ARD-PIETER DE MAN

ALLIANCES

AN EXECUTIVE GUIDE TO DESIGNING SUCCESSFUL STRATEGIC PARTNERSHIPS

WILEY

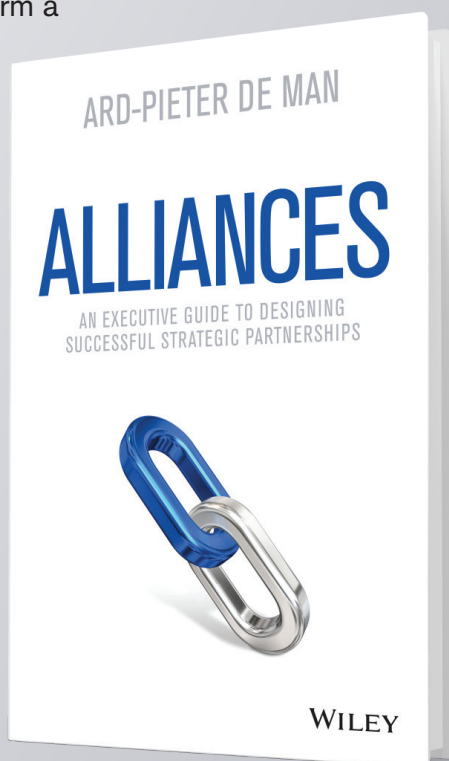# Please feel free to share this e-sampler with anyone you think would benefit from it.

Thank you!

Sample material taken from Chapter 7

Contents

Multi-partner alliances: The more the merrier?

In addition to alliances between two partners, alliances involving larger numbers – or sometimes even vast numbers – of partners exist. This chapter analyses the structures of such multi-partner alliances. In high tech sectors, the average number of multi-partner alliances has been stable over the years. Approximately 15 percent of all alliances in this sector have more than two partners.[1] Multi-partner alliances are common, particularly in IT-related sectors. The need to combine technologies and to work on standardization and interoperability of products drives IT firms to collaborate in larger constellations. In other sectors, such as biopharma, the number of multi-partner alliances is much smaller because technologies in those sectors traditionally operate on a standalone basis. However, given the advent of the use of IT in biopharma and with increased pressure to share R&D expenses, the number of multi-partner alliances in biopharma seems to be increasing.

Apart from the technological drive of firms to enter into multi-partner alliances, other reasons exist for frequent multi-partnering. Competition is one such reason. Companies can combine their strengths to compete with a large competitor. To compete with Microsoft's initiatives around identity management on the Internet, its competitors joined forces in the Liberty Alliance to develop a competing offer. Similarly, when Vodafone became a powerful player in the European telecom market, Deutsche Telekom, Telecom Italia, TeliaSonera, and Orange joined forces to form the Freemove alliance as a countervailing power.

Other reasons to set up multi-partner alliances, such as reaping economies of scale, sharing risk, or exchanging knowledge, are not unique to these structures. Bilateral alliances may be formed for these same reasons. However, multi-partner alliances open up more opportunities to achieve these goals: as more partners join, the benefits that can be realized increase. Obviously, a limit exists to the number of partners that can join an alliance, and multi-partner alliances come with a number of challenges that increase in importance when the number of partners increases.[2]

First, relationship building becomes more complex. Each partner must build a relationship with all other partners in the alliance. As more partners join an alliance, the relationships tend to remain shallow and significant trust may fail to develop. Such a situation diminishes the benefits of the alliance because exchange of knowledge and information is less likely when relationships are superficial. Therefore, alliances with many partners usually focus on less far-reaching goals that do not reach deeply into alliance members' organizations. Only over time might such an alliance deepen and intensify its relationships and goals.

Second, each partner has its own strategy and goals. The chance that all strategies fit together decreases as more partners join. As a result, multi-partner alliances find it difficult to define projects that benefit all members. Therefore, the scope of multi-partner alliances tends to be narrower than the scope of bilateral alliances. For the same reason, the projects that a multi-partner alliance executes will have longer-term strategic effects instead of an immediate impact on competition in the sector.

The third challenge is to discover partners' opportunistic behavior. Monitoring the contributions of all partners and determining whether they are actually committed to the alliance or whether only lip service is paid is difficult. Free-riding and profiting from the work of others without contributing oneself is easier to cover up and more likely to go undetected in multi-partner alliances. One solution to this problem is to increase control procedures, which in turn makes the alliance less flexible and increases governance costs.

Decision making is a fourth challenge. Consensus is often difficult to reach and democratic decision making may hold back the entire alliance. In practice, many multi-partner alliances have a dominant partner (or partner group) that guides the decision making in a certain direction. This partner must understand its specific role and exercise restraint in using its power by taking into account

the interest of others. The METRO case discussed in this chapter illustrates such an alliance structure.

Finally, the composition of multi-partner alliances is rarely stable. Over time, existing partners leave and new partners join. The inflow and outflow of members require continuous management attention. New relationships need to be built and old ties are severed. Multi-partner alliances are time consuming and require more management hours than bilateral alliances, thus limiting the number of alliance members.

Because of the aforementioned reasons, only well-designed multi-partner alliances are viable. The following four different models for multi-partner alliances have emerged in practice:[3]

- A general assembly or democracy model in which all partners vote on decisions. In the purely democratic model, the one-man one-vote rule is applied. Other models may specify different voting rights, such as in relation to partner size.

- The lead partner model, in which one dominant company acts as the first among equals in the alliance and has a more significant decision-making role. A variant of this model is a lead partner group comprised of a smaller inner circle of partners that guides a larger alliance.

- The alliance support office, which is a central office created by the partners to support the alliance's administrative processes. Alternatively, the alliance support office may have an active decision-making role.

- Joint ventures in which the partners participate as shareholders and the joint venture manager has its own decision-making responsibility.

The general assembly: the Prominent cooperative

Early in the 1990s, Dutch tomato growers were confronted with a major loss of market share. The growers had a leading position in Western Europe but sacrificed tomato flavor by increasing the quantity of production. German consumers who for years formed the most important markets for Dutch tomatoes stopped buying them from one day to the next. They qualified Dutch tomatoes as "water bombs," or flavorless vegetables that tasted like water. In response, tomato growers started thinking about new ways to improve and differentiate their products. Because these growers were small family businesses, they estimated

that the risks connected to innovation would be too significant for their individual companies. Therefore, they sought likeminded entrepreneurs to create cooperatives involving multiple partners.

One such cooperative is Prominent tomatoes in the Netherlands, which started in 1994 with six vine tomato growers that owned 20 hectares of greenhouses, in which tomatoes are grown in the Netherlands. In 2013, the cooperative had 23 members that owned 206 hectares of vine tomatoes in greenhouses. Prominent's mission is to produce vine tomatoes in a sustainable way in harmony with the environment and society. The cooperative is an instrument that helps its members operate their business profitably. Hence, the primary strategic imperative is not to build Prominent as a business but to strengthen the partners' businesses by collaborating.

Figure 7.1 depicts the structure of Prominent as of 2006, when it had 22 vine tomato growers as members. The cooperative has a board whose members are elected from the membership. The cooperative owns a holding that, in turn, is the mother company of a number of daughters. One daughter is a packaging company in which specialized machines package tomatoes for different markets.
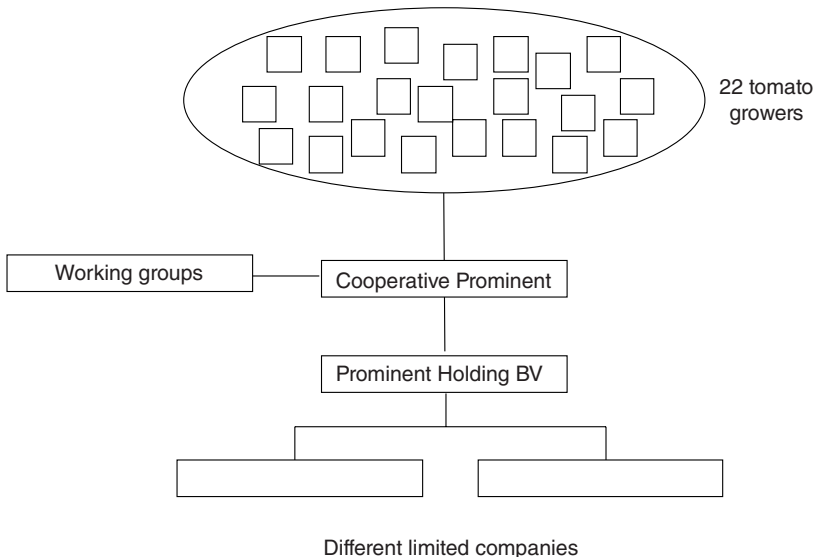

FIGURE 7.1: Structure of the Prominent cooperative

Another daughter company is a greenhouse in which the partners experiment with new technologies for growing tomatoes, such as new forms of lighting that influence the growth of plants or energy-saving technologies. For the partners to experiment with these technologies on their own is much too expensive. Jointly, they can afford making investments into innovative efforts, and the lessons learned from these innovations are available to them. Next, the individual growers decide whether they want to implement the lessons learned in their own greenhouse.

Members are obliged to participate in management of the cooperative. They do so by serving on the board, being a member of a working group, or being involved in running the daughter companies. Working groups focus on themes such as marketing or purchasing. The advantage of this approach is that it fosters specialization, wherein some growers are good at purchasing and others have a great feel for marketing. Growers choose the job they are most competent at, gather even more knowledge and expertise in that area through experience, and increase the benefits for all members. Individual members are obliged to follow the decisions made by the working groups; in other words, if the purchasing working group decides that a certain supplier is the best, all members need to purchase from that specific supplier. Another obligation is that they have to follow a number of rules for growing their vine tomatoes to ensure quality and realize the mission. Essentially, the cooperative handles all non-core – in other words, all non-growing-related – activities of the members. The alliance is also open ended. Many of the ideas that it implemented were not thought of at its start 20 years ago.

The board consists of a handful of members and meets on a weekly basis. The board is accountable to the general meeting of members that takes place each month. Important investments, such as the creation of a new daughter company, are subject to agreement by the members. When a proposal is put to a vote, the partners do not quite follow the one-man one-vote rule. Instead, the number of votes that a grower has is directly related to the number of hectares he owns, up to a maximum of five hectares. The working groups report to the board on their activities.

The partners also learn from one another in the core of their business: improving the growing of tomatoes. They visit one another's greenhouses to learn the latest tricks of the trade. An obligatory excursion to one of the partners' greenhouses is held each week. A quality test of the tomatoes produced by the growers occurs on a biweekly basis, making transparent the quality scores of each grower.

Over time, the collaboration intensified. For example, not all membership obligations were instituted in the beginning. Moreover, the daughter companies were created over time and managers were hired to run the daughter companies. Because not all members agreed with all of these decisions, some left and new ones were asked to join. The number of members is maintained at between 20 and 25. New members have to meet specific criteria. They must be located in the same region, must grow a particular species of vine tomatoes, must have a similar philosophy about the direction of their company, and must be willing to be involved in the cooperative. The requirement to be located in the same region as the other growers has a long historical background. That particular region is the world's leading horticultural region. It is relatively small and culturally homogeneous, and most Prominent partners know one another informally because they are neighbors, relatives, or members of the same sports clubs. Such relationships foster trust among the members. Because the cooperative conducts important aspects of the growers' business, a high level of trust is necessary. The informal relationships among the partners ensure that this trust exists.

Based on the size of their businesses, the members give loans to the cooperative for a five-year period (or until they leave the cooperative, whichever is earlier). Any profits remain in the cooperative. A maximum of 10 percent of the profits from the daughter companies is available to hired managers of those companies as an incentive. The individual members receive profits from being a member through improvements in their knowledge, lower purchasing prices, and better sales prices.

Prominent shows a mix of trust and control elements. A number of obligations are tied to being a member. Simultaneously, partner selection, regular joint meetings, and visits to the greenhouses ensure that relationship building occurs. Trust is recognized as an important mechanism in the alliance. The conscious policy to allow only regional tomato growers to join the cooperative is an example. Over time, a slight trend has emerged to increase control. As investments in the daughter companies grow and the concept of the cooperative develops, the parties are feeling the need to strengthen the formal rules.

The high reliance on the informal elements of the Alliance Design Framework enabled the alliance to adapt to changing circumstances. The ability to manage dynamics is also fostered by the fact that internal alignment is not a challenge. The companies are small family businesses and the owners participate in the alliance themselves. As a consequence decision making is fast. A final condition

that helps to manage dynamics is that exit is easy. Partners that might otherwise hold back change can leave the alliance easily.

Prominent is not the only cooperative to have emerged from the crisis in the early 1990s. Other growers set up similar initiatives, also around other crops, flowers, and potted plants. The "water bomb" disappeared as a result of these efforts. In 2005, the Dutch growers regained their position as the most important suppliers of tomatoes to the German market.

In the general assembly model, the ultimate power lies with the general meeting of the members of the alliance. Voting is a normal procedure and is used often as a mechanism to decide on issues. This model is relevant when the investments and risks of the partners are relatively similar. When they are not similar, the lead partner model may be more relevant.

The lead partner:[4] METRO's Future Store Initiative

How do you keep more than 50 partners focused on and aligned with innovation? The German METRO Group, the third largest retail chain in the world, answered that question by designing a trust-based network. After a strategy review, METRO decided that the way to differentiate its supermarket chains from competitors was to apply more technology in their stores. Because METRO is not a technology company, it asked one of its main suppliers, Intel, how to innovate. In 2001, they jointly came up with the idea to create the Future Store Initiative. This Initiative aimed to build the supermarket of the future in a real-life setting. To fill the supermarket with the latest technology, more than 50 partners were invited to contribute their ideas and technologies.

A crucial issue was the development of an RFID (radio-frequency identification) standard for supermarkets, which did not yet exist at the initiation of the Future Store Initiative in 2002. RFID chips are tags that send out a radio signal that can be used for a variety of purposes. For example, tags can be attached to a crate of Coca-Cola when it leaves the factory for delivery at a supermarket. Once the crate arrives, the radio signal can be picked up and the presence of the crate is automatically registered in the IT systems of the supermarket. This process saves handling costs and provides opportunities for optimization. For technology companies, the Future Store Initiative was an appealing idea. By developing an RFID standard, a new market could open up, enabling the Initiative to sell its technologies to the supermarket sector. In addition, the Future

Store Initiative is a real-life store; therefore, the partners showcased their technologies not in an experimental setting as they usually did, but in a supermarket where people shopped, enabling the benefits of the new technology to be shown in practice. Finally, many technology companies already focused on retailing or were evaluating that market. Joining the Future Store Initiative could help them to realize their strategy for the retail market. The strategic imperatives of the partners combined well with the value proposition of the Future Store Initiative.

RFID was not the only technology to be implemented. Partners were invited to contribute their ideas on anything that could enhance the shopping experience. Over time, the partners proposed technologies such as:

- Personal shopping assistants: the ability for a customer to email his/her shopping list to a shopping cart for display on a small screen.

- Intelligent scales: scales that automatically recognize the fruits and vegetables placed on them.

- Self-checkout: different systems for self-checkout were attempted in the store.

- Electronic advertising displays: rather than having the in-store paper advertising that displays what is being offered, electronic displays save on handling costs because manually changing all of the paper ads is not needed.

- Information terminals: an example is a wine terminal that enables shoppers to search for the wine that best matches their taste. Next, a spotlight in the ceiling shines on the shelf where the chosen bottle is located.

In December 2002, METRO selected an existing supermarket, removed everything inside, and invited the partners in the Initiative to implement their ideas. Broadly, the Initiative has six types of partners: RFID partners, trade technology partners (specializing in retail technologies), brands (producing consumer goods), IT technology and service partners, software companies, and other service providers. To accommodate the fact that some partners contributed to many projects in the Store, whereas others worked on only one project, three levels of partnership were defined: platinum, gold, and silver. At the launch of the Future Store, the Initiative had three platinum partners: Intel, SAP, and IBM.

METRO invited partners that it knew well to participate. It had relationships with some of the partners that went back decades. Moreover, many of the partners knew one another as well, leading to a web of personal relationships. When

certain competencies were missing, METRO relied on the partners to bring in their best relationships, leading friends of friends to join the network. Most partners were suppliers to METRO, even though the Future Store Initiative was strictly separated from the purchasing relationship with the suppliers. METRO did not even make commitments to buy technologies from the suppliers who participated in the Future Store Initiative in the event that it decided to roll out that technology in other stores. Still, METRO was an important customer and the companies certainly did not want to disappoint it. METRO also invited partners for clearly specified roles. The major competitors in the software industry, Microsoft, Oracle, and SAP, were involved. To ensure that they did not compete directly, each was given a specific role to play that did not overlap with the role of its competitors. For example, Oracle was asked for the databases and SAP was asked for its ERP software.

The partners were asked to make a financial contribution to the project. Each partner invested some cash into a fund that was primarily used for marketing the outcomes of the Initiative. In addition to that contribution, the partners were free to decide on how much staff and resources they would make available to the project. The minimum requirement was at least one person as a point of contact. No obligation existed to contribute more. Each partner carried its own expenses. "Revenues" included learning, reputation building, and – hopefully in the future – the opening up of a new market.

Approximately 50 partners participated at the start of the Initiative. In 2013, this number had grown to more than 75. In addition to the software partners already mentioned, additional partners include well-known consumer goods producers such as Coca-Cola, Danone, and Henkel; RFID experts such as Checkpoint; retail technology vendors such as Mettler Toledo; technology providers such as Cisco, Fujitsu, IBM, and Siemens; and other service providers such as Accenture, DHL, and Visa. Some outflow of partners occurred, but overall participation grew.

Because the Future Store Initiative was meant to be a long-running project, a structure for the alliance needed to be implemented. Figure 7.2 shows the formal structure that was devised early in the project. An executive committee was created with representatives from the platinum partners. It held regular meetings and decided on marketing and communication, and on the exit and entry of partners. Within the executive committee, METRO played the leading role and had the final authority on all decisions. All partners are invited to two to three marketing committee meetings a year, at which time progress is reviewed and evaluated. Four project teams focus on the four areas
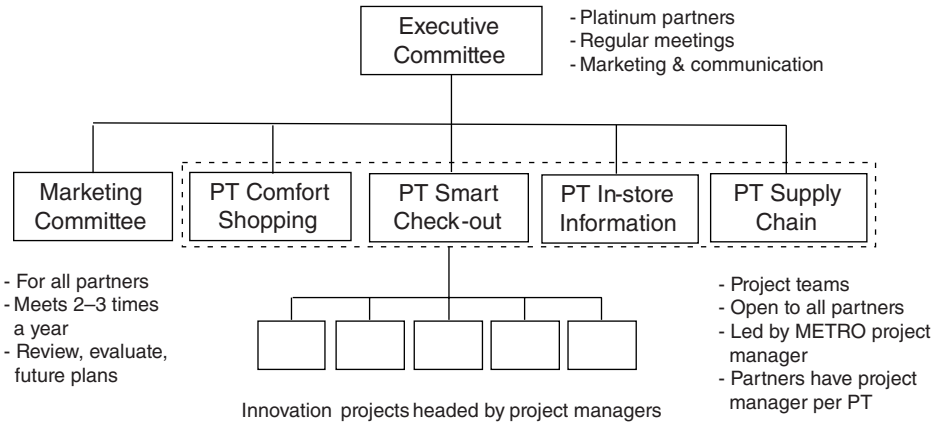
```
                        ┌──────────────┐    - Platinum partners
                        │  Executive   │    - Regular meetings
                        │  Committee   │    - Marketing & communication
                        └──────────────┘
```

Executive Committee

- Platinum partners
- Regular meetings
- Marketing & communication

| Marketing Committee | PT Comfort Shopping | PT Smart Check-out | PT In-store Information | PT Supply Chain |

- For all partners
- Meets 2–3 times
  a year
- Review, evaluate,
  future plans

- Project teams
- Open to all partners
- Led by METRO project
  manager
- Partners have project
  manager per PT

Innovation projects headed by project managers

FIGURE 7.2: The structure of the Future Store Initiative in 2005

of innovation identified by the Future Store Initiative: comfort shopping, smart checkout, in-store information, and supply chain. A METRO project manager heads each project team. Next, project teams coordinate the individual innovation projects, each of which has a manager.

Legally, only a short memorandum of understanding was signed that primarily contained intentions, accompanied by a non-disclosure agreement. These documents highlight the vision behind the alliance and the required resource commitments, as previously described. No exclusivity exists within the Initiative: competitors may enter the network and existing partners may enter into similar relationships with competitors of METRO. Partner's proprietary and confidential intellectual property that is contributed to the Future Store Initiative remains as such. However, all lessons learned in the Initiative are open and may be used by the partners in any way they see fit. No end date is set for the alliance. The concept was to continue to innovate and not to make the Initiative a one-time project. In short, the Future Store Initiative was based on few formal agreements.

Why does an alliance with such limited agreements work? Partners contribute because they see the opportunity to increase the pie and break open a new market. That vision was appealing. In addition, the partners do not want to disappoint an important client. Finally, even though the resource commitments they have to make are substantial, from an innovation perspective the partners can innovate at a much lower cost than on their own. Because

the partners make their own investments and have no guarantee that they will get any business out of it, no exclusivity could be demanded and IP rules have to be flexible. If METRO asked for exclusivity, the partners might have opted not to join the project. Moreover, METRO does not profit from exclusivity. Especially with regard to RFID, METRO aimed to set a standard and the more that companies use the standard, the higher the chance that the standard is widely accepted. In addition, more important than owning all innovations at one point in time is to continue to innovate. The Future Store Initiative enabled METRO to do just that.

The early phase of the project was particularly noteworthy. After the first discussions took place with Intel in 2001, in 2002 a location was selected for the Future Store in an existing supermarket. In September 2002, that store was stripped and an aggressive deadline of April 2003 was set for its reopening. To add to the pressure, German supermodel Claudia Schiffer was hired to open the store, which guaranteed major media attention. Therefore, the April deadline had to be met and all of the technology needed to work flawlessly. If not, the partners would suffer major damage to their reputation.

People working for the Initiative were required to be present on site. A fun target, good existing relationships, high time pressure, colocation on a single location, and the risk of reputation damage in front of the world press combined to create strong social capital among the participants. A Future Store community came into being. A website listing the competences of all of the individuals involved in the Future Store Initiative also enabled the right people to get connected and resulted in a culture of collaboration.

For the rest, the project was not overly structured. No detailed planning occurred upfront but deadlines were set on the go. METRO paid close attention to execution and getting the details right. In this way, the necessary structure was combined with room for self-organization, and the combination proved fruitful. METRO did not have to exercise its power much and intervened only on rare occasions. For example, it decided that IBM should be the system integrator of the project once it became clear that having a system integrator was necessary.

In 2013, the Initiative was still operational. Some technologies are being rolled out and further research is occurring, as is continuous experimentation. To keep the network vital, METRO continued to set new challenges, such as creating an RFID center to showcase technologies. The introduction of new partners into the alliance is also a way to keep the alliance fresh, to gain access to new ideas,

and to signal that existing partners could not rest on their laurels. Finally, the network is kept fresh by co-opetition. The presence of competitors in the alliance stimulates companies to continue to contribute their best efforts even when they have no legal obligation to do so.

The benefits of participating in the Future Store Initiative lie in learning about technology implementation, understanding the business consequences of technology use, and gaining access to a network of specialists. The marketing impact of the Future Store was also valuable and the store opening achieved worldwide media coverage. For many partners, that alone compensated for the investments they made. METRO gained access to many new technologies that enhanced the shopping experience. The effect of the technologies on consumers is measured and many shoppers rate their satisfaction with the technologies as high.

As the structure shows, METRO is not just a first among equals but has a final say on most issues. However, METRO realizes that it cannot dictate the alliance. For the alliance to be successful, each partner must be able to realize its benefits as well. Although the formal structure gives METRO the lead, in practice METRO manages the alliance much more on a consensus basis and ensures that everyone is heard, all interests are taken into account, and communication lines are open. Such tactics help maintain the commitment of the partners.

The governance of the Future Store Initiative is almost completely based on trust, and mechanisms were built in to ensure that trust-based governance was effective, including an appealing vision that ensured intrinsic motivation of the partners to contribute, a focus on value creation, the choice of partners they trusted, and a limited number of rules. Yet, some control elements also existed. METRO is a big client for most of the partners, which acts like a stick for the partners alongside the carrot of opening up a new market. The worldwide publicity that was ensured by, among others, hiring a world-famous model to open the store also meant the risk of reputation damage if the technologies failed in front of the eyes of the assembled world press. Moreover, note how different mechanisms reinforced one another: the fun vision, the colocation, the time pressure, and risk of reputation damage together created the high performance culture of the alliance. Note that all of these relate to the informal elements of the Alliance Design Framework and that the formal structure is limited.

Given the number of partners of the Future Store Initiative, the burden of coordination may become great. In the Future Store Initiative, the burden is lessened by relying on self-organization. Because separate projects are defined that operate quite independently from one another, coordinating much across

projects to ensure consistency is not needed. Still, the investments that METRO Group has to make in governing the alliance are substantial. When the burden of coordination becomes too high, an alliance support office may be useful to ensure consistency in coordination across partners and alliance projects.

The alliance support office: SkyTeam

Alliance support offices make sense when the number of partners in an alliance grows. Two varieties of support offices exist. One is an alliance support office that is completely operational and that supports the implementation of the decisions that partners agreed to. The institution is primarily occupied with carrying out the decisions made by the partners. In the second variety, the alliance support office plays an active role in decision making and may even take the lead in the alliance. The office has the power to enforce implementation of alliance policies in individual alliance partners. In both varieties, the alliance support office may also act as a broker among partners, attempting to reconcile differences and act as a go-between.

The first type of alliance support office is used by the large airline alliances of SkyTeam, Star Alliance, and oneworld (see Table 7.1 for details about these alliances). The alliance structure was chosen over mergers for a variety of reasons. For example, in most cases, the level of integration required to achieve the benefits of collaboration does not require more far-reaching integration through mergers or acquisitions. In addition, mergers between airlines in different countries face various legal obstacles. Sometimes these obstacles are

TABLE 7.1: Three airline alliances compared (2012)[5]

	Star Alliance	SkyTeam	oneworld
Founding year	1997	2000	1999
Number of members	27, including Lufthansa, Singapore Airlines, United Airlines	17, including Air France/KLM, Delta, Alitalia	12, including American Airlines, British Airways, Japan Airlines
Passengers per year (in millions)	679	531	324
Destination countries	193	178	149

anti-trust related, sometimes governments limit the acquisition of national carriers by foreign companies, and sometimes treaties between countries regarding the use of airspace make such mergers legally complex. The three main alliances circumvent these problems.

Airline alliances were primarily initiated to combine networks through code sharing and to combine frequent flyer programs, allowing passengers to "earn and burn" their frequent flier miles across the alliance partners. This tactic enables an airline to offer more destinations to its passengers. To achieve this goal, airlines primarily seek to collaborate with complementary airlines that fly different destinations rather than with direct competitors that fly the same routes. This complementarity results in a lower level of integration in these alliances than in the Air France/KLM, Delta, Alitalia alliance. However, more recently with alliances having their route networks in place, they have started to focus on realizing more customer benefits, which requires closer collaboration around service levels, transfer processes, and the like.

This development also has implications for the governance of the alliances. For a long time, SkyTeam had no centralized office; however, coordination needed to increase given the increase in membership and greater focus on customer benefits. Now, the central SkyTeam office has approximately 30 employees that work with the members in different working groups to align the partners. Working groups focus on promotion, product and service, and operational processes. Pricing and optimal use of capacity are outside the scope of the alliance because they have immediate anti-trust implications.

Figure 7.3 presents the structure of the SkyTeam alliance. The strategic decisions in SkyTeam are made by the Governing Board, which consists of the CEOs of the member airlines. They decide on the activities that require priority and have the final say on new members joining the alliance. The SkyTeam's centralized office has a managing director who, together with his management team, is responsible for implementing the strategic plan as decided on by the Governing Board. Next to this operational task, the managing director also develops proposals to put to the Governing Board.

The main functions of the centralized office are:

• Preparing the decision making, in other words, developing proposals with the members about projects to be put to the Governing Board;

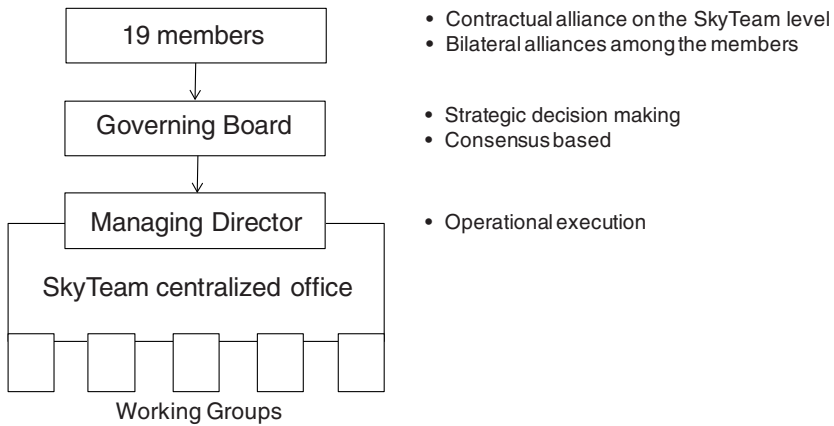• Facilitating implementation of the decisions made; and

FIGURE 7.3: SkyTeam governance structure in 2013

- Executing some operational tasks, such as acting as a spokesperson for the alliance and taking care of advertising.

To the greatest degree possible, decision making by the Governing Board is done by consensus. Because of the differences in strategy and maturity of the partners, achieving consensus on all issues is not always possible. Therefore, if consensus cannot be reached, a smaller group of partners may still decide to implement a certain decision. In that case, the others are not obliged to follow. Hence, integration occurs at different speeds to allow for company differences. This is a mechanism to deal with dynamics in the alliance.

New members are obligated to enter into bilateral alliances with the other partners. These alliances provide the backbone for implementing the SkyTeam policies. SkyTeam has many basic requirements regarding IT, service levels, code sharing, use of airport lounges, safety, and frequent flyer programs. Working groups ensure consistent implementation of these requirements across the members. They consist of members of the centralized office and representatives from the member airlines and play an important part in ensuring internal alignment of the partner organizations with the alliance. To implement all of the requirements usually takes approximately 1.5 years. Because of these investments, exit from the alliance can be expensive, especially because members also have to pay an exit fee.

The other two airline alliances have a similar structure. The oneworld alliance has a management company and a Governing Board consisting of the CEOs of

each of the member airlines. The chairmanship of the Governing Board rotates annually. The Star Alliance structure is somewhat different.[6] Its Chief Executive Board guides the strategic decision making, and the alliance has one layer more than the other two alliances. The Alliance Management Board, consisting of the alliance managers of the member airlines, acts as the Supervisory Board to the Star Alliance GmbH, the centralized office of the Star Alliance. This office coordinates, monitors compliance to standards, stimulates the exchange of best practices among the members, and develops alliance products and services. Sounding boards and advisory groups fulfill similar functions as the SkyTeam alliance working groups. The Star Alliance has approximately 75 standards in different areas that are enforced across all members to facilitate collaboration.

In terms of control and trust, the previous description of the role of alliance support offices in the three airline alliances shows that their focus is clearly on control. They emphasize the formal elements of the Alliance Development Framework over the informal ones. However, this control is not strategic but primarily operational. To the extent that these offices take on more of the decision making and are able to enforce alliance policies, their role becomes more strategic. The alliance offices in the airline business have a pure coordination role, which makes them different from joint ventures that also have an operational task to produce something or deliver a commercial service.

The multi-partner joint venture: the Holst Centre

The Holst Centre, a research center in which companies and universities share common infrastructure for the development of flexible electronics and sensors, uses the joint venture model. Partners include Agfa, ASML, Bayer, DuPont, Philips, Solvay, Sony, Fujitsu, and many more. The reason behind this joint venture is scale economies. By sharing the physical infrastructure as well as some basic research projects, the partners are able to lower their cost of innovation compared with a situation in which they would do everything in house. In this case, self-coordination is not a feasible option. To optimally profit from the economies of scale, centralization is required.

Multi-partner joint ventures do not differ much from bilateral joint ventures, as discussed in Chapter 6 and not repeated here. Naturally, they face the more challenging task of keeping many partners satisfied that may have conflicting goals. The Holst Centre solves this challenge by carefully balancing the partners' common and private benefits by conducting research that benefits all partners and setting up projects that may benefit only one or a subset of part-
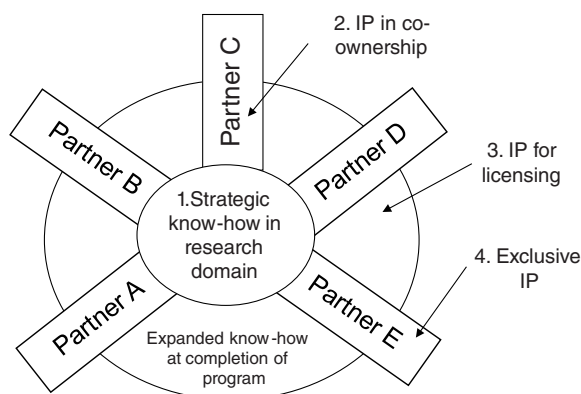
FIGURE 7.4: IP structure Holst Centre[7]

ners. This balance becomes clear in Holst's IP (intellectual property) policies, which reflect a continuum from jointly owned to individually owned IP.

The Holst Centre distinguishes different types of IP, each with its own ownership policy. Figure 7.4 shows the different flavors. First and not shown in the figure is background IP that partners contribute: this IP is owned by the contributing partner. Second, a joint research program delivers IP that represents strategic knowledge in the research domain. Partners pay an entrance fee to participate in the Holst Centre, which gives them a non-exclusive license on this IP. All partners receive exploitation rights, but they do not own the IP. The next step is when partners participate in specific research programs carried out jointly by the Holst Centre and one or more partners. The Holst Centre and the partner(s) that collaborated on it co-own this IP, which is licensed to the other partners. IP for licensing refers to IP that may be created by Holst itself or may be generated by the partners but is of little interest to them. This IP is not co-owned and can be licensed by Holst to third parties.

Finally, exclusive IP is generated in a research program exclusive for one partner. The Holst Centre limits this type of research to special circumstances. It only occurs when other partners agree and one of the following three situations occurs: 1. a partner must bring in own IP to create the new IP and it cannot create this new IP itself; 2. a small- or medium-sized company is involved and part of the IP created by the collaboration can be brought into the strategic know-how in the research domain; 3. a spin-off is created from IP that is not used by the partners, and the spin-off then receives ownership of or an exclusive license to the IP.

Assigning various property rights to partners is an important part of the deal structuring of alliances. Because it helps set the incentives that the partners have to collaborate, such assignments affect governance. The more aligned the property rights are with the alliance's and the partner's strategic imperatives, the easier governing the alliance becomes, making it clearly a control procedure. In fact, the Holst Centre relies more on control than on trust. The lesson from the Holst Centre in relation to multi-partner alliances is that to accommodate different interests, a continuum of projects can be created, each with different levels of participation from partners. This creates flexibility and enables the alliance to cope with dynamics. In addition this flexibility makes it easier for a larger number of partners to align with the alliance, because they can choose which participation level is most appropriate to them.

When to use different multi-partner alliance models

"The more the merrier" is not a saying that applies to alliances. The management of multi-partner alliances is challenging. The cases discussed in this chapter show a number of general features of multi-partner alliances:

- Consensus seeking. Some form of democracy or consensus is at work, even when the alliance has a lead partner or strong central joint venture management. In the end, the lead partner also depends on the commitment of others to achieve his goal. Enlightened self-interest ensures that the lead partner applies unilateral decision making with caution.

- Common core. Minimum standards for partners to join are set, and partners are free to move beyond those standards. Prominent has rules and procedures for growing tomatoes that everyone must meet, but the partners are not obligated to implement the latest lessons learned in the experimental greenhouses.

- Accommodation of differences. Different speeds and levels of contribution accommodate differences among the partners. In the Future Store Initiative, some partners contribute significantly and become platinum partners; others contribute less and become silver partners. In SkyTeam, all members must meet minimum conditions, but some get there faster than others. The Holst Centre defined different levels of participation.

- Limited scope. In terms of development over time, most multi-partner alliances start with a limited number of projects. Over time, the relationships may broaden or deepen.

TABLE 7.2: Different multi-partner structures compared

	General assembly	Lead partner	Alliance support office	Joint venture
Decision making	Alliance partners vote	Consensus-oriented lead partner	Alliance partners vote	Joint venture managers, coordinating with their board
Task coordination	Low	Low	High	High
Self-coordination	High	High	Medium	Low
Division of risk	Equal	Unequal	Equal	Equal
Accountable entity	Partners	Partners	Partners with some targets for the support office	Alliance

- Operational focus. Operationally, alliances have either tight control (METRO, SkyTeam) or high trust (Prominent) to prevent the partners from engaging in opportunistic behavior.

- Exit and entry. The collaboration is not sensitive to changes in the composition of its membership. If one member leaves, the alliance should not collapse. Of course, the exception is when the partner leaving is the lead partner.

The cases reveal a number of differences between the forms of multi-partner alliances (see Table 7.2). The core difference lies in the decision-making model used. The dynamics of decision making are quite different and range from voting to consensus to lead partner decision making. The cases reveal a number of underlying patterns that explain why the decision-making mechanisms differ.

The general assembly model is applied when the required task coordination is low, which is the case when alliance projects do not need to be coordinated and partners do not have to follow all of the rules of the alliance. In the Prominent case, the separate projects executed could primarily function on a standalone basis and the partners only had to follow the basic growing requirements. Compared with SkyTeam, in which all partners need to implement all rules consistently, the demands on coordination are lower in Prominent. In the Holst Centre, the coordination of joint research and the physical infrastructure is a significant task that requires the joint venture structure.

The ability of partners to coordinate among themselves also determines the choice of form. The better the partners know each other, the higher the social capital and the larger the number of people having direct access to one another's organizations, the more self-coordination is facilitated. If the level of self-coordination is medium or low, an alliance support office or joint venture is necessary.

The choice for a lead partner is primarily related to the presence of one party that commits more resources to the alliance and, therefore, faces greater risk. Such a partner that is trusted by other partners may reasonably become the lead. A final issue in determining the choice of form is the optimal level of accountability. A joint venture is a sensible option when the use of a jointly owned asset needs to be optimized. In that case, the joint venture is not only a vehicle that legally owns the asset, but is also accountable for putting it to good use. In the general assembly model and the lead partner model, no separate accountable entity exists. In the alliance support office model, most of the accountability lies with the individual partners. The alliance support office only has to account for efficiently delivering its services, and targets may be defined to measure the office's efficiency.

Notes

1   De Rochemont, M. 2010. *Opening up for innovation: the antecedents of multi partner alliance performance*, PhD thesis, Eindhoven, Eindhoven University of Technology.
2   Dyer, J.H. and K. Nobeoka. 2000. Creating and managing a high-performance knowledge-sharing network: the Toyota case, *Strategic Management Journal*, 21, 345–367; Garcia-Canal, E., A. Valdés-Llaneza and A. Ariño. 2003. Effectiveness of dyadic and multi-party joint ventures, *Organization Studies*, 24, 5, 743–770; Gomes-Casseres, B. and J. Bamford. 2001. The corporation is dead . . . Long live the constellation!, in: A.P. de Man, G.M. Duysters and A. Vasudevan (eds.), *The Allianced Enterprise*, Singapore, Imperial College Press, 31–40.
3   This list combines insights from: Gomes-Casseres, B. and J. Bamford. 2001. The corporation is dead . . . Long live the constellation!, in: A.P. de Man, G.M. Duysters and A. Vasudevan (eds.), *The Allianced Enterprise*, Singapore, Imperial College Press, 31–40; Provan, K.G. and P. Kenis. 2007. Modes of network governance: structure, management, and effectiveness, *Journal of Public Administration Research and Theory*, 18, 229–252; Parkhe, A. 2001. A culture of cooperation? Not yet, in: A.P. de Man, G.M. Duysters and A. Vasudevan (eds.), *The Allianced Enterprise*, Singapore, Imperial College Press, 119–122.
4   Graczewski, T. and A.P. de Man. 2006. *Partnering for the Future: The Case of the METRO Group Future Store Initiative*, white paper Eindhoven, Eindhoven University of Technology.
5   Retrieved from www.staralliance.com, www.SkyTeam.com, www.oneworld.com, in June 2012.

6 Findeisen, H. 2009. *Taking Flight: How Star Alliance is helping airline alliances navigate today's challenging business environment*, Presentation at the Association of Strategic Alliance Professionals Summit, Fort Lauderdale, USA, February 9–12; Lavietes, J. 2011. Star Alliance continues to Soar, *Strategic Alliance Magazine*, Q4, 30–33.

7 Source: www.holstcentre.com.

Praise for *Alliances*

About the Author

ARD-PIETER DE MAN is Professor of Knowledge Networks and Innovation at the VU University Amsterdam and Dean of Sioo, Inter-University Centre for Organizational Studies and Change Management. A leading alliance thinker, he was the first European to be elected to the Board of Directors of the Association of Strategic Alliance Professionals. The author has been working as a consultant in this area for 15 years as well as teaching and writing in the academic field.

ARD-PIETER DE MAN

ALLIANCES

AN EXECUTIVE GUIDE TO DESIGNING SUCCESSFUL STRATEGIC PARTNERSHIPS

WILEY

Buy today from your favourite bookshop

WILEY