead of the market. Their expertise can be expanded by proactively approach and partner with real estate developers with specific knowledge within long-term attractive markets and segments and with the condition that high qualitative human resources are attracted. Furthermore partnerships with companies in (non-related) industries will support for the realization of innovative real estate concepts in order to anticipate on the changing needs of clients.

#### **Intensify client involvement: (3, 9, 10)**

Traditionally, ING RED has an inward focus towards the realization of real estate developments and 'pushing' their projects into the market. ING RED can more proactively interact with clients during non-organic growth considerations to create more support for partnerships. First of all, existing 'key'(international) clients can be involved during non-organic growth considerations, to identify if the expansion is viable because of clients (investors/tenants) having the same expansion considerations. ING RED has a large retail base of (international) clients to benchmark with. Secondly, joint expansion with (new) clients in (new) markets, ING RED can be a facilitator for their client's growth aspirations. If the demand is substantial it will be worth expanding in regions that are within the client's interest.

Lastly, investors want to increase their returns and are prepared to accept higher risks. Joint business development with investors could create an interesting product for clients, while ING RED decreases their investments at risk. Furthermore the sales of development projects will be relatively easier because the investor is already involved. Besides developments from scratch, the joint business can also consist out of re-development funds, where current properties are redeveloped to increase the value of the property.

**Strengthen finance engineering: (4, 6)**

Recent equity partnerships were executed with capital of ING RED, which implies that for each partnership substantial amounts of capital were necessary to be able to conclude the partnership. The current situation of the (real estate) capital market makes it difficult for ING RED to obtain approvals from ING Group to further invest in non-organic growth. By means of smarter finance constructions with third parties (e.g. investors) the necessary capital can be attracted. Also the business relations of ING Group can be approached to obtain additional capital (e.g. ING investment banking).

**Organize dedicated resources: (8, 11)**

At the moment all non-organic growth considerations are reviewed by the management board of ING RED, but all the preparations are assigned to a business consultant and a business controller. The preparations are time consuming and have to be executed besides current activities and are always a reaction on an opportunity. To be able to proactively consider the various opportunities for partnership, dedicated resources (mostly people) should be assigned for partnerships. Subsequent these people should be trained to prepare and execute partnerships.

**5.2 Strategic drivers for non-organic growth**

Non-organic growth has mainly an economic-based and strategy-based view, focused on economic efficiency and sustainable competitive advantage<sup>13,16</sup>. Subsequent, based on the client needs and the confrontation matrix, three strategic drivers for non-organic growth can be defined:

1. *Investments in strategic markets* – increase the investment value in strategic markets, which provide considerable growth opportunities and healthy profit levels. Besides profit it will also provide broader and deepened knowledge of the real estate market, which enables ING RED to improve their proposition towards clients (penetration).
2. *Joint business development* – explore new business opportunities with clients to access additional markets and capital to reduce investment costs. Goal is to share the risks when engaging in new business opportunities and to provide clients support in their expansion (market development).
3. *Development of innovative real estate* – evolve new business concepts for the real estate market, anticipating on the changing needs of clients. Aim is to attract capabilities which cannot be possessed or attracted within time limits by ING RED, but will allow ING RED to develop new real estate concepts that will anticipate on the changing market conditions (product development).

**Product-market investment decision:**

The three strategic drivers can be classified according to the product market combinations (PMC) of Ansoff (figure 36). Each driver anticipates on a different PMC. Expansion will further penetrate the market and strengthen ING RED’s European coverage on the real estate market. Joint business development has the intention of market development, while development of innovative real estate focuses on new product development. The investment focus is aimed to foster growth, but will vary per driver. The required investments are also heavily dependent on the cooperation concept applied within the partnership.

	Existing products	New products
Existing markets	Investments in strategic markets (Penetration)	Development of innovative real estate (Product development)
New markets	Joint business development (market development)	(Diversification)

Figure 36; Non-geographical PMC’s ING RED

When regarding the PMC from a geographical approach some recommendations can be made, but further analysis is required. For investments in strategic markets the mature and focus countries provide opportunities, especially France and Spain. Considering that Spain already has a substantial share in the ING RED portfolio, France would be the preferred choice. Furthermore Netherlands and Belgium have the ability to non-organically expand, but have a relative lower size of value.

Joint business development is not necessarily bounded to a country or region, but can be executed in all ING RED countries; the demand of the investor/tenant is leading. In general, joint business development has the most value for both ING RED and their clients (investors) when business is developed in a relatively unknown market for both organizations. This will equate the partnership and also will have the most impact on both organizations. For the development of innovative real estate, mature markets with mature organizations are needed in order to be able to facilitate the innovation process. Need for innovation arises when markets are mature and prepare for a market transition. Organizations need to be mature to be able to facilitate the process of product innovation. The Netherlands is the most mature organization with a mature market that would be able to realize this kind of innovations. Spain as the second home market in a mature market with a large organization would also be able to foster innovation.

Regarding to new countries, two out of three business drivers would be valid motives for new country expansion. Investing in a local organization in a new country will lead to local market knowledge and network and will result in market position within a short term time period. The risk exists that ING RED would be perceived as a partner for financial benefits and exploited because of their expertise. Important is to focus on mutual benefits. Joint business development with an investor in a new country would share the risk of entry and is focused on long-term benefits, increasing the chance of successful market entry. Downside is that the country entry would be time consuming, because market knowledge and networks need to be build up from scratch. The Nordics, Russia and Turkey have the attention of the management board and would be logic countries to expand, but no objective judgments can be made. The relative non-organic growth position shows an attractive ease of capture for Sweden, but further research is required.

#### Competitive advantages:

Regarding the competitive advantages, a distinction can be made between advantages to be further exploited and to be further developed, in terms of core competences and unique resources. Advantages are competitive when they are better than the competitors and difficult to imitate<sup>11</sup>.

ING RED perceives a differentiation strategy - to be unique in its industry along some dimensions that are widely appreciated by buyers<sup>18</sup>. A differentiator can not ignore its cost position. In all areas that do not affect its differentiation it should try to decrease the costs and should at least be lower than the price premium it receives from the buyers (figure 37)<sup>11</sup>. Crucial to a strategy of differentiation is the understanding of customers' needs and the ability to build appropriate product or service features<sup>11,45</sup>.



Figure 37; ING RED competitive strategy

Currently, the following advantages can be perceived within ING RED, which makes ING RED an attractive company for a partnership. These advantages are derived from the SWOT, but selected on their distinctive qualities.

- *Reputable partner* – due to its financial strength, coverage of the ING Group and an established brand throughout the world. Partners are confident that a partnership with ING RED will be based on continuity and long-term benefits.
- *Expertise on retail and city residential* – ING RED has a very structured and disciplined approach to execute real estate developments, complemented with thorough research capabilities to analyze and judge the potential of real estate projects. Partners can learn from the ING way of project development.
- *Pan-European experience* – the international experience of ING RED ensures that adaptability exists when local/cultural difficulties occur. Partners will trust on the cross cultural mindset of ING people within the cooperation.

The most important competence to be further developed by ING RED is the focus towards its clients, to anticipate on their changing need and changing market conditions, when market transitions occur.

- *Client focus* – the changing market conditions imply that real estate developers like ING RED have to pay more attention to the needs of the client. Objective is to involve the client throughout development process.

### 5.3 Generic concepts for cooperation

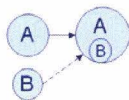
With the strategic drivers as a starting point, the cooperation concepts can be allocated. The assigned concepts anticipate on the objectives by means of providing an organizational structure, which contribute to the proposition of partnerships. The concepts can be regarded as corporate preferred concepts for the realization of non-organic growth, on partnership level the actual cooperation concept need to be determined and can vary from the articulated preference.

For each strategic driver, the need for control and the need for strategic flexibility are valued to determine the relative favourability for the cooperation concepts (section 3.3). Based on this relative favourability the preferred generic cooperation concepts per strategic driver are defined (figure 38). Motivation is based on the relative favourability and interviews held during the research. In addition, per strategic driver the alternative partnership concepts are discussed.

	Low	Control	High
High	Contractual alliance Development of innovative real estate	Participation	Joint Venture Joint business development
Low	Contractual relationship		Investments in strategic markets Acquisition

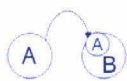
Figure 38; Favourability strategic drivers

#### 1. Acquisitions in strategic markets:



An acquisition will ensure the disposal of local market knowledge and management<sup>12</sup>. The developed expertise possessed by the target company can be shared, instead of making efforts to develop internally<sup>11</sup>. Within the real estate industry the knowledge regarding the market and social networks is difficult to develop, especially within some countries where the social ties are very close and personal. Furthermore the competition in a country/region will decrease and a competitive position can be obtained from the start<sup>12, 34</sup>.

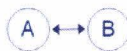
An acquisition will ensure that ING RED can quickly obtain a market share within a strategic market and can exploit the current identified opportunities in this market<sup>46</sup>. Strategic flexibility is less important because the markets are strategic and thus provide solid opportunities to expand in, more important are the potential realization of economies of scale and scope<sup>34</sup>.



*Alternatives: participations and alliances*

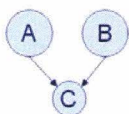
To reduce the amount of capital required for an acquisition and to have some strategic flexibility in the beginning of the partnership, a participation can be considered.

A participation will ensure a strategic position in a market and will enable ING RED to absorb knowledge from the partner. When expectations are met, ING RED could proceed with full acquisition of the target.



When capital is scarce or when the target is not prepared to sell an equity stake, an alliance could secure a position in a country/region. Arrangements can be made for a project-by-project cooperation. In a later stage and better conditions the partnership could result in an equity driven cooperation.

#### 2. Joint ventures for joint business development:



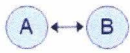
A joint venture will realize a better spread of the risk due to the fact that the investments are smaller<sup>10, 11, 12, 14</sup>. It provides an opportunity to combine complementing resources and knowhow, in order to obtain a weak or missing capability<sup>10, 11, 12, 14, 32</sup>. ING RED will be able to further expand and/or invest in its portfolio with the support of investors/tenants who are willing to take more risk to achieve higher returns. In this way it allows ING RED to realize further growth when it is unable to bring in the necessary financial resources for this growth<sup>30</sup>.



*Alternative: alliances*

To avoid the additional legal entity that is required for a joint venture and to simplify the partnership governance an alliance can be considered. Within the alliance agreement all the details of business development need to be determined. The downside of the alliance is that it is harder to secure the complexity of the agreement. A different legal entity provides more transparency. An alliance could also be the first intention of joint business development, converted into a joint venture when actual business is performed.

### 3. Alliances to realize innovative real estate:



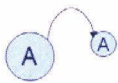
An alliance will access services, technology and knowledge of the partner, without paying a premium price<sup>10, 11, 32</sup>. Risks and responsibilities are shared and the time for the development of the innovation is shortened<sup>10, 34</sup>. ING RED can still focus on their core business, real estate developments, while additional capabilities are possessed<sup>10, 11</sup>. Due to the specificity of the real estate industry, non-core business activities are more difficult to manage by the employees of ING RED.

Without an alliance the market opportunities could not be utilized by ING RED and it provides ING RED with more degrees of freedom than when a non-core related organization would be acquired<sup>10, 32</sup>. Due to the structure of alliances, mutual dependency and no fixed hierarchy, an increased innovation performance can be achieved<sup>34</sup>.

#### Alternative partnerships

Innovation can be obtained also by other cooperation concepts, but when considering the focus of ING RED – differentiation, to be unique in its industry along some dimensions, it would not be advisable to invest in non-core business activities.

### 'Greenfield' investments vs. partnerships:



Some short statements will be made regarding 'greenfield' investments as an alternative method for each of the three strategic drivers. A 'greenfield' investment will keep ING RED in control regarding the investments, the organizational culture and management style<sup>11, 30, 46</sup>. On the other hand, the returns of the investment are unknown, unforeseen costs occur, it is a time consuming process and no new knowledge is acquired by ING RED<sup>11, 18, 34, 46</sup>.

For investments in current strategic markets, 'greenfield' could be an alternative method for ING RED in current geographical markets. To enter new markets (countries/regions), 'greenfield' would be less effective due to the fact that business is very local, so market knowledge and social ties would be essential. It would be to time consuming to enter countries/regions before desired returns are obtained (example; ING RED Rumania).

Joint business development is aimed to cooperate in order to realize opportunities which cannot be captured in a solo venture<sup>10</sup>. For this strategic driver 'greenfield' investment is not an alternative, because it is build upon partnerships with clients.

Development of innovative real estate, ING RED is able to develop new concepts (new beginners) but to achieve real innovative solution non-core capabilities should be attracted to realize co-specialization<sup>10, 11</sup>, otherwise the concepts will result in value which is not perceived by the client.

### Partnership growth model:

The total overview of the generic cooperation concepts is elaborated, displaying the different cooperation concepts and strategic drivers (figure 39). The arrows represent the possible advancements of partnerships, depending on the three specified drivers. The routing is not obliged to succeed. In general the higher the level of integration, more capital is required, but the potential direct returns are also higher. An increase of the level of interaction implies more management attention required to successfully evolve the partnership, while flexibility is maintained.

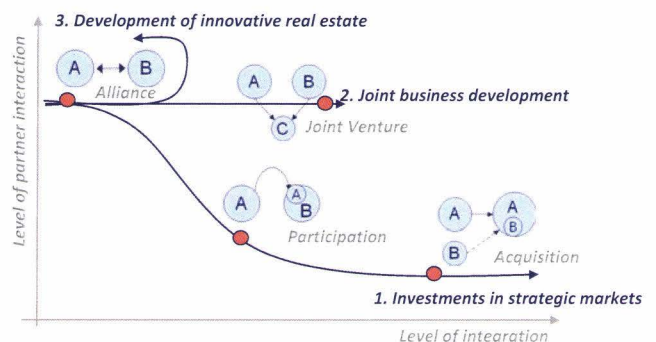


Figure 39; ING RED partnership growth model



## 5.4 Generic partnership profiles

Based on the four profile categories that can be distinguished to identify partners for cooperation, the relative importance of these categories is determined in relation to the cooperation concepts (section 3.4). Subsequent per strategic driver a generic partner profile is described to provide focus for the selection of partners.

### Relative importance of partner profiles:

Each cooperation concept has a different partner profile due to the difference of interactions with the partners and the objectives of the partnership. The focus categories per cooperation concept are displayed (figure 40). Further elaboration of the variables will take place on the country level and is facilitated in the decision model.

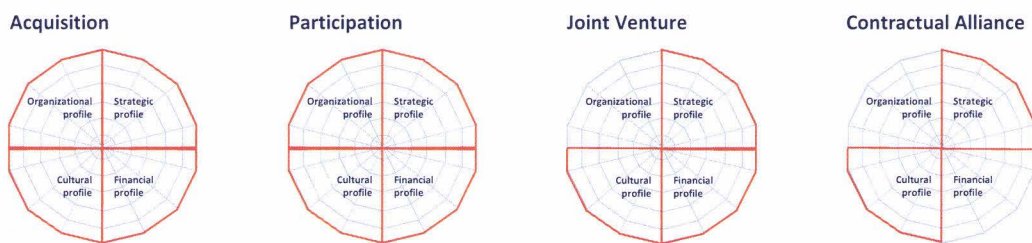


Figure 40; Profiles focus per cooperation concept

#### Acquisition:

An acquisition is the concept of non-organic growth with the most impact. Eventually the target company will become one of the subsidiaries of ING RED, therefore all partner profiles must be equally considered. The organizational profile need to provide insight in the potential synergies, the strategic profile to determine if shared directions are pursued. Financial profile is applied to examine if the target company is compliant with the financial standards of ING, in the current market turmoil also organizations in financial trouble can be interesting due to the financial strength of ING RED, as long as the portfolio is healthy. The cultural profile regards the organizational values of the company.

#### Participation:

Considering the partnership growth model, the cooperation concept participation is the most logic predecessor of an acquisition. The same level of focus is required, because the difference between the cooperation concepts is the level of investments and the level of control. Participations are often intermediates for an acquisition and the potential for an acquisition want to be known from the beginning.

#### Joint Venture:

The essential element of a joint venture is the creation of a new legal entity. The organizational profile is less important because a new organization is set up. Other partner profiles are relevant under the same conditions as previously mentioned by acquisitions.

#### Contractual alliance:

Within a contractual alliance, primarily non related capabilities of the organizations are combined to create and develop new competitive advantages in the market. The development implies the importance of the strategic profile for a contractual alliance. The cultural profile is also considered, because the success of partnerships is eventually determined by the willingness of people to cooperate.

### 1. Investments in strategic markets – Partners with real estate developers:

To increase the investment volume in strategic markets with acquisitions, real estate developers are the preferred partners. The similar core business will increase the economies of scale by means of synergies and will deliver a direct contribution to the profit growth.

The targeted real estate segments are retail and residential, complemented with area developments, it will further deepen the expertise of ING RED and is aligned with the corporate strategy.

The reputation of ING RED in the market need to be preserved, potential targets for acquisitions will also need to have a reputable image in the market and within social networks.

## **2. Joint business development – Partner with teal estate investors:**

To realize joint business development with a partner, a mutual market ambition should exist to create a shared direction. The partner needs to be a (new) client of ING RED with a related core process so mutual value can be obtained. The market demand from the client needs to be realistic in terms of guaranteed acquisition of the property development.

## **3. Development of innovative real estate – Partners with service providers:**

The favoured innovation by the clients focuses on additional services within their living, working or shopping environment. These services can be various, but should be available on (inter)national level because of ING RED's geographical spread and in order to reduce the number of cooperation agreements required. The product of the service providers should enhance the product base of ING RED and should be interacting with the core process, to ensure that the additional services are perceived as additional value. The core process of the partner should be different to create a innovative product.

## **5.5 Summary**

The confrontation matrix revealed four distinctive focus areas for non-organic growth:

- *Deepen development expertise* – strengthen the expertise of real estate developments to maintain the leading position of ING RED in the market.
- *Intensify client involvement* – proactively involve clients during non-organic growth considerations and eventually initiate joint development projects.
- *Strengthen finance engineering* – develop smarter finance constructions to realize non-organic growth with limited amounts of capital.
- *Organize dedicated resources* – set up a team of experts on non-organic growth who are able to proactively facilitate partnerships propositions.

Based on the client needs and the confrontation matrix, three strategic drivers for non-organic growth were defined:

### **1. Investments in strategic markets:**

Increase the investment value in strategic markets, which provide considerable growth opportunities and healthy profit levels. Besides profit it will also increase provide broader and deepened knowledge of the real estate market, which enables ING RED to improve their offer towards clients (penetration).

- Concept: Acquisitions (*alternative participations, alliances*)
- Profile focus: Strategic, organizational, financial and cultural profile
- Partner profile: Regional/national real estate developer  
Focus on retail, residential and area developments  
Reputable partner

### **2. Joint business development:**

Explore new business opportunities with clients to access additional capital and reduce investment costs. Goal is to share the risks when engaging in new business opportunities and to provide clients support in their expansion (market development).

- Concept: Joint ventures (*alternative alliances*)
- Profile focus: Strategic, financial and cultural profile
- Partner profile: Similar (geographical) target markets  
Support the core process  
Active within the value chain

### **3. Development of innovative real estate:**

Evolve new business concepts for the real estate market, to anticipate on the changing needs of clients. Aim is to attract capabilities which cannot be possessed or attracted within time limits by ING RED, but will allow ING RED to develop new real estate concepts that will anticipate on the changing market conditions (product development).

- Concept: Alliances
- Profile focus: Strategic and cultural profile
- Partner profile: (inter)national coverage  
Enhances the product base and core process  
Other core process



*Paulay, Budapest, Hungary*

## 6 Key considerations for partnerships

This chapter anticipates on the business-level decisions to be examined for partnership propositions by defining the key considerations for partnerships, derived from internal and external sources of expertise. The approach is enunciated, the general findings elaborated and the discussion defines the impact for the decision model.

### 6.1 Research method

The logical and empirical reality is that different types of companies in different industries require different approaches for non-organic growth<sup>o</sup>. In order to specify an approach for ING RED, which anticipates on the peculiarities of the approach and industry, the key considerations for partnerships are defined as an input for the decision model and to increase the reliability and validity of the model.

#### Interview approach:

The three phases defined in the strategic framework (section 3.5) each represent an essential consideration in the proposition of partnerships (figure 41). In this chapter each consideration is regarded and the implications for the decision model are discussed. For each consideration a comprehensive question can be defined:

1. What are possible business drivers for the proposition of partnerships? – *why?*  
*which internal or external incentives can be the starting point for a partnership.*
2. Which characteristics can influence the favourability for a cooperation concept? – *how?*  
*how is the preference for a cooperation concept determined.*
3. Which criteria (comparative and complementary) influence the selection of a partner? – *who?*  
*when does an organization become attractive for partnering.*

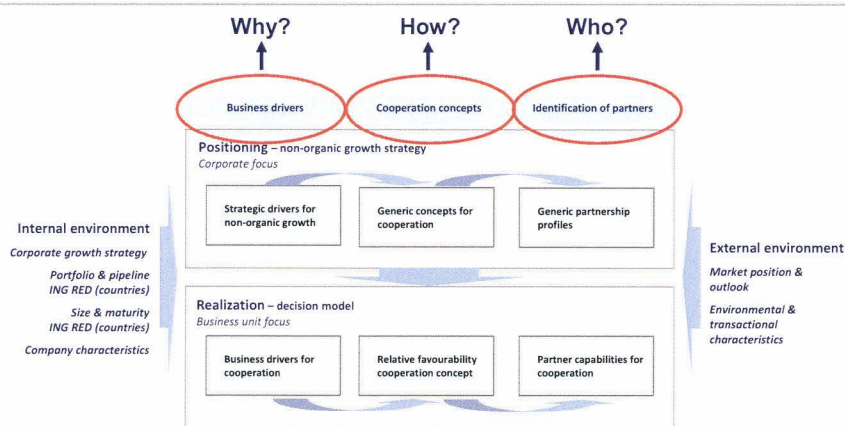


Figure 41; Essential elements in the framework

#### Discussion groups:

Three different groups were distinguished with the aim to utilize the various available internal and external expertise. Detailed information regarding the discussion groups can be found in the appendix (appendix 4), discerning;

- *Benchmark meetings*; to gain knowledge from partnership champions in non-related industries. Meetings were held with the following companies: Cisco, ING Group / RECA and Royal Philips.
- *Expert interviews*; to discuss the specificities of real estate and ING RED in relation to non-organic growth. Interviews were held with the member of the management board of ING RED and the strategy and marketing department of ING RED I.
- *Case studies*; to improve and validate the defined decision model in actual situations. Three case studies were elaborated. Case studies were selected on applicability for the research and for ING RED. Case studies: ING RED Netherlands, concept new beginners and the RSM project.

<sup>o</sup> BCG report; the brave new world of M&A, how to create value from mergers and acquisitions

## 6.2 Drivers for partnership propositions

Main motivation for non-organic growth to develop is when a firm needs additional resources that cannot be purchased and cannot be built internally with acceptable cost (risk) or within an acceptable time<sup>7</sup>. An overview of all key considerations, derived from the meetings, is provided in the appendix (*appendix 5*).

### **Fulfil customer need:**

The basis for every partnership can be found in the implicit or explicit need of (new) clients of the organization. This can be external clients (e.g. investors, tenants) or internal clients (e.g. ING Group). Client needs are usually derived from client strategy, macro-economic developments or real estate market trends, competitor analysis and corporate strategy (internal client). When facing a client need the next step is to compare this need with the current positioning of ING RED and determine if ING RED wants to fulfil this need.

*Examples* - Cisco is actively screening the market for transitions and determining the attractiveness of the opportunity versus their own portfolio. Philips even takes it further by proactively asking their customers what their need is and how it can be fulfilled. Their business proposition focuses on the total value chain, as long as the result is an improved product proposition for the customer. ING RED Netherlands regards trends in the market only on the long-term due to the time span of real estate developments.

### **Access to knowledge:**

When a need of a client arises, the consideration is made between organic (make) development or non-organic (buy or ally) development. The main reason why a partnership is preferred is that within the constraints of the required fulfilment of the client need, organic development is not feasible. Besides the constraint limited time, the other significant constraint is the ability to obtain the required knowledge for the need of the client. Knowledge can regard knowledge of the process, the market or other kind of knowledge essential for the successful anticipation of the client need.

*Examples* - Cisco is sometimes forced by its clients to collaborate with its competitors, which makes the partnership even more complex. Cisco's clients want that all their technologies can communicate with each other, unrespectable of the suppliers of the technology. Expert interviews emphasize that the business of real estate development is local, with as a result that per country or even region the way of doing business can differ and also the social relations can be different. Knowledge regarding the market and social ties are essential and need to be obtained, before business can be conducted.

### **Create distinctive capabilities:**

Every partnership should be build upon the simple but essential principle that a partnership should be based on mutual benefits but also on mutual, evenly contribution of resources. This implies that besides comparative features to ensure a positive chemistry between the partners, also complementary features need to exist which endorse that every partner will deliver a resource the other partners does not possess or cannot develop themselves.

*Examples* - RECA stress the importance that a partnership should provide entrance to a new capability and focuses on a specific expertise of the local business. ING RED should strengthen the organizations with deepened expertise according to the expert interviews, to stay ahead of the market. Capabilities should lead to innovation in the concept of new beginners.

## 6.3 Characteristics for cooperation favourability

The relative favourability between cooperation concepts depends on the rational internal, external and relational context of the organization<sup>7</sup>.

### **Purpose of the partnership:**

To determine the relative favourability an essential element is the purpose of the partnership. The previous discussed drivers of the proposition also substantially influence the cooperation concept. Every cooperation concept has its motivation for the realization of a certain purpose (*section 3.3*). Furthermore the management intention regarding the management attention towards the

partnership motivates that a passive partnership where the partner will continue to operate on their own (silent partner), will result in a different partnership than when the management has the intention to proactively interact with the partner (3W vs. RSM).

*Examples* - Philips will prefer an acquisition because it supports directly in their most important objective; realizing growth and will only consider an alliance when internal development or an acquisition is not a viable option. Within the RSM project, ING RED wanted to make a leap-jump in the market and obtain a market position, therefore the preferred cooperation concept was an equity driven approach.

#### **Relation to the core business:**

The preference of the cooperation concept is also influenced by the fact whether the partnership will be related to the core business. Partnerships within the core business want to be controlled to limit competition and to maintain the reputation in the market. Possible synergies are also easier to obtain when the partner can be controlled. Partnerships not related to core business have different kind of expertise and activities and benefits are mostly obtained by combining different knowledge, which should lead to innovation. ING RED wants to focus on their core business and does not want to obtain additional non real estate expertise.

*Examples* - The new beginners' concept focuses on providing additional services to residential real estate. These services are not related to the core business and therefore acquisitions are not considered and alliances are preferred. Cisco determines the impact on their portfolio when considering a partnership and especially their credibility in the market. Equity driven partnerships should be supplementing with the portfolio or closely related to their current business when Cisco wants to capture a (new) related market.

#### **Feasibility of the partnership:**

The cooperation concept is besides the desired favourability, also restricted by the feasibility of the partnership. This feasibility can consist of internal and external considerations, for example available capital, size of the partner company, availability of organizations. More indirect considerations can be timing of market entry, country regulation or available resources for implementation of the partnership.

*Examples* - A participation was the first feasible option in the RSM project, because of the size of the partner an acquisition was requiring too much capital. ING RED Netherlands underpins that a cooperation concept can change during time due to internal and external factors, especially during the deal-making process. Besides the feasibility to set up a partnership, the expert interviews also motivate that an exit scenario need to be considered, when the partnership does not provide the desired outcome.

## **6.4 Criteria for partner capabilities**

While an almost unlimited range of alternative criteria may exist, it might be possible to simplify analysis by distinguishing broad categories of these criteria<sup>20</sup>.

#### **Position of partner in the market:**

For the selection of partners, the position of the partner in the market is of importance. Position can regard the actual market share, the maturity of the market but also reputation, market leadership and track record of the partner. Not only are the quantitative criteria significant but also the qualitative criteria which determine if a natural 'good' fit for the partnership exists.

*Examples* - Cisco specifically assess a partner on the ability to realize a market transition when they notice a changing market need of their clients. Market leadership is often attached to this realization of the market transition. Philips specifically puts more focus on the capabilities the partner possesses in relation to its competitors. Within the RSM project the reputation of the company and the company owner was important, also due to compliance regulations of ING Group.

**Assess on complementary value:**

Within a partnership a natural balance should exist, where all partners add a unique contribution to the partnership. This equilibrium is necessary to ensure that all interests are similar and every partner will make the same contribution to make the partnership successful. This implies that every partner should possess a value which is complementary to the distinctive values of ING RED and ING RED is not able to possess or develop this value within reasonable time limits. Eventually mutual equal benefits for ING RED and the partner should be obtained within the partnership.

*Examples* - Philips motivates that a partner should deliver capabilities to the partnership which are missing for the business proposition, but also Philips needs to deliver capabilities which are missing in the partnership. The RSM project specifically focussed on ensuring that within the partnerships, both organizations would complement each other with capabilities the other partner could not possess or create on their own. Within the expert interviews the realization of a win-win situation was a central theme for the successful performance of a partnership. Not only focussing on what the partner will deliver but also the deliverance of ING RED (besides capital).

**Align business and management principles:**

Every organization develops its own footprint during its maturation. This footprint not only concerns the business principles but also the management style of the organization is defined. The decision to cooperate is eventually, besides rational considerations, based on the personal judgement of senior management. A certain chemistry, positive feeling, needs to exist between the decision makers of all organizations involved.

*Examples* - ING RED Netherlands stressed the importance of qualitative criteria for partners, besides the more quantitative criteria. The expert interviews stipulated that the process of doing business and the corporate culture in relation to the ING principles are as important as the quantitative criteria. The business principles and willingness of people to cooperate, especially the management was important in the RSM project to create chemistry between the organizations. In the end a partnership needs the support of senior management in order to convince employees to work together.

## 6.5 Discussion on the key considerations

The outcomes of the meetings are compared with the literature regarding non-organic growth and the impact for the decision model is determined. Lastly, general remarks are made regarding the considerations for partnerships.

**Drivers for partnership propositions:**

Adapted from Aaker the key elements for the business drivers are the *portfolio development* and the *core competences* of the partnership<sup>14</sup>.

Reflecting the defined considerations, the core elements of the business drivers for non-organic growth can be discerned. The initial basic driver for non-organic growth, fulfilment of the customer needs, demands a different approach from ING RED. Where ING RED traditionally developed real estate for the market, in the future it will have to develop with the client. This is also related to non-organic growth, the development of further exploitation of the *development portfolio* need to be based on the fulfilment of client needs. This implicates that the decision model should receive input from clients. There are several ways to determine the client need. Direct client conversation with key customers, analysing market trends of the end-user, follow corporate strategy (derivative needs) or imitating competitor behaviour.

Obtaining access to knowledge, required to fulfil the client need, will have its impact on the *core competences* of ING RED. *Portfolio development* will aim for specific markets/regions or real estate types and the *core competences* consist of required knowledge to be successful in the strategic market need to be identified.

Within the partnership proposition it should specifically be described which sources of competences are required for the successful business execution in the strategic market. Subsequent, which sources can be delivered by ING RED and which need to be provided by a partner.

The sources of competence need to be *core competences* of either ING RED or the partner. This implies that both companies will create distinctive capabilities which cannot be possessed or developed by the other company. The decision model therefore should exactly frame the *core competences* and capabilities of both organizations and define why there are essential for the execution of the partnership in order to be successful in the strategic market.

Concluding, for determining the business drivers the client need is analysed and the knowledge and capability requirements are specified. The business drivers of the partnership will be related to one of the three strategic drivers specified in the non-organic growth strategy, to be able to focus the partnership proposition (*section 5.2*).

#### **Characteristics for cooperation favourability:**

Three types of characteristics could be distinguished, company, environmental and transactional characteristics, which together capture all decisive variables for the relative favourability of a cooperation concept. Hoffmann & Schaper-Rinkel motivated that eventually the main consideration to be made is between the need for control and the need for flexibility (*appendix 6*)<sup>7</sup>.

The purpose of the partnership comments on the *company and environmental characteristics* of cooperation concepts. It regards to *strategic uncertainty (flexibility)* to strengthen the lack of knowledge regarding the market and also *resource endowment (flexibility)* to gain access and control over external resources of the partner is influenced by the purpose of the partnership.

The relation of the partnership with the core business of ING RED is influencing the *company characteristics, absorptive capacity (control)* by means of the learning and adaptability of ING RED and the partner, revealing the motives behind the partnership. Within core business partnerships, more control is required so a partner would not be able to 'copy' the expertise of ING RED. Furthermore the relation to the core business also regards the *environmental characteristic, dispersion of knowledge (flexibility)*. Non-core business related partnerships will require more flexibility because the knowledge is more diverse and more relationships are needed to obtain all necessary resources. This obtained knowledge is applied but does not need to be possessed because ING RED has a focus strategy on the core business and does not want to diversify into non real estate related expertise (*section 5.2*).

The feasibility of the partnership exclusively focuses on the *transactional characteristics, persistence of economic synergies (flexibility) and specificity of the transaction-related investments (control)*. *Persistence of economic synergies* underlines that when feasible economies of scale and scope can potentially deliver more value in a less flexible partnership than when a more 'looser' concept is chosen. When the necessary resources cannot be dedicated and thus the feasibility of the partnerships is lower, it is influencing *the transaction-related investments* for the partnership.

For the selection of the cooperation concept the characteristics of Hoffmann & Schaper-Rinkel can be applied, only the appropriability regime is not regarded<sup>7</sup>. So the cooperation concept can be selected, based on the corporate preferred cooperation concept that is related to the business drivers and further defined by characteristics specified by Hoffmann & Schaper-Rinkel.

#### **Criteria for partner capabilities:**

Four relevant inter-company fits could be distinguished; strategic, organizational, financial and cultural profile. Every profile recognizes a number of variables influencing these profiles, based on joint required features, complementary and capabilities comparative for the partnership (*appendix 7*)<sup>19</sup>.

The position of the partner in the market describes the *joint required features* the partner and ING RED need to possess on a similar basis. The *strategic profile* of the organization is analyzed, regarding the *market position, relationship network and corporate image* of the partner company in relation to ING RED. Because *human resource skills* are one of the most important resources for the real estate developer, this feature will additionally be assessed.



When assessing on complementary value (partly infused by the *joint required features*), the *complementary capabilities* of the partner are examined, which concern the *strategic and organizational profile* of the partner. Among other things the partner is assessed on *market position, strategic orientation, human resource skills, industrial experience and market competence*.

Aligning the business principles of the organizations, both ING RED and the partner, will influence the *strategic, organizational, cultural and financial profile* to determine the required *comparative capabilities*. The relevant fits are *Strategic orientation, organizational leadership, organizational rank, ownership type, organizational values, liquidity and profitability*.

For the selection criteria of partners not a fixed list of variables can be determined, still a number of fits can be addressed that are important for the inter-company fit. The profiles are applied according to the generic cooperation concept selected for the partnership. Further refinement of the fits has to be performed during the actual proposition of partnerships.

#### **Concluding remarks:**

ING RED as a pan-European real estate developer wants to pursue an international strategy to utilize synergies and offer total solutions for clients; still the market requires a local approach. This image is underlined by the key considerations. When regarding the strategic framework, the key considerations for partnerships affirm the importance of the elements specified in this framework. Although not every element is relevant for the real estate industry, the general structures can be applied. The considerations also confirm that every company require a different approach for non-organic growth.

The most distinctive factor for the real estate industry, which makes the approach different from other approaches, is the fact that business is local which affects all three key considerations for partnerships. Locality is mainly determined by the importance to have local market knowledge and have the necessary social ties.

Besides locality of the business, two other factors can be regarded that are specific for ING RED. First of all the real estate property developments generally consider a substantial time before completion. Within a partnership with ING RED, it will take substantial time before the level of success of the partnership will be visible. Secondly, a real estate development is not a standardized product, only the process is in some extent repeatable, with as a result that the success of the partnership is mainly determined by the ability of the employees of the partners to cooperate with each other within the partnership. In the end people are 'key' for the partnership.

## **6.6 Summary**

This chapter elaborated the key consideration for partnerships, derived from the strategic framework. It answered the following three questions:

1. What are possible business drivers for the proposition of partnerships?
2. Which characteristics can influence the favourability for a cooperation concept?
3. Which criteria (comparative and complementary) influence the selection of a partner?

In the discussion the consideration were related to literature and their impact on the decision model.

#### *Drivers for partnership propositions:*

What are possible business drivers for the proposition of partnerships? – fulfil customer need, access to knowledge and creating distinctive capabilities.

The main driver for a partnership is to fulfil *customer needs*, derived directly or indirectly. Client needs can be deducted from direct client conversation, market trends, competitor imitations or corporate strategy. Eventually the aim is to intensify or expand the portfolio. For the partnership additional *access of knowledge* is required, often market knowledge or social ties. The partnership has to *create distinctive capabilities* which cannot be delivered, possessed or developed by one of the partners.

#### *Characteristics for cooperation favourability:*

Which characteristics can influence the favourability for a cooperation concept? – purpose of the partnership, relation to the core business and feasibility of the partnership.

Reflecting the characteristics on the main considerations for a cooperation concept, all three categories are influenced<sup>7</sup>. The company characteristics are strongly influenced by the purpose of the partnership and the relation to the core business. Both considerations also have their impact on the environmental characteristics. The feasibility of the partnership regards the transactional characteristics. Most variables of Hoffmann & Schaper-Rinkel can be used for determining the need for control and the need for flexibility in order to define the relative favourability of the cooperation concept.

*Criteria for partner capabilities:*

Which criteria (comparative and complementary) influence the selection of a partner? – position of the partner in the market, assess on complementary values and align business and management principles.

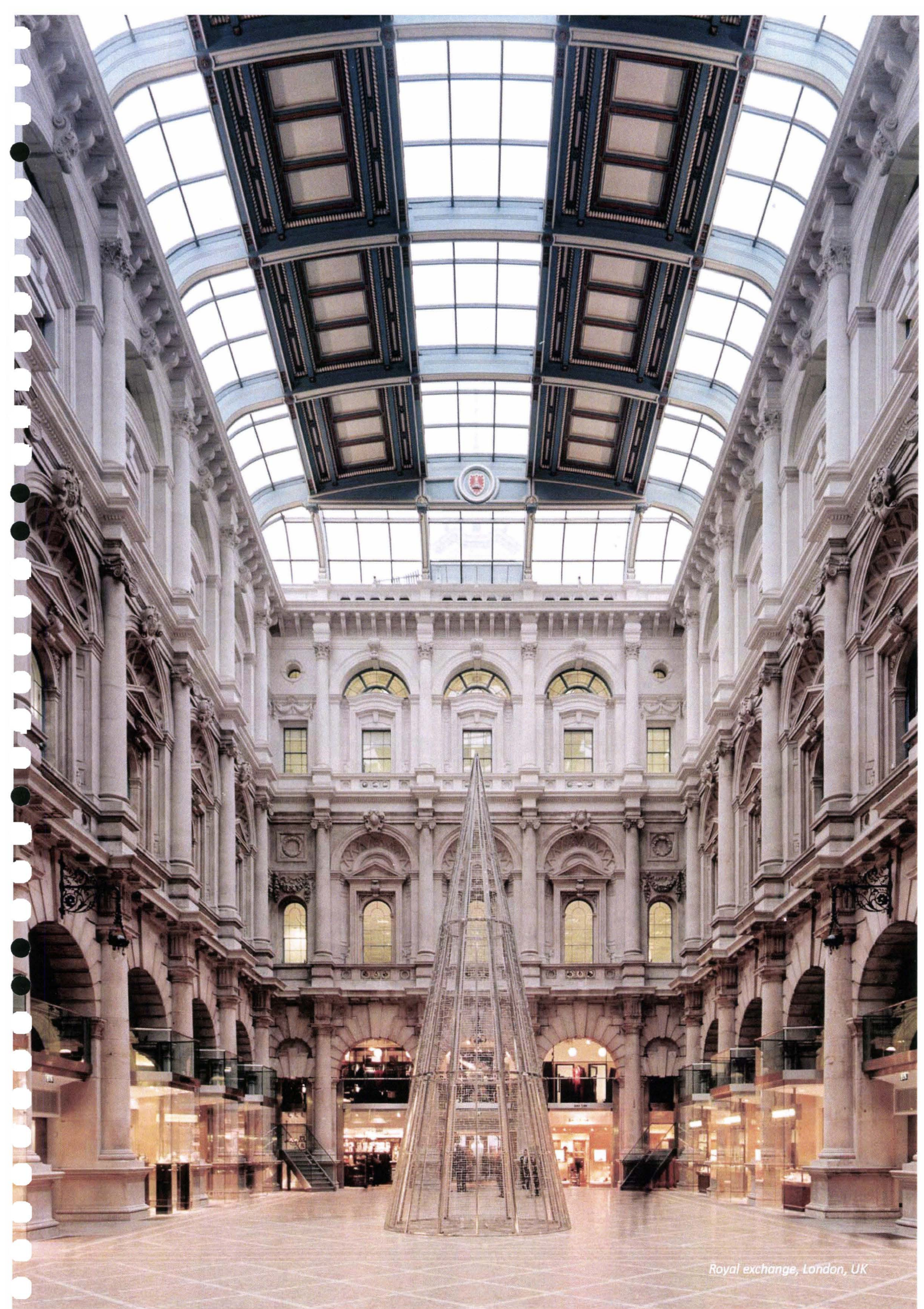
All four profiles for partner selection are regarded, three essential elements in the inter-company fit can be distinguished; the position of the partner in the market, this will affect the strategic profile and aims for the joint required features ING RED and the partner need to possess. Secondly, the complementary value aims for the complementary capabilities and is specified within the organizational profile. Lastly, the alignment of business and management principles points at the 'chemistry' in a partnership and considers all four profiles. The relevant inter-company fits of Geringer and Luo can be applied as a starting point<sup>19, 20</sup>.

*Concluding remarks:*

The key considerations demonstrate that the real estate development industry is an industry where business needs to be executed locally. Partnerships should therefore also focus on realizing additional gains on the local level, while ING RED positions itself as a pan-European developer.

The long time span of real estate developments will also reflect on partnerships. The performance of partnerships can be noticed after joint projects are completed.

Within real estate developments people are key, because the people eventually determine if a property development will be completed successfully. In a partnership which always has the aim of realizing additional business, people will also be important for the same reason. When the people will not cooperate, business execution will fail.



Royal exchange, London, UK

## 7 Decision model for partnerships

The decision model for the country organizations is elaborated, based on the framework for non-organic growth and the key considerations for partnerships. The basic principles of the decision model are provided, subsequent all assigned phases are discussed.

### 7.1 Principles of the decision model

The decision process can be divided into a number of phases; each phase ends with an explicit decision moment (figure 42). The model obtains input from researches and consists of four phase; three research fields and lastly the definition of the total value proposition. The model is supported with the corporate non-organic growth strategy. Due to the dynamics of the process, iterations are needed during the process. During the final propositions the final output of all phases is defined.

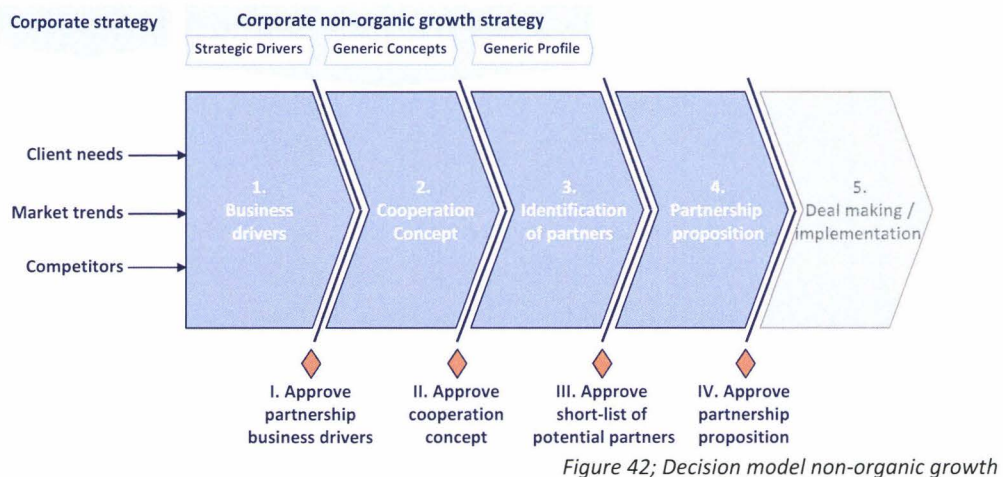


Figure 42; Decision model non-organic growth

An overview of decision model on activities and resources is provided in the appendix (appendix 8).

#### Phases in the decision model:

**Phase 0: Landscape partnership opportunities** – analysing the needs for partnerships, by means of continuously scanning the market for changes that can be exploited by means of non-organic growth opportunities for ING RED.

**Phase 1 Business drivers** – describing the motivation for a partnership to be initiated. Regards the internal and external environment and specifies the opportunity the partnership can capture. The strategic drivers of the non-organic growth strategy comprise the conditions for the business drivers.

**Phase 2 Cooperation concept** – defining the most optimal cooperation concept which can realize the previous specified business drivers. The relative favourability for each cooperation concept is determined and the selected concept is further elaborated. The generic concepts provide an initial selection in the cooperation concepts that can be applied.

**Phase 3 Identification of partners** – specifying the criteria for potential partners, distinguishing comparative and complementary capabilities. A long- and short list further refines the selection of partners for the specific partnership. The generic profiles limit the number of criteria that are regarded, depending on the cooperation concept.

**Phase 4 Partnership proposition** – elaborating a partnership proposition, including the deliverables of the previous phases and providing all relevant aspects required for well-founded decision making. The value proposition is explicated and the total proposition formulated.

The decision model is executed on a country level, while the involved strategy has been specified on the corporate level. Although the country organizations take the initiative, formal decision moments will be taken by the management board of ING RED. ING RED International can proactively support the country organizations due to their gained expertise.

### Utilization of the model:

The decision model can be initiated, originating from different situations:

1. *Proactive situation*; the decision model is initiated as a result of a strategic decision to realize non-organic growth in a country organization.
2. *Reactive situation*; the process is started due to a change in the market situations (e.g. availability/tender of an organization for a partnership) and is applied in an identified market where substantial growth levels can be realized.
3. *Opportunistic situation*; the model is executed when an organization approaches ING RED for a partnership. The model is applied as a method to validate the value proposition and to decide if a partnership will deliver value for ING RED.

The decision model can be used in all three above mentioned situations, with the difference that in the last two situations the model is applied to justify a decision instead of facilitating the process of decision making towards a partnership.

Proactive approaches for non-organic growth are advisable anticipating on the corporate strategy. Because strategy is based on market situations, which are dynamic, also reactive and opportunistic deal-making need to be considered. Still, these kinds of deals should be aligned with the overall vision of ING RED.

### Preconditions for partnerships:

The decision model is founded on a number of basic principles, derived from best practices, internal discussions and academic literature. The basic principles need to be considered during the entire decision making process<sup>13, 47, 48, 49</sup>.

- *Define framework* – a transparent structure should be provided to establish the proposition, to ensure that consistent and well-founded partnership propositions are formulated.
- *Create commitment* – the success of the proposition depends on the credibility the proposition has for the stakeholders and especially for the decision makers.
- *Involve all stakeholders* – all aspects of the partnership need to be regarded and thus a variety of stakeholders need to be involved. More involvement will increase the acceptance. Besides formal involvement also informal involvement of the key decision makers will increase the acceptance of the partnership, due to the fact that the decision makers will be better aware of the opportunity.
- *Address responsibilities* – to ensure that the process is executed within time and resource constraints, it is important to explicitly address the responsibilities of all involved stakeholders.

### Core team execution:

A number of stakeholders can be addressed which either have influence on the decision making or support in the definition and description of the partnership proposition, together they form the core team for the execution of the decision model.

#### **Decision makers:**

- *Management board ING RED* – make the key decisions in the strategy process and are involved in the definition and description of the proposition. Fulfil the role as gatekeeper to guarantee that propositions fit within the corporate strategy for non-organic growth.
- *Country management ING RED country organization* – validate the definitions for the proposition and ensure that the proposition fits within the country midterm planning (MTP).

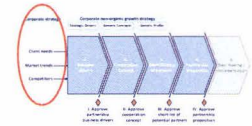
#### **Support:**

- *Staff departments country organizations* – constitutes the core of the execution team, provide input for the decision makers concerning the required (market) information.
- *ING RED International* – as a knowledge base for partnerships, the REDI team provides input how the process can be managed and acts as a discussion partner for the country staff. The business development team of ING REDI can be considered as the experts.
- *External advisors* – to obtain additional knowledge, external advisors are involved to support decision makers in their choices and the supporters in their process.

An overview of the preferred involvement of the core team in every stage is provided (*appendix 8*).

## 7.2 Phase 0: Landscape partnership opportunities

The decision model can be initiated by different sources, eventually focussing on the fulfilment of the client need and aligned with the corporate strategy of ING RED.

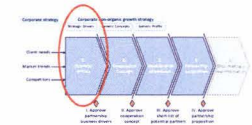


- *Client need – changing demand from the client / end-user*  
Interacting with key clients (investors, tenants) can reveal additional needs of these client focus groups. Clients can justify the decision for non-organic growth, because they will make the partnership viable.
- *Market trend – upcoming or changing trends in the market*  
Before a client need arises, market trends can be analyzed, which prematurely anticipate on future needs. Translating trends into business propositions can initiate partnerships.
- *Competitor – altered direction of a competitor*  
Competitor analysis potentially shows the executed strategy of competitors, which reveal additional opportunities for non-organic growth.

While the decision model is executed when a partnership is considered, landscaping the general market for partnership opportunities should be performed on a continuous basis, to proactively anticipate on the market situation.

## 7.3 Phase 1: Business drivers

The first phase in the decision model aims to landscape the position of the ING RED country organization in the market and to define the business drivers for partnership. The business drivers should be aligned with the strategic drivers from the non-organic growth strategy. The following steps are considered:



- Landscape position in the market
- Define business drivers for partnership

### Landscaping position in the market:

By means of an internal and external analyzes of the country organization the strategic capabilities of the organization and the key aspects of the business environment are determined. Result should be the strengths and weaknesses of the organization and the opportunities and threats in the market<sup>13</sup>.

The strategic capabilities of the organization can be defined as the adequacy of resources and competences of an organization for it to survive and prosper<sup>10</sup>. The value chain of Porter is suitable method for determining the strategic capabilities<sup>20</sup>. In the appendix the method is explained (appendix 9).

The business environment is extremely difficult to determine due to the many different influences, the complexity, and the speed of change<sup>10</sup>. The business environment can be divided into three layers; the macro-environment, the industry and the nature and size of the market<sup>19</sup>. Respectively the PEST analysis and the five forces of Porter provide good methods to define the business environment. In the appendix both methods are explained (appendix 10, appendix 11)<sup>10, 20, 73</sup>.

The internal and external analysis can be summarized in a SWOT format. Next step is to determine the relative growth position in the market. This position can be determined by translating the SWOT into a confrontation matrix, where the initial focus areas are provided (appendix 12). The product-market focus can be determined by defining the relative non-organic growth position as a starting point (section 4.4).

### Validate the relative position in the market:

The relative growth position provides the initial focus for the business drivers. Country management acknowledges the identified opportunity in the market and provides direction when multiple options are at hand. Additionally the relative growth position can be benchmarked with the key investors/tenants to justify the partnership drivers.

### Define business drivers for partnership:

The potential opportunity need to be specified, on a quantitative and qualitative basis, in terms of additional value. The development of the portfolio and the core competences to be captured are defined:

- *Development of the portfolio* – specifies the impact the partnership has on the portfolio and in terms of contribution to the financial parameters (e.g. investment value, ROI, sales result, net profit) and also to the expansion of the market position.
- *Core competences of the cooperation* – describes the skills or abilities that will be developed by means of the partnership (e.g. market competence, segment expertise, quality of staff, etc).

Additional topics can be addresses, depending on the actual situation. The motivation for the partnership should be made clear in terms of short- and long term added value for the organization.

### Approve partnership business drivers:

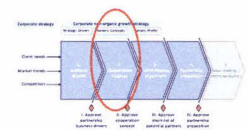
The defined business drivers for partnership should be approved by the management board of ING RED. Approval provides the possibility of further exploration of the partnership proposition.

## 7.4 Phase 2: Cooperation concept

The second phase determines the relative favourability to select the best cooperation concept for the partnership. The corporate non-organic growth strategy limits the number of cooperation concepts by stating the suitable concept for the strategic drivers.

The following steps need to be executed:

- Determine relative favourability
- Elaborate the cooperation concept



### Determine relative favourability:

The three classifications of characteristics to determine the relative favourability can be applied; the company, environmental and transactional characteristics (section 3.3)<sup>16</sup>. Besides the rational characteristics also irrational characteristics like cultural and managerial characteristics can be used to determine the preference<sup>16</sup>. The impact of the characteristics needs to be determined and specified by means of a discussion with the country management and additional involved stakeholders. Besides the applicability of the characteristics in the appendix, additional characteristics can be discussed.

Once the characteristics are determined, their influence on the need for control and the need for flexibility need to be defined. The matrix provides insight in the relative favourability of a cooperation concept in the specified business case. A method is provided in the appendix (appendix 13).

### Validate relative favourability for cooperation concept

The relative favourability is the initial preference for the cooperation concept to be applied. Country management has to support the preference or otherwise enunciate a preference when multiple options are at hand.

### Elaborate the cooperation concept:

When the initial favourability of the cooperation concept is determined, further elaboration needs to be done to obtain a better outlook of the cooperation concept. For every concept the responsibilities, legal structure and governance structure need to be defined (appendix 14). Final elaboration will take place during the deal-making process.

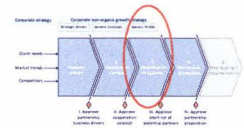
A partnership can consist of several stages where the cooperation concept will change (figure 39). The partnership growth model can be described for the long-term to define the eventual desired cooperation concept.

### Approve cooperation concept:

The management board has to approve the cooperation concept proposed for a partnership in relation to the need for control and flexibility and the further elaboration regarding the governance, legal structure and responsibilities.

## 7.5 Phase 3: Identification of partners

The third phase specifies the required capabilities for the partner, to define the long- and shortlist for the selection of partners. The generic profiles identify which profiles need to be regarded when assessing the partners.



The following steps are completed:

- Determine partner capabilities
- Define long- and shortlist

### Determine partner capabilities:

The requirements for a partnership will consist out of four different profiles, depending on the selected cooperation concept (section 3.4). Within the specific business case it is determined which variables are relevant; an overview is provided with as a result that for every partnership the criteria need to be evaluated (appendix 7)<sup>20, 50</sup>.

Distinction needs to be made between three kinds of variables (figure 43).

*Joint required features* should describe what the partnership should be able to perform; this implies the total set of important aspects for the partner and ING RED.

*Complementary capabilities* describe the features the partner should contribute to the partnership (other features should be delivered by ING RED).

*Comparative capabilities* which are features that are features which ING RED wants to acknowledge in their partners.

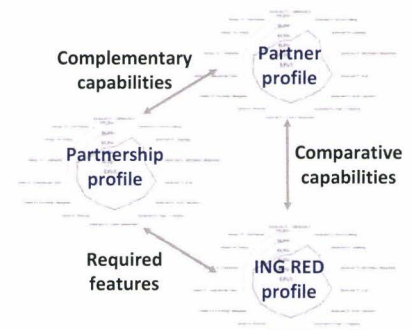


Figure 43; partnership triangle

In the appendix a method for fit-analysis can be found, inventorying and assessing the relevant variables (appendix 15).

### Validate partner capabilities

Country management has to validate the variables that will be assessed to define the complementary and comparative capabilities of the partnership and the partner.

### Define long- and shortlist:

The specified targeted market of the ING RED country organization needs to be landscaped, to identify all relevant partners. Partners should be scanned roughly, providing a general description of the partner and some relevant public available facts. Data can be gathered from public media, data companies or the landscaping can be outsourced to a specialised consultancy firm.

Long listing is executed based on the complementary capabilities required for the partnership, representing the companies which are able to deliver the desired value. Short listing can be performed based on the comparative capabilities. The result can be displayed in an overview (appendix 16). Data can be obtained from the same data sources, additional data can be gathered from initial interviews with the relevant companies or by means of data from consultancy firms.

### Approve short list of potential partners

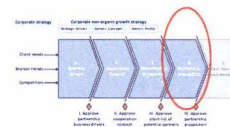
Management has to agree upon the long- and short list of potential partners and the complementary and comparative partner capabilities. Further preference for partners can be expressed by the management board.



## 7.6 Phase 4: Partnership proposition

The partnership proposition is the final presentation and motivation for a partnership and combines previous phases. It describes the value proposition of the partnership and defines the final partnership proposal.

- Define partnership proposition
- Describe value proposition partnership



### Define partnership proposition:

The partnership proposition describes the business case for a partnership and main output are recommendations how to set up the partnership and which potential partners are most favourable to start the deal-making process with. The proposal preferable consists of the following topics:

1. *Market situation and country position:* provides the landscape of the partnership
2. *Drivers:* specifies the objectives the partnership has to fulfill and the contribution it will deliver to the performance of the ING RED country organization.
3. *Cooperation concept:* the preferred concept for realizing the partnership with motivation
4. *Long-list / short list:* motivated lists of potential partners, based on the defined criteria
5. *Value proposition:* pitch how the partnership will realize the specified objectives.

### Describe value proposition partnership:

The value proposition can be described according to the business model definition of Morris<sup>49</sup>. It consists of six components; each element is further specified in the appendix (appendix 17):

- *How does the partnership create value?* - decisions here address the nature of the product/service mix, the firm's role in production or service delivery, and the offering
- *For whom does the partnership create value for?* - nature and scope of the market
- *What is the source of competence of the partnership?* - what is the internal capability or skills set
- *How does the partnership competitively position itself?* - achieve advantages over its competitors.
- *How does the partnership make money?* - the economic model for earning profits.
- *What are the time, scope, and size ambitions?* - what is the outlook of the partnership

### Approve partnership proposition

Before the deal-making process can be initiated, the partnership proposition has to be approved by the management board of ING RED. Further refinements or adaptations can be made.

## 7.8 Summary

The decision model interacts on the country level and anticipates on the corporate non-organic growth strategy. During the execution of the model the country organization takes the lead and the corporate organization facilitates where possible. Iterations are made when required. Approvals to proceed to a next phase are done by the management board of ING RED. An overview of the decision model on activities and resources is provided in the appendix (appendix 8).

The decision model facilitates in the structured approach towards a partnership proposition in the country organizations. The model considers all critical elements and involves all stakeholders within the ING RED organization. This approach will support in the underpinning of partnerships internally as well for external stakeholders.

Main deliverable of the decision model is a partnership proposition dealing with the following specified topics:

1. *Market situation:* provides the landscape of the targeted market
2. *Country position:* defines the current status of the ING RED country organization
3. *Drivers:* specifies the objectives the partnership has to fulfill and the contribution it will deliver to the performance of the ING RED country organization.
4. *Cooperation concept:* the preferred concept for realizing the partnership with motivation
5. *Long-list / short list:* motivated lists of potential partners, based on the defined criteria
6. *Value proposition:* pitch how the partnership will realize the specified objectives.



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## 8 Implementation

*This chapter regards the implementation of the three main deliverables of the research, the framework for non-organic growth, strategy for non-organic growth and the decision model for partnerships. Comments are made on the implementation of the deliverables into the ING RED organization.*

### 8.1 Establishment of the framework

The implementation of the framework for non-organic growth provides a general structure for ING RED to proactively consider non-organic growth systematically. The establishment within the organization depends on the acceptance of the framework by the key decision makers.

*Formalize the approach:*

To structure the approach towards non-organic growth and the result, partnerships, the framework need to be formalized in the organization by the ING RED management board. Formalization will provide clear communication towards the ING RED (country) organizations how non-organic growth is perceived within ING RED. This could be achieved by recommending the framework in a general policy regarding non-organic growth within ING RED, combining the framework together with the M&A deal guide as the approach towards non-organic growth.

*Integrate in corporate strategy:*

During the strategic orientation to determine the long- and mid-term strategy of ING RED, partnerships should be perceived as an alternative next to organic growth. This implies that to realize the objectives of the organization, the consideration between make, buy or ally should explicitly and continuously be made.

*Continue benchmarking and evaluation:*

Further implementation of non-organic growth and the development of partnerships will be a learning process. Benchmarking with internal and external experts on partnership proposition will be useful to further develop expertise within ING RED. Also, further evaluation of the process and executed partnerships provide opportunities to further refine the approach.

### 8.2 Realization of the strategy

The implementation of the strategy for non-organic growth is essential for the success of partnerships within ING RED. Although the non-organic growth strategy provides an excellent starting point for the implementation of partnerships in the business model, further refinement is required.

*Create commitment and education:*

Commitment has to be obtained from the stakeholders. At first this will be the ING RED management who has to proclaim that partnerships will be a key element in the realization of further growth. ING RE/Group has to acknowledge the further development of ING RED to obtain authority. Lastly, the strategy focuses on local execution, where country managers will have to realize the strategy. The country organizations need to be proactively involved and committed and educated.

*Change mindset:*

In the current dynamic of the market it is impossible for a large multinational to execute all business within the organization. Especially in the current financial turmoil ING RED has to exploit the changes in the market and capture them by means of partnerships. First step is a change in mindset by considering partnerships as an alternative for growth, in order to anticipate on the more demanding end-user, fast changing environment and staying ahead of the market.

*Determine proceedings:*

The drafted strategy provides the starting point for actual implementation of partnerships as part of the business fundamentals. Further actions have to be determined by the ING RED management board how to proceed with partnerships within the organization to realize non-organic growth.

### 8.3 Utilization of the decision model

The implementation of the decision model for partnerships requires a number of preconditions in order to be successful within the organization. Furthermore availability of the decision model within the organization is necessary to ensure utilization of the model.

#### *Organize core team for partnerships:*

To be able to proactively consider the various opportunities for partnerships, dedicated people should be assigned for partnerships. The core team should constantly consider the opportunities available in the market, other team members only have to be employed when a partnership proposition is considered. The people to be involved can be found in the overview decision model (*appendix 8*).

#### *Develop finance engineering expertise:*

The actual proposition of partnerships has appeared to be a difficult process with many variables to decide on. The financing of those partnerships, as one of the most important aspects, is relatively underexposed within ING RED. Further expertise regarding finance engineering is required to be able to structure propositions.

#### *Make decision model available in the organization:*

Sharing the decision model across the organization will foster the discussion regarding partnerships and non-organic growth. For the ING RED country organizations the model will provide insight in the elements for the proposition of partnerships and will standardize the information demand of the ING RED management board. A SharePoint site with background information, examples and methods would a possibility to distribute the tools into the organization.

#### *Create success stories:*

The decision model has been validated with various people in the ING RED organization, but no actual partnership opportunity has been occurred where the model was applied in practice. When the decision model is used for a partnership proposition, the model is validated for a real life situation and also a success story is created which will motivate to apply to model by ING RED country organizations, therefore success stories should also be clearly communicated within the organization.

### 8.4 Summary

Each deliverable of this research requires further specific implementation to be successful. Per deliverable the most important actions are defined and elaborated.

#### Establishment of the framework:

- Formalize the approach – secure process into the organization.
- Integrate in corporate strategy – partnership as an alternative next to organic growth.
- Continue benchmarking and evaluation – keep on learning from experts and experiences.

#### Realization of the strategy:

- Create commitment and education – make the opportunities of partnerships visible.
- Change mindset – partnerships should be part of the strategic toolkit.
- Determine proceedings – define steps forward to execute the non-organic growth strategy.

#### Utilization of the decision model:

- Organize core team for partnerships – dedicate people to define propositions.
- Develop finance engineering expertise – educate on finance scenarios.
- Make decision model available in the organization – provide methods to stakeholders.
- Create success stories – examples will strengthen the approach.



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## 9 Conclusions and recommendations

*The research is discussed based on an evaluation of the research by commenting on the research objectives, the limitations of the research and the evolved process. The main conclusions are enunciated and lastly recommendations are made to ING RED and for further research.*

### 9.1 Evaluation

#### **Research objectives:**

The research can be perceived as successful when the objective and subs objectives are accomplished under the defined conditions. The objective and sub objectives in this research are specified as:

*“Develop a corporate non-organic growth strategy for ING RED, supported with a model for proactive decision making regarding the proposition and implementation of partnerships”.*

- *Specify a framework for ING RED’s non-organic growth approach.*
- *Develop a corporate non-organic growth strategy for ING RED.*
- *Design a decision model for the proposition and implementation of partnerships.*

The overall objective is achieved, ING RED is provided with a strategy for non-organic growth and a decision model for partnerships which are developed according to the required specifications and conditions. The related sub objectives are discussed into detail.

#### *Specify a framework for ING RED’s non-organic growth approach:*

The framework is elaborated based on recent academic insights and further customized for the real estate industry and ING RED. Literature has been adapted to the specific peculiarities of the industry. The organizational context has been regarded by distinguishing the corporate positioning level and the country execution level. The framework has been discussed with internal and external experts.

#### *Develop a corporate non-organic growth strategy for ING RED:*

A strategy for non-organic growth has been defined, based upon the environmental context. The strategy is based upon the specified framework and regards the drivers for non-organic growth, the generic cooperation concepts that can be applied per driver and the partnerships profiles to be regarded per cooperation concept. General partner profiles per driver are defined.

#### *Design a decision model for the proposition and implementation of partnerships:*

A decision model for partnerships is elaborated, applying the elements of the framework and utilizing the key consideration for partnerships. The decision model is provided with input from client-based market information and specifies the business drivers for cooperation, the preferred cooperation concept for this driver and the partner capabilities for the partnership. The partnership proposal with the value proposition is enunciated to recapitulate the partnership proposal.

#### **Limitations:**

In the environmental context the relative non-organic growth position is elaborated. The applicability of the growth position is confined, mainly caused by two reasons:

Firstly, the variables within the model are mostly qualitative and the definitions are not well founded. To determine which variables are relevant and to define the quantity and units of those variables was not feasible within this research. Secondly, due to the financial turmoil in the industry, the on hand information was indicative but not accurate. Due to different priorities of the ING RED management board, no efforts were made to update this data. Still, the provided relative non-organic growth position provides an initial outlook on the suitability of ING RED country organizations for non-organic growth. The model provides a basis for further development of the non-organic growth position.

Subsequent to the relative non-organic growth position, no real direction could be determined regarding the geographical product-market investment decisions regarding non-organic growth. Some ING RED country organization could be assigned as more fit for non-organic growth than others. The indicated direction in this research is for the greater part corresponding with the initial policy of the ING RED management board regarding the realization of growth and can therefore be perceived as viable.

## 9.2 Conclusions

ING RED wants to more proactively consider non-organic growth as a complementary approach, next to organic growth, to realize their corporate growth objectives. In this explorative study, the central question is defined as:

*“How can a strategic approach towards non-organic growth for ING RED be defined, in order to contribute to sustainable growth?”*

The context of the organization can be regarded as one of the most important aspects to consider during the development of an organizational strategy. ING RED can distinguish itself in the market by developing balanced properties that realize long-term benefits for the clients of ING RED. From an organizational perspectives, ING RED combines global integration and local responsiveness, supplemented with financial power to be able to deliver value to its customers.

- ING Group, as a financial institution, supplies the required financial resources to ING RED. All real estate developments are financed with ING capital, providing ING RED with an independent position in the market. Nevertheless, ING RED is also limited in the execution of their business fundamentals, due to the imposed compliance of ING Group policies.

Market conditions have clearly changed dramatically since the beginning of September 2007. Ongoing turmoil in the global financial markets is putting pressure on property valuations in some markets and segments. The global real estate markets are becoming more interrelated and thus more complex.

- The current market sentiment emphasizes the delicate relationship between ING RED and ING Group. Where the mother organization (ING Group) wants to decrease their risk exposure, the opportunistic subsidiary (ING RED) wants to exploit the current opportunities in the market. Due to the business fundamentals of ING Group, ING RED will be limited in the optimal execution of their business during turbulent market situations.

Taken into consideration the organizational context, the approach towards non-organic growth is divided into three deliverables; the framework, the strategy and the decision model. The framework is specifying the essential objectives for inter-firm cooperation and is providing an overview of the subjects to consider, both on corporate and local level.

- The framework is emphasizing the distinction between the corporate positioning (global integration) and the local realization (local responsiveness) of the framework. The structure of the framework fits within the organizational structure of ING RED. Furthermore, the framework also anticipates on the size and maturity of the various ING RED country organizations.

The strategy for non-organic growth is a result of the corporate level of the framework and anticipates on the corporate strategy of ING RED and the environmental context.

- The defined drivers for non-organic growth focus on different aspects of the corporate strategy and can be executed, despite of market conditions due to the flexibility of the cooperation concepts. The partnership growth model provides possible advancement of the concepts.
- ING RED possesses strong competitive advantages, like reputation and product and market expertise, but need to further develop client focus. The changing demand of the market and the increased complexity, require additional flexibility and anticipation on client needs by means of a more client focused approach.
- To realize non-organic growth not only real estate developers need to be considered, but also real estate investors and service providers also offer sound opportunities. The preference for a type of partner depends on the strategic driver of the partnership.

The decision model for partnerships is developed by considering the key considerations for partnerships and takes into account the non-organic growth strategy. The model consists of four phases to determine the proposition for a partnership.

- The decision model is applied when ING RED notices a client need, market trend or competitor change. Pro-active landscaping of the strategic markets is required to notice these triggers. Thorough research of the markets is not only important for non-organic growth, but also facilitates the execution of the business fundamentals and can also foster organic growth.

- The consideration between organic and non-organic growth has not been addressed in this research, only the different organizational structures are compared. It can be concluded that the three strategic drivers for non-organic growth are defined specifically for non-organic growth and therefore can be executed within partnerships. Furthermore, when an opportunity for growth (client need, market trend, competitor change) is identified, the consideration has to be made between make and buy/ally. It can be concluded that when the opportunity fits within the strategic drivers for non-organic growth, partnerships are preferable.
- A partnership has only long-term potential, when a balance exists between the partners. This implies that the partners should both deliver complementary deliverables to the partnerships and also comparative capabilities to obtain 'chemistry' between the partners. The alignment of business and management principles can be perceived as essential elements for a partnership.
- The decision model describes a stage-gate process of subsequent phases. In reality, iterations will be required to define the best partnership proposition. The model provides this opportunity by finalizing with a total proposition where all previous phases are regarded. Also, in the deal-making process the partnership proposition can change due to the peculiarities of the partner or partnership. The decision model can offer footing in order to consider all the relevant aspects.

The implementation of the research consists of the establishment of the framework, the realization of the strategy and the utilization of the decision model. Besides more practical comments for implementation, two main subjects can be distinguished.

- The feasibility of the proposed framework, strategy and decision model is largely depended on the commitment obtained from the key stakeholders. Without the active support of the ING RED management board, the implementation will not be successful. Subsequent, the ING RE/Group should be committed to guarantee an approval for further development of the approach.
- Besides commitment also education plays an important role in the realization of the approach. It can be concluded that the approach requires different skills from both people who will be actively involved in the process, as well as the key stakeholders who have to actively support the approach.

*This research has identified an approach towards non-organic growth for ING RED.*

*Non-organic growth provides a sound opportunity for ING RED to realize their growth ambitions. The delicate relationship with the ING Group, limits ING RED to execute their business fundamentals, especially during turbulent market situations. Nevertheless, the non-organic growth approach provides an alternative method to realize the growth ambitions within the current internal and external conditions.*



### 9.3 Recommendations

#### Recommendations to ING RED:

In the current situation, the business model of ING RED is limited due to the relation with the ING Group, especially during turbulent market situations.

- Obtaining more freedom within the execution will foster the growth of ING RED. A review of the business model, especially regarding the finance of property developments will offer ING RED more flexibility and stability in the execution of their business fundamentals.

The demand of the client and end-user is changing from traditional bricks and mortar towards more service oriented living, working and shopping environments.

- Also partly originating from the current market conditions, ING RED need to improve their focus towards clients. The introduction of key account management strengthen the client focus, next step is to proactively analyse the relevant markets and emerging needs and trends.

The approach towards non-organic growth is a first step towards a more diversified business model, where partnerships are actively involved during growth considerations.

- The successful implementation is mainly depended on the commitment of the key stakeholders. The management board of ING RED should be the linking pin within the approach for non-organic growth. To be able to fulfill this central role, the management board of ING RED should be commitment and educated to fully exploit the opportunities for non-organic growth.

Within ING RED the deal-making process and the strategic approach towards non-organic growth are now secured within the organization.

- To create more transparency for the organization, the total approach towards non-organic growth should be defined, integrating all current available knowledge within the organization. The result should be a clear and defined roadmap for non-organic growth.

#### Recommendations for further research:

This research considers partnerships on corporate level and is excluding the very common partnerships during real estate development projects.

- At the moment project joint ventures and alliances are executed on a project-by-project level. When considering the long-term commitments and financial risks taken, it would be interesting to review these kinds of partnerships. The relationship with the partners (who are often competitors) and the evaluation could result in a more strategic approach of partnerships on project level. The most important condition will be that not regulations are violated regarding cartel agreements.

Three main phases in the lifecycle of partnerships can be regarded, the proposition, deal making and lastly integration/execution of partnerships. Deal making has often been considered and with this research also an integral approach for the proposition has been defined.

- The integration of corporate partnerships within real estate reveals an interesting research field. The two most important assets of a real estate developer are the project pipeline/portfolio and the people. The real estate projects are short-term, when the development is completed and sold the value has gone. The people are long-term, ensuring the continuity of the organization. It would be interesting to regard the integration/execution of corporate partnerships, to define which elements should be considered to maintain the people into the organization and thus ensure continuity of the business.

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## Appendix

### A.1 SWOT ING RED, mid-term planning 2008-2010

#### Strengths

- Experience and coverage of all sectors
- Experience with complex projects and area developments
- Financial strength
- Knowledge transfer platforms in place, spanning 14 countries
- Ability to 'create' demand by product development

#### Weaknesses

- Country management is incomplete and not solid / fitting the growth situation in all cases
- Retention and recruitment of staff
- Acquisition and sales are not sufficiently structured and based on solid research
- Profit volatility
- Young staff with high responsibilities

#### Opportunities

- Interest municipalities in area developments and invitations for private participation
- Competitors in the Area Development are in general few, due to needed size, knowledge and financial capabilities
- Market changes (downturn)
- Increasing strength in residential market
- Land banking

#### Threats

- Increase of construction costs
- Pressure on human resources availability
- Market changes (downturn)
- Retail market shows limited growth

### A.2 Country abbreviations

BE	=	Belgium
CZ	=	Czech Republic
FR	=	France
GER	=	Germany
HUN	=	Hungary
IT	=	Italy
NL	=	the Netherlands
PL	=	Poland
ROM	=	Romania
SP	=	Spain
UK	=	United Kingdom

### A.3 Data relative non-organic growth position

	Ease of capture				Size of value (in € mio)			
	Total	Internal	External		Retail	Offices	Residential	Total
BE	6	4	2		70,5	78,5	662,1	811,0
CZ	3	2	1		527,4	59,4	939,6	1.526,5
FR	6	2	4		676,1	157,1	13.368,7	14.201,9
GER	4	2	2		714,6	150,2	9.878,4	10.743,2
HU	5	4	1		117,2	43,3	336,8	497,3
IT	5	2	3		2314,0	52,9	4.668,5	7.035,4
NL	6	4	2		345,9	42,0	1.721,5	2.109,4
PL	5	3	2		1021,5	87,8	2.768,2	3.877,5
ES	8	4	4		1531,2	198,8	9.850,1	11.580,2
UK	4	2	2		1270,2	318,8	4.519,0	6.108,0
<b>Average</b>	<b>5,2</b>	<b>2,9</b>	<b>2,3</b>	<i>Subtotal</i>	<b>8.588,7</b>	<b>1.188,6</b>	<b>48.713,0</b>	<b>58.490,3</b>
SWE	6	4	2		294,1	112,0	927,5	1.333,6
RUM	4	2	2		98,7	59,7	332,5	490,9
TUR	3	2	1		526,6	44,8	2.692,7	3.264,0
<b>Average</b>	<b>5,0</b>	<b>2,8</b>	<b>2,2</b>	<i>Total</i>	<b>9.508,1</b>	<b>1.405,1</b>	<b>52.665,6</b>	<b>63.578,8</b>

## A.4 Detailed background information discussion groups

### External benchmark:

- Cisco systems - is the worldwide leader in networking that transforms how people connect, communicate, and collaborate ([www.cisco.com](http://www.cisco.com)).  
Has defined a clear and well-managed partnership process and combines pro-active thinking with reactive acting on opportunities.  
Interviewees: Bart Sweerman, *Senior director internet business solutions group*.  
Tonnie van Grinsven, *Global account manager ING*
- ING Group - is one of the world's largest financial services companies, offering banking, insurance and asset management in over 50 countries ([www.ing.com](http://www.ing.com)).  
ING RECA is the capital advising group, a new start up from ING RE / ING Bank, advising internal and external clients on real estate capital investments.  
Interviewees: Robert Masumbuko, *Senior business manager RECA*  
Karel Asselbergs, *Associate ING RECA*
- Royal Philips - is a global leader in healthcare, lighting and consumer lifestyle, delivering people-centric, innovative products, services and solutions through the brand promise of "sense and simplicity" ([www.philips.com](http://www.philips.com)).  
Philips has incorporated partnerships in their business model and applies a corporate approach, for the outperformance of business alliances.  
Interviewee: Ivo Rutten, *Vice-president corporate strategy and alliances*.

### Expert interviews

The following members of the ING RED management board were involved:

- Menno Maas: *CEO*
- Sven Mathijssen: *General manager*
- Jasper Klapwijk: *General manager strategy and marketing*

Additional expert interviews were held with persons of ING RED International:

- Carolien Vermaas: *Director business development and consultancy*
- Peter van Woerkum: *Business consultant business development and consultancy*
- Melinda Koopman: *Business consultant business development and consultancy*
- Gokhan Gomec: *Business consultant business development and consultancy*
- Wouter Terhorst: *Director sales*
- Gert-Joost Peek: *Director research*

### Case studies:

- ING RED Netherlands – is the home market of ING RE and can be considered as a large mature country organization. ING RED Netherlands is in the orientation phase for an acquisition in the residential market. During the case study the initial approach towards the acquisition was discussed, based on a report of Deloitte.  
Interviewee: Gerben Hieminga, *Senior consultant ING RED Netherlands*
- Concept new beginners – as a holding organization ING REDI is responsible for the development of new real estate concepts. Recently four new concepts have been developed, focussing on new beginnings in the residential market. Main issue is how to incorporate these services into the business process with partnerships. Pilot is the development Ypenburg, the Netherlands.  
Interviewee: Jan Bruil, *Deputy director ING RED Netherlands*  
Florentien van Es, *Real estate developer, ING RED Netherlands*
- Project RSM – evaluation of a recalled acquisition of a Turkish real estate developer. Turkey has the attention of the management board and a deal process was initiated. Due to internal considerations, the deal was not closed.  
Interviewee: Peter van Woerkum, *business consultant business development and consultancy*

## A.5 Overview key considerations partnerships

### Drivers for partnership propositions:

#### Benchmark

- Product development, Customer need (Cisco)
- Client can force cooperation with competitor (Cisco)
- Cooperation is an extension of the value chain (Cisco)
- Strategic analysis based on customer insight (Philips)
- Fulfil need with new business proposition (Philips)
- The total value chain is considered (Philips)
- It should provide entrance to a capability (RECA)
- Partners should complement each other (RECA)

#### Interviews

- Local market knowledge to be able to execute business (geographical/segment)
- Strengthen the organization (HR), due to limited capacity
- Client need to fulfil demand within time constraints, diversification of knowledge
- Realize growth objectives, according to the corporate strategy

#### Case studies

- Long-term approach is important (RED NL)
- Compare ING RED position with market trend (RED NL)
- Positioning, quality product, cost regulation (New Beg)
- Realize customer need with innovation (New Beg)
- Customer need based on trend macro economy (RSM)
- Partnership to access local knowledge/network (RSM)

#### Discussion topics

- What are the business drivers for the proposition of partnerships?**  
Which internal or external incentives can be the starting point for partnerships

#### Considerations:

- Fulfil customer need
- Access to knowledge
- Deliver distinctive capability

### Characteristics for cooperation concept favourability:

#### Benchmark

- Acquisition, promising product, no sales (Cisco)
- Acquisition improves product credibility (Cisco)
- Participation, prior to acquisition, maturity org. (Cisco)
- Alliance, established organisation with sales (Cisco)
- Alliance, high complexity and value (Cisco)
- Consideration make, buy or ally, depends on strengths, size, availability, price, etc (Philips)
- Acquisitions have preference, realize growth (Philips)
- Entry country, JV/ Control, acquisition/ non real estate related, alliance/ passive, participation (RECA)

#### Interviews

- Need for control
  - Reputation of the company
  - Compliance, trust, believe
  - Brand use / exposure
- Need for flexibility
  - Amount of risk in the portfolio
  - Exit scenarios, third party involvement
  - Timing to enter the market
- Availability of capital

#### Case studies

- Cooperation concept was top-down enforced (RED NL)
- Preference can vary during actual approach (RED NL)
- Partner has also its preferences or vision (RED NL)
- Acquisition for core business activities, alliances with partners outside the core business (New Beg)
- Need for flexibility also influences the partnership (New Beg)
- Participation due to size of partner, eventually acquisition of partner (RSM)
- Participation to maintain flexibility, gain trust (RSM)
- No alliance, due to potential ING RED wanted a leap-jump into the market (RSM)

#### Discussion

- Which characteristics influence the decision for a certain cooperation concept?**  
how is the preference for a cooperation determined

#### Considerations:

- Purpose of the partnership
- Relation to the core business
- Feasibility of the partnership

### Partner selection criteria:

#### Benchmark

- Financial, commercial, cultural, legal, technical fit, checklists available, qualitative meetings (Cisco)
- Profiled a typical target company (Cisco)
- Market leadership is important, which company can realize a market transition (Cisco)
- Partners should fulfil the capabilities which are missing for the business proposition (Philips)
- Maintain flexibility to anticipate on changes (Philips)
- Criteria are determined by analysing the need of ING RED, what is lacking (RECA)

#### Interviews

- Reputation of the partner
- Composition of the portfolio
- Process of doing business
- Culture, relative to ING principles
- Strategic directions
- Reason for partnering with ING (what is the win-win)
- ING vs. partner, partner vs. ING
- Who are the decision makers, organizational structure

#### Case studies

- Criteria revealed in discussion with the board (RED NL)
- Qualitative & Quantitative criteria important (RED NL)
- Track record, sustainability, client focus, culture, profit, locations are most important criteria (New Beg)
- Due to local business, criteria can vary (New Beg)
- Reputation of the company and owners (RSM)
- Way of doing business, business principles (RSM)
- Willingness of people, especially management (RSM)
- ING RED and partner should be complementing (RSM)

#### Discussion

- Which criteria (comparative and complementary) influence the suitability of a partner?**  
When does an organization become attractive for partnering

#### Considerations:

- Position of partner in the market
- Assess on the added value
- Alignment of business and management principles

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## A.6 Main considerations between control and strategic flexibility

### Environmental characteristics:

*Strategic uncertainty* – fundamental environmental uncertainty, i.e. the lack of knowledge about future legal and technical constraints as well as constraints in the market and competition.

*Dispersion of knowledge* – resulting from acceleration of knowledge creation and the limited ability of single organizations to absorb and apply knowledge, leads to knowledge differences between firms. In particular, converging technology.

### Transactional characteristics:

*Specificity of transaction-related investments* – has a fundamental influence on the organizational mode selected. If the joint fulfillment of synergy potential requires specific investments, it can be assumed that the partners are interested in a tighter relationship.

*Behavioral uncertainty* – resulting from opportunism risk and ‘moral hazards’ requires the establishment of expensive safeguards and control mechanisms. These result in higher governance costs (continuous transaction costs) and reduced economic efficiency.

*Persistence of economic synergies* – particularly economies of scale and scope reveal the ability to realize benefits in terms of cost efficiencies and operational effectiveness from synergies when partnerships are implemented.

*Appropriability regime* – determines the ability of the focal company to protect its core capabilities and resources from unwanted appropriation by a partner, and is therefore another factor influencing the transactional costs of inter-company relationships.

### Company characteristics:

*Resource endowment* – a company uses relationships with other companies to gain access and control over external resources, and thus improves its strategic position. A high and thorough internal resource capability reduces the need for external growth.

*Absorptive capacity* – its capability to learn and adapt influences the cooperation concept because high absorptive capacity can motivate the choice to only implement ‘loose’ partnerships.

*Institutional (social) capital* – the sum of the company’s personal and organizational relationships with its environment and its position in industry related and regional networks can also influence choosing an external growth strategy.

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## A.7 Main variables for inter-company fit

### Strategic fit:

- *Marketing competence*
- *Relationship network*
- *Market position (current vs. future)*
- *Industrial experience*
- *Strategic orientation*
- *Corporate image*

### Organizational fit:

- *Organizational leadership*
- *Organizational rank*
- *Ownership type*
- *Learning ability*
- *Foreign experience*
- *Human resource skills*

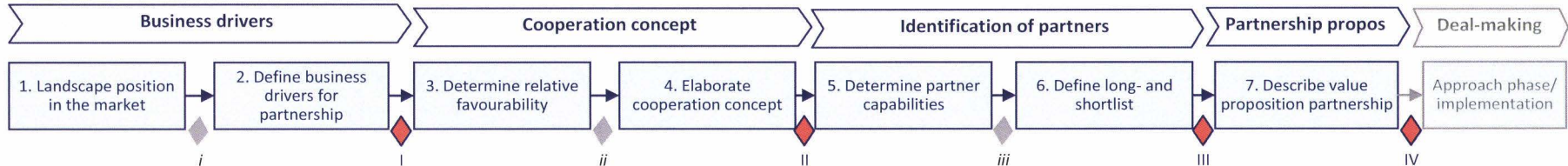
### Financial fit:

- *Profitability (current vs. future)*
- *Liquidity*
- *Leverage structure*
- *Asset efficiency*

### Cultural fit:

- *Organizational values*
- *Knowledge management*
- *Flexibility*





**Main activities and deliverables:**

<ul style="list-style-type: none"> <li>Internal and external analysis</li> <li>Relative growth position in the market</li> </ul>	<ul style="list-style-type: none"> <li>Specify the potential portfolio development</li> <li>Define core competences of the partnership</li> </ul>	<ul style="list-style-type: none"> <li>Determine internal and external characteristics</li> <li>Need for control and flexibility</li> </ul>	<ul style="list-style-type: none"> <li>Elaborate the characteristics of the cooperation</li> <li>Concept for cooperation</li> </ul>	<ul style="list-style-type: none"> <li>Define comparative and complementary requirements</li> <li>Assess partnership capabilities</li> </ul>	<ul style="list-style-type: none"> <li>Screen the market for partnerships</li> <li>Prioritise Long- and short list of potential partners</li> </ul>	<ul style="list-style-type: none"> <li>Define partnership proposition</li> <li>Describe value proposition partnership</li> </ul>	<ul style="list-style-type: none"> <li>Start with deal making activities</li> </ul>
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**Key validation and decisions:**

<i>i: Validate the relative growth position in the market</i>	<i>I: Approve partnership business drivers</i>	<i>ii: Validate relative favourability for cooperation concept</i>	<i>II: Approve cooperation concept</i>	<i>iii: Validate partner capabilities</i>	<i>III: Approve short list of potential partners</i>	<i>IV: Approve partnership proposition</i>	
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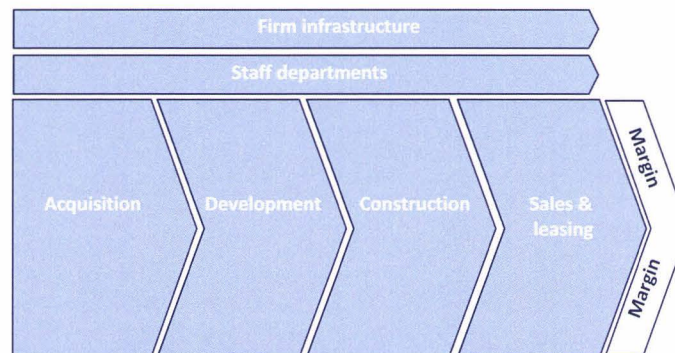
**Core team execution**

<u>Country</u> <ul style="list-style-type: none"> <li><b>Country Mgt*</b></li> <li>Research</li> </ul>	<u>Country</u> <ul style="list-style-type: none"> <li>Country Mgt</li> <li>Research</li> <li>Finance</li> </ul>	<u>Country</u> <ul style="list-style-type: none"> <li><b>Country Mgt</b></li> <li>Legal</li> </ul>	<u>Country</u> <ul style="list-style-type: none"> <li>Country Mgt</li> <li>Legal / Tax</li> </ul>	<u>Country</u> <ul style="list-style-type: none"> <li><b>Country Mgt</b></li> <li>Research</li> </ul>	<u>Country</u> <ul style="list-style-type: none"> <li>Country Mgt</li> <li>Research</li> </ul>	<u>Country</u> <ul style="list-style-type: none"> <li><b>Country Mgt</b></li> <li>Research</li> <li>Finance</li> <li>Legal / Tax</li> <li>CC&amp;R / HR</li> </ul>	<u>Country</u> <ul style="list-style-type: none"> <li>Deal team</li> </ul>
<u>REDI</u> <ul style="list-style-type: none"> <li>Bus. Cons</li> <li>Research</li> </ul>	<u>REDI</u> <ul style="list-style-type: none"> <li><b>CFO</b></li> <li><b>General Mgr</b></li> <li>Bus. Cons + Contr</li> </ul>	<u>REDI</u> <ul style="list-style-type: none"> <li>Bus. Cons + Contr</li> </ul>	<u>REDI</u> <ul style="list-style-type: none"> <li><b>CFO</b></li> <li><b>General Mgr</b></li> <li>Bus. Cons + Contr</li> </ul>	<u>REDI</u> <ul style="list-style-type: none"> <li>Bus. Cons + Contr</li> </ul>	<u>REDI</u> <ul style="list-style-type: none"> <li><b>CEO / CFO</b></li> <li><b>General Mgr</b></li> <li>Bus. Cons + Contr</li> </ul>	<u>REDI</u> <ul style="list-style-type: none"> <li><b>CEO / CFO</b></li> <li><b>General Mgr</b></li> <li>Bus. Cons + Contr</li> </ul>	<u>REDI</u> <ul style="list-style-type: none"> <li>Deal team</li> </ul>
<u>External</u> <ul style="list-style-type: none"> <li>Research</li> <li>M&amp;A consultant</li> </ul>	<u>External</u> <ul style="list-style-type: none"> <li>'Central' consultant</li> </ul>	<u>External</u> <ul style="list-style-type: none"> <li>'Central' consultant</li> </ul>	<u>External</u> <ul style="list-style-type: none"> <li>'Central' consultant</li> <li>Lawyers, tax / legal advisors</li> </ul>	<u>External</u> <ul style="list-style-type: none"> <li>'Central' consultant</li> </ul>	<u>External</u> <ul style="list-style-type: none"> <li>'Central' consultant</li> </ul>	<u>External</u> <ul style="list-style-type: none"> <li>'Central' consultant</li> <li>Lawyers, tax / legal advisors</li> <li>HR advisor</li> </ul>	<u>External</u> <ul style="list-style-type: none"> <li>Deal team</li> </ul>

\* Bold positions represent formal decision maker(s) in process step

### A.9 Internal analysis; value chain Porter for real estate developers

The value chain of Porter describes the essential elements in an organization, divided by the primary activities (line functions) and the secondary activities (staff functions, overhead). The model can be applied to evaluate the own organization from a structured perspective. The analysis is made specific for ING RED.



The primary process describes the necessary departments to be able to fulfill the needs of the client/end-user. Capital is invested in the beginning and profit is made with the sales and leasing of property projects. The secondary process (staff departments) and the firm infrastructure support the primary process and have the aim to smoothen the primary process.

Value chain analysis has been widely used as a means of describing the activities within and around an organization and relating them to an assessment of the competitive strength of an organization.

### A.10 External analysis; PEST analysis for the macro environment

PEST is an acronym for Political, Economic, Socio-cultural and Technological. The tool is an aide memoir to ensure you cover all the external forces/risks that may have an impact on the company, market or industry under consideration. Below is a categorized list of the issues that may be relevant to each case. From the long list of issues prioritize the most important by size of impact on the client and probability of occurrence. (Consider both current and emerging issues). Assessing the size of the impact and probability of occurrence will relate to the type of risk identified.

**Political Factors** - The political arena has a huge influence upon the regulation of businesses, and the spending power of consumers and other businesses. You must consider issues such as:

- the stability of the political environment
- will government policy influence laws that regulate or tax your business (Employment/Health & Safety/Environmental/Industry specific legislation)?
- potential changes in Government/Government policy

**Economic Factors** - You will need to consider the state of a trading economy in the short and long-terms. This is especially true when performing analysis for clients with an international focus. You need to look at:

- Interest rates
- the level of inflation
- employment/income/asset holding level per capita
- long-term prospects for the economy: GDP per capita etc.

**Socio-cultural Factors** - The social and cultural influences on business vary by geography and must be accounted for. Factors include:

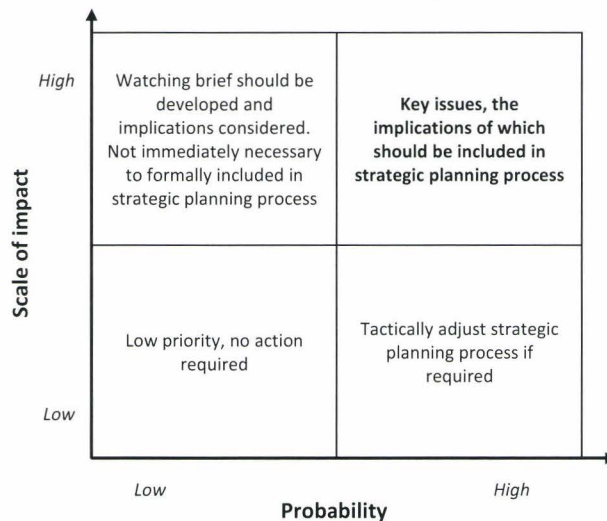
- attitudes to foreign products and services
- changing consumer tastes/preferences/fashions
- how much time consumers have for leisure?
- socio-demographic profile of the customer base and its dynamics

**Technological Factors** - Technology is vital for competitive advantage, and is a major driver of globalization. Consider the following points:

- does technology allow for products and services to be made more cheaply and to a better standard of quality?
- do the technologies offer consumers and businesses more innovative products and services such as Internet banking, new generation mobile telephones, etc?
- how is distribution changed by new technologies, e.g. books via the Internet, flight tickets, auctions, etc?
- does technology offer companies a new way to communicate with consumers, e.g. banners, Customer Relationship Management (CRM), etc?

**Assessment:**

Eventually all factors can be classified in the matrix below, to gain valuable output.



**A.11 External analysis; five forces of Porter in the real estate industry**

It is a useful check list of issues that needs to be considered when analyzing and assessing a company's competitive positioning. The five forces are: rivalry amongst competitors; threat of new entrants; power of suppliers; power of customers; and the threat of substitution. The underlying principal is the weaker the competitive forces, the greater an industry's profitability. By implication, a company whose strategy and market position provides a good defense against the five forces can earn above-average profits. At root, it is a great checklist for describing an industry. It helps you organize your research and provides a good framework in which to present your findings.

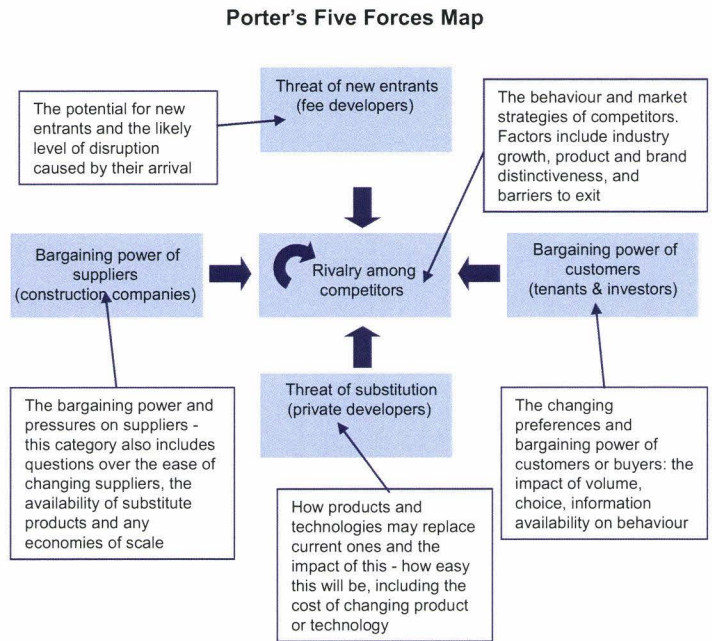
Porter's Five Forces is most useful:

- when you are trying to understand a new industry or market
- before building a hypothesis at the beginning of an assignment
- structuring and communicating your existing industry knowledge
- defining the boundaries of an industry and you client's role within it

Begin by reading widely (broad and shallow to begin), with the framework always in mind. Use analyst reports, annual reports; existing analysis and internal experts. Carefully define your industry. Using this definition rigorously, list the main players in each of the five categories: competitors, suppliers, customers/ buyers, new entrants, and substitutes. Continue by carrying out a search on the names you have compiled, and gather company and brokers' reports. Pull the relevant articles together and get reading! When you are reading the material, think about the themes listed below. Lift the most common comments into a structured Word document. Organize your results into five boxes, summarize and conclude in the light of the purpose of the research as given to you by the client.

You should now have a much clearer picture of the market. Where does the work you are doing fit into the picture of the industry you have developed through the model?

Typical output of the analysis can be specified as follows:



### A.12 SWOT analysis and confrontation matrix

SWOT analysis is a tool for auditing an organization within the challenges of its environment. SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats. The tool is a simple aid for structuring thoughts about a company and the environment in which it operates.

Any good strategy for a company should capture the best growth opportunities, militate against the most significant threats, leverage the company's strengths, and act to decrease or avoid their weaknesses.

#### SWOT:

- Strength**
  - Skill, knowledge/experience
  - Organisational resource or competitive capability
  - Market advantage
  - Competitive assets
- Weakness**
  - Missing asset needed to compete Condition that places a firm at a disadvantage
  - Competitive liabilities or unproven abilities
- Opportunity:**
  - External characteristics that provide potential competitive advantage or growth
- Threats:**
  - Factors that may undermine existing business model – HR, technology, new products, regulation, politics, demographics



#### Confrontation matrix:

	Opportunity	Threat
Strength	<b>Offensive</b> make the most of these	<b>Adjust</b> restore strengths
Weakness	<b>Defensive</b> watch competition closely	<b>Survive</b> turn around

#### Explanation:

The internal analysis can be captured in the strengths and weaknesses of the organization. The opportunities and threats are the influences of the environment on the organization. When combining the four analysis areas, a 2x2 matrix can be developed, providing the key actions to be taken.

### A.13 Method to determine relative favourability

Characteristics	Importance (1-5)	Impact (1-5)	Result (I*I)
<i>Need for control:</i>			
+ high transaction-specific investments			
+ high behavioral uncertainty			
- high absorptive capacity			
+/- other...			
		<b>Total:</b>	
<i>Need for flexibility:</i>			
+ high strategic uncertainty			
+ dispersion of knowledge			
+limited resources endowment			
- persistence of economic synergies			
+/- other...			
		<b>Total:</b>	

Total score for need for control and need for flexibility is determined by calculating the averages of the individual characteristics per category. The preferred favourability of the cooperation concept can be determined according to figure 21.

### A.14 Elaboration of the cooperation concepts

Greenfield is described as an alternative for the other partnership structures. The responsibilities, legal structure and governance structure are interpreted as an example.

Acquisition	Participations	Joint Venture	Contractual alliance	Greenfield
<b>Responsibilities:</b>				
<ul style="list-style-type: none"> <li>100% responsible for financial performance</li> </ul>	<ul style="list-style-type: none"> <li>Strategic responsibility for the performance of organization</li> </ul>	<ul style="list-style-type: none"> <li>Proportional Responsible for financial performance of JV</li> </ul>	<ul style="list-style-type: none"> <li>Proportional strategic and operational responsibility for financial performance</li> </ul>	<ul style="list-style-type: none"> <li>100% responsible for financial performance and reporting to RED I</li> </ul>
<b>Legal structure:</b>				
<ul style="list-style-type: none"> <li>Organization is integrated in the ING RED country organization, one entity</li> </ul>	<ul style="list-style-type: none"> <li>Minimum of 50% of the shares are owned by the ING RED country organization</li> <li>Legal contract specifies the organizational implications</li> </ul>	<ul style="list-style-type: none"> <li>Minimum of 50% of the shares of the JV are owned by the ING RED country organization.</li> <li>Legal contract specifies the organizational implications</li> </ul>	<ul style="list-style-type: none"> <li>No legal organizational structure established</li> <li>Legal contract specifies the organizational implications</li> </ul>	<ul style="list-style-type: none"> <li>Independent legal entity is established.</li> <li>Entity is 100% daughter of ING RED International</li> </ul>
<b>Governance structure:</b>				
<ul style="list-style-type: none"> <li>ING RED governance structure is applied</li> </ul>	<ul style="list-style-type: none"> <li>Minimum of 50% voting power on strategic issues</li> <li>Direct influence on operational processes</li> <li>Minimal one ING RED board member</li> </ul>	<ul style="list-style-type: none"> <li>Minimum of 50% voting power on strategic issues</li> <li>Direct influence on operational processes</li> <li>Minimal one ING RED board member</li> </ul>	<ul style="list-style-type: none"> <li>Strategic steering committee with proportional influence</li> <li>Business responsible for operational progress</li> </ul>	<ul style="list-style-type: none"> <li>Independent daughter country organization</li> <li>Report to RED I</li> </ul>

### A.15 Method for determining variables fit analysis

Per profile variable a maximum result score is defined, which determines the impact of the variable on the final decision. Other variables can be added.

Characteristics	Relevant	Importance (1-5)	Impact (1-5)	Result (I*I)
<i>Strategic profile</i>				
Marketing competence	yes	3	4	(max) 12
Relationship network				
Market position (current vs. future)				
Industrial experience				
Strategic orientation				
Corporate image				
+/- other...				
			<b>Total:</b>	
<i>Organizational profile</i>				
Organizational leadership				
Organizational rank				
Ownership type				
Human resource skills				
+/- other...				
			<b>Total:</b>	
<i>Financial profile</i>				
Profitability (current vs. future)				
Liquidity				
+/- other...				
			<b>Total:</b>	
<i>Cultural profile</i>				
Organizational values				
+/- other...				

### A.16 Method for long- and short listing

Per partner all the variables are assessed. The maximum score depends on the result score of the previous appendix. The total score is on average calculated.

Characteristics	Partner A	Partner B	Partner X
<i>Strategic profile</i>			
Marketing competence	10 (out of 12)		
Relationship network	5		
Market position (current vs. future)	2		
Industrial experience	15		
Strategic orientation	10		
Corporate image	20		
<i>Organizational profile</i>			
Organizational leadership	18		
Organizational rank	14		
Ownership type	7		
Human resource skills	16		
<i>Financial profile</i>			
Profitability (current vs. future)	25		
Liquidity	25		
<i>Cultural profile</i>			
Organizational values	4		
<b>Total score:</b>	171		

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## A.17 Business model according to Morris

### **Component 1 (factors related to the offering): How do we create value? (select from each set)**

- offering: primarily products/primarily services/heavy mix
- offering: standardized/some customization/high customization
- offering: broad line/medium breadth/narrow line
- offering: deep lines/medium depth/shallow lines
- offering: access to product/ product itself/ product bundled with other firm's product
- offering: internal manufacturing or service delivery/ outsourcing/ licensing/ reselling/ value added reselling
- offering: direct distribution/indirect distribution (if indirect: single or multichannel)

### **Component 2 (market factors): Who do we create value for? (select from each set)**

- type of organization: b-to-b/b-to-c/ both
- local/regional/national/international
- where customer is in value chain: upstream supplier/ downstream supplier/ government/ institutional/ wholesaler/ retailer/ service provider/ final consumer
- broad or general market/multiple segment/niche market
- transactional/relational

### **Component 3 (internal capability factors): What is our source of competence? (select one or more)**

- production/operating systems
- selling/marketing
- information management/mining/packaging
- technology/R&D/creative or innovative capability/intellectual
- financial transactions/arbitrage
- supply chain management
- networking/resource leveraging

### **Component 4 (competitive strategy factors): How do we competitively position ourselves? (select one or more)**

- image of operational excellence/consistency/dependability/speed
- product or service quality/selection/features/availability
- innovation leadership
- low cost/efficiency
- intimate customer relationship/experience

### **Component 5 (economic factors): How we make money? (select from each set)**

- pricing and revenue sources: fixed/mixed/flexible
- operating leverage: high/medium/low
- volumes: high/medium/low
- margins: high/medium/low

### **Component 6 (personal/investor factors): What are our time, scope, and size ambitions? (select one)**

- subsistence model
- income model
- growth model
- speculative model