Co-opetition and Strategic Business Alliances in telecommunications: the cases of BT, Deutsche Telekom and Telefónica de España

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Abstract

As a relatively new phenomenon compared to other ways of executing an international strategy, Strategic Business Alliances (SBAs) lack the theoretical support that most of their longer-established counterparts enjoy. Yet, it is our belief that the widespread use of SBAs in a large number of manufacturing and service sectors necessitates the development of a theoretical foundation. One of the contributions of this thesis is the assessment of the suitability of an established theoretical framework: Nalebuff and Brandenburger's game theoretical "Co-opetition". Whilst the authors had a much wider domain than SBAs in mind when they developed their theory, we will argue that Co-opetition can be an extremely suitable theory to assess deciding developments with regard to SBAs. Our empirical analysis of the major telecommunication SBAs does, thereto, not only provide a comprehensive overview of the most prominent alliance activities in this sector but it also serves as input to assess Co-opetition's suitability as a theoretical framework on developments related to SBAs. Besides the overall suitability of Co-opetition we will further assess which of the two extremes of the theory's central notion of the new Mindset, peace and war, best represents developments we witness in the telecommunication industry. In order to achieve that we have selected two theories that provide a clear representation of the two extremes. The comparison of the applicability of these two representing theories leads us to conclude that regarding SBAs in telecommunications the "peace element" of Co-opetition's Mindset is more applicable than the "war element".

Chapter 1

Research interest and research objective

Introduction

In today's world businesses co-operating is so common that it largely escapes our attention. So is the computer that I am currently using to write this thesis undoubtedly the product of at least a few partnerships and, very likely, depending on several Strategic Business Alliances (SBAs). Such forms of co-operation may refer to the hardware part (i.e. the computer and its component) or to the software. But not only computers and their software are to a large extent the result of corporate partnerships. It seems that daily attributes as cars, medicine and even simple foodstuffs nowadays cannot emerge without high level co-operation between companies that some decades ago were able to produce these products on their own. Moreover, it is not only in the case of products that this silent revolution is taking place all around us yet managing to escape our perception. The service sector is also laden with examples of strategies that lean heavily on cross-corporate partnerships. This is most obvious when the airline company where we book our plane ticket with is not the same as the one that we are offered a seat on. The connecting flight may be with yet another company and, with a little luck, the return flight can be handled by company number four. Whilst such alignment can be detected by the consumer similar partnerships between banks and insurance companies or in the telecommunication industry are completely off our individual radar screens.

Research interest

It is particularly that last industry that has caught our interest in relation to the subject of SBAs. Not very long ago, telecommunications meant little more than making expensive calls from home, office or a booth in the street and sending a fax was the high end of the industry. Nowadays it is hard to find any relatively sophisticated product or service that does not have some sort of link to telecommunications. The transformation of the fairly stale telephone and telex companies into one of the main carriers of our high technology information society has taken place with dazzling speed. The combination of this service industry and the earlier mentioned silent "alliance" revolution makes for a fascinating academic subject, albeit a highly challenging one.

Thesis set-up

Our thesis commences with a brief review of the most important changes in the global economy as far as international business concerns. It is due to these changes that SBAs have made their entrance in international business in the mid till late 1980s. Additionally, these changes have impacted on a number of industries, including telecommunications. Much of the dazzling turnover we just referred to is due to these changes. After that review we abandon the macro economic level to evaluate the ways companies can adopt to execute an international strategy. Some basic differences between these ways will serve to enhance understanding why SBAs emerged as an alternative to those longer-established options. A listing of some of the most prominent reasons why companies engage in SBAs will complete that picture. The first chapter will then devote attention to a discussion of the issue of ownership and control. This is an important academic legacy subject stemming from the rise of the corporation in the 1930s via the rise in trans-national corporations (TNCs) in the 1960s to await its application to contemporary SBAs. We will explain that new paradigms are needed for SBAs with regard to the discussion on ownership and control because a simple extension of the applicability to TNCs does not suffice. This section ends with a basic division of alliances that will provide a rudimentary framework of alliance before theoretical contributions will be assessed.

In chapter two we present the theoretical side of our treatment the subject. Much like the first steps of an enthusiastic toddler, the initial attempts to find a suitable theory to link the topic, SBAs in telecommunication, were short, unsteady and did not reflect much sense of direction. Retrospectively, this is largely due to the fact that such suitable theories are still under construction. Familiarity with Nalebuff and Brandenburger's Co-opetition changed the stumbling into a more decided tread: Co-opetition became the central theory of our thesis. Its authors present tools to address contemporary challenges in business through an approach that balances co-operation and competition. The reason why we assumed suitability of this theory is because SBAs are the epitome of a phenomenon that combines elements of co-operation and competition. There is, however, a caveat. Nalebuff and Brandenburger's theory concerns business in general and approaches its analysis from a macro level. After having concluded that the international business environment has changed, the authors present a theory that should be considered a tool to deal with the new challenges that the macro-level changes are posing. They assert that through a new mindset that combines competition and co-operation firms will set more effective strategies. Our interest, however, was not the overall strategy level of companies but one specific phenomenon, SBAs. Whether the proclaimed general application of Co-opetition would include a specialised form as alliances became our problem set. In other words, we placed at the centre of our research the question whether Co-opetition's valuable contribution at an overall strategy level could be extended to the specific micro-level phenomenon of SBAs. A positive answer to that question will provide us with either analytical theoretical contributions or practical ones. In either case would the subject of SBAs be served since, as we indicated, the supply of suitable theories to that subject is still fairly meagre.

Besides our main theory, Co-opetition, we will assess two other theories that are more specifically targeted towards alliances, on their suitability in that same chapter. The appearance of these theories is serves two purposes. On the one hand, they should be considered as a back-up in case the conclusion of our main problem set (Co-opetition's suitability to analyse SBAs) is met with a negative answer. If it appears that Co-opetition is too broad or too general there will still be two "proper" alliance theories to match with the cases. Perhaps more interesting is the second role these theories will perform. Much in Co-opetition is derived from what Nalebuff and Brandenburger call the "peace" and "war" mindset. In this mindset peace refers to co-operation and war to competition. Together they form the book's central theme of co-opetition. As a supplementary problem set we would like to assess whether the telecommunication alliances we feature are more closely related to the peace or to the war notions. This we will not be able to research using Co-opetition alone. We have, therefore, selected two theories, each representing one of the two Co-opetition mindsets. We will see that Hamel's theory on inter-partner learning is an adequate (yet radical) representative of the war mindset and for Madhok's theory on trust counts the same but then for the peace side of the mindset.

Because Nalebuff and Brandenburger are not exclusively concerned with partnerships in their Co-opetition book, they do not devote much detailed attention to a presentation of the variety of SBAs. In order to indicate which, among the wide variety, type of SBAs we will focus on, we have selected a most appropriate theoretical contribution by Yoshino and Rangan to fulfil this aim. This is a supplementary section to Nalebuff and Brandenburger's theory and this addition provides a useful classification that positions our types of alliances amongst other ones and compares their characteristics with such other types of alliances.

Just before we turn to the cases we address one reason that is behind the highest profiled issue relating to alliances: their often-cited instability. The rationale of their instability is that alliances are difficult to manage and therefore prone to fail. Before looking at our cases, we will discuss the issue of different agendas in some detail. The aim of this exercise is to be in a position after the cases have been presented to assess whether those scenarios feature in our cases.

At that point the presentation of the cases will follow and the three cases will be described and analysed in chapter three. At the start of this chapter we indicated our special interest in the telecommunication industry with regard to the SBA phenomenon. Besides the interesting aspects of service industries in general, in case of telecommunications, as opposed to much of what occurs in the case of airlines, many of the SBA activities may be outside the awareness of the customer or consumer of the service. Furthermore, the all-encompassing and pivotal role of telecommunications – no sophisticated or even semi-sophisticated product or service is exempt from at least some sort of telecommunication service – added to our fascination with this sector. An enormous transformation within the sector has taken place well within a two-decade timeframe. The transition of the sector meant that a shift from stale and homogeneous providers of limited services that had shown marginal transition for about one century to a host of diverse, cutting edge providers that both in scope and scale affect all aspects of personal and corporate life.

With the target sector decided, we needed to choose the cases from that sector. This choice was made on basis of a number of criteria that, through a process of elimination, resulted in the eventual outcome. The main cluster of criteria was of relative comparability. In order to assess Nalebuff and Brandenburger's theory on its validity of a certain type of SBAs, we had to ensure that the alliances we would put to the test would all fall within the same group of SBAs. Therefore, a first step to enhance the likelihood of ending up with comparable SBAs was to choose comparable companies. The most important factors we considered in this respect were the size of the company, the historic role and development of the company, the regulatory framework the company was (or rather: the SBA would be) subjected to and, at the time of our choice, relative exclusivity with regard to involvement in alliances.

Size of the company

This criterion was fairly loose in two respects: a) with regard to the size groupings and b) with regard to the actual importance of the actual company's size (relative to factors related to the size of the company). To explain these two qualifications it is important to keep in mind that this criterion served the purpose to enhance our prospects of ending up with comparable SBAs. Below, in chapter two, we provide a classification of alliances. That will show that there are many types of alliances. We believed that it would augment the validity and credibility of our research if we avoided the "apples and pears" combination of comparative material. Therefore, starting off with case companies that differ substantially in size, there would be an added risk that the difference is size would be reflected in a difference in alliances strategy of the individual companies. One example to illustrate that point is the consideration that a prominent reason for companies to engage in alliances is to enhance their impact on the sector. For an already sizable company in a particular market this could mean forming an alliance with a partner of its own size. Such an alliance could then be one based on equality (provided both partners bring equally-valued assets to the alliance). However, for a small player in a market to enter into an alliance with the aim of enhancing its impact on the sector it could be left with little option than to ally itself to a much bigger partner.[1] That would, most likely lead to a partnership of inequality – for example, a so-called "sun and star" alliance where the latter, representing the smaller partner, only shines due to the larger partner's strength (again, subjected to what individual partners bring to the alliance). In order to prevent comparing sun and star alliances with alliances of equality we included the size criterion as one of the first shifters. With that in mind, regarding size groupings we were merely interested in avoiding the occurrence of such unbalanced comparison and settled at broad categorisation. In other words, we decided to only divide potential players into two groups: large and small and steer away from potential hybrids in our selection of case-companies. With regard to the relative importance of the other size-related aspect we distinguished in the beginning of this paragraph, the actual importance of looking at the size of the company was regarded as having relative importance because it was present mainly to serve as an indicator of an underlying factor. We intended to research comparable telecommunication markets. In relation to size, this meant that we sought to prevent comparing miniature with massive markets. The different dynamics of two companies that reside in substantially dissimilar-sized home markets were possible candidates to influence and distort comparability in alliance formation and alliance strategy. We could be assured that, especially by restricting our choice to incumbent operators (see below "Historical role and development"), the size of the telecommunication company would be related to the size of the home telecommunication market. In other words, the size of the company was not the focus of interest but it was a likely and rough reflection of the size of the home telecommunication market it served before developing an alliance-based strategy. Therefore, indirectly, the rough size of the company mattered: it enhanced the likelihood of obtaining comparable home markets and, consequently, it enhanced the likelihood of focusing on companies that had comparable alliance strategies. Based on this

[1] One other alternative would, of course, be partnering with a number of similar sized smaller companies. However, due to the added challenges of alliances (for example, managerial, infrastructural, strategic and so on) it may be illusory to reach the necessary number of small players in an alliance of equals to carry the desired level of clout in the sector without seriously jeopardising the alliance's stability.

criterion we rejected all operators but the larger ones of the larger developed markets.

Historic role and development

Besides considerations related to the size of the company, a further criterion to enhance comparability was the type of telecommunication companies we would feature. As we indicated, in the last two decades – and particularly in the last 8-10 years – diversity within the group of telecommunication service operators has exploded. Again, our aim was to take first steps in assessing Co-opetition in relation to SBAs on its validity as a theoretical framework and its contribution to practical management. This would best be served by using one type of SBA rather than all its possible variations. Even after focusing our research on a particular sector, telecommunications, there would still be a multitude of types of alliances we could feature due to the large variety of types of telecommunication providers. It was our belief that in this initial phase of alliance-theory building a solid assessment of one species of alliances would be more appropriate than a more dispersed and, almost automatically, weaker evaluation of a large number of alliance types. For that reason we focused on one important type of alliance (the so-called competitive alliances, see Classification of alliances, chapter 2) and a group of comparable companies.

Regarding the companies, we opted for choosing incumbent former monopoly providers as our cases. These providers were interesting and suitable targets for our research to concentrate on for a number of reasons. Compared to other types of telecommunication providers, these companies had been in existence for a longer time and, in almost all countries, as the sole provider had represented the entire telecommunication service sector before its radical overhaul. Also, these providers had similar features which were absent with the more recent arrivals in the telecommunication market. Such features include universal service provision, (former) public sector company /civil servant legacy and a sizeable labour force. Moreover, all incumbents had undergone some sort development caused by the forces of liberalisation and privatisation (see further in this chapter). Pressures due to liberalisation and privatisation combined with the special features of the incumbents could emerge as a possible explanation for these operators to engage in SBAs.

The regulatory framework

A further criterion to include in our choice of the cases was the regulatory framework. As will be discussed below, regulation has always had a large impact on the telecommunication sector. This was not likely to be any less with regard to the phenomenon of alliances in the sector, particularly since alliances *per se* are under regulatory influence, even in scarcely regulated sectors and industries. The comparability factor with regard to regulation does not in first instance refer to the company that we sought to include as a case study. The continued (in spite of the highly globalised outlook of the telecommunication sector) existence of different and separate national regulatory environments was not a concern to us. More importantly was the regulatory framework that would be applied to the SBA the case company would be involved in. We considered that it would be beneficial for our definition of alliances and enhance the conceptual make-up of what we considered an SBA within our research if we chose alliances that were subjected to the same regulatory regime. In countries or regions where collusive and anti-competitive behaviour is met with less regulatory opposition than in other parts of the world misrepresentations may occur: we could end up comparing alliances of one region with what would be considered cartels in the other (Morasch, 2000). Lifting all our alliances to the level of a highest common denominator would benefit homogeneity amongst our cases.

We considered both the regulatory frameworks in the United States and the European Union as appropriate especially considering our other criteria. The practice of subjecting cross-Atlantic alliances to both regulatory regimes was an added homogenising factor and, considering the cross-Atlantic interest to ally with operators of the other region (European to American and vice versa), we decided to focus on European companies as our cases. That way we harmonised cases even more and prevented possible clashes with the "Historic role and development criterion.

Relative exclusivity

Based on those criteria we were left with a number of European incumbent operators as possible cases. They were the operators of the larger European Union markets[2]: Deutsche Telekom, Telecom Italia, BT, France Télécom and Telefónica de España. A final criterion to achieve comparability was selecting the cases on basis of relative exclusivity with regard to their involvement. This exclusivity criterion was relative in the sense that we would not eliminate potential cases if such a company would meet the other criteria and make for a valuable case yet the exclusivity criterion was not met throughout the entire surveyed period. In other words, seeking such exclusivity would be a guiding criterion but not an absolute case for rejection. We were aware of the highly fluid nature of alliance formation in the telecommunication sector and posing to severe restrictions on the five remaining candidates would be counterproductive given the scenario we had chosen till that point. Within the group of remaining candidates Deutsche Telekom or France Télécom were the only two companies that had been involved in the same alliance for a prolonged period and including both companies would violate the exclusivity criterion. Our research angle was not to compare different strategic interpretations of the same alliance by its members but assessing separate alliances in the light of Co-opetition. Including both Deutsche Telekom and France Télécom would in our case merely mean more of the same. We, therefore, had to eliminate one of the two incumbent operators from our selection of potential case companies and decided to include the German and exclude the French operator.

Accessibility to potential source material

In addition to the cluster of criteria that related to the comparability of the cases we included one secondary criterion at the final stage. Considering the important role that written source material would play in our research, accessibility of such material needed to be maximised. By illustration, much of the national regulatory regime is codified in the national language only. In other words, access to such material requires the appropriate language skills. Similarly, much of the background information relating to the individual telecommunication companies

[2] This process took place well before May 2004 when, amongst others, the EU membership was augmented with Poland, another sizeable country. Whilst probably qualifying in size, there is at least one criterion on which its incumbent TPSA would not be included as a case company.

and their markets may only be available in the national language. For these reasons we assumed that it would enhance the quality of the research if we included as cases those companies that originated in countries that were covered by our language capabilities. The stronger presence of German than French and the absence of Italian from such capabilities eventually led to our three cases: BT, Deutsche Telekom and Telefónica de España.

Retrospectively, our selection of cases has enabled us to include all major telecommunication alliances due to the developments in partner selection. Deutsche Telekom was involved in two major alliances (the second was an extension of the first) but never partnered BT or Telefónica (thereby maintaining exclusivity). BT was involved in two other major SBAs and, although very briefly partnering Telefónica, allied with the two largest US companies. Furthermore, all major SBAs in the world included at least one European partner and at all times one of our three selected companies was involved. Telefónica's involvement in alliances was probably the least prolific but included membership with alliances that our other cases did not possess and, thereby, drew in additional alliances for our assessment. Finally, potential other alliances that did not include any of our cases, such as the announced alliance between Cable & Wireless and Telecom Italia in 1998, faltered in the negotiation phase.

The empirical chapter on our cases is followed by chapter four in which we match our cases with the theoretical section. That will allow us to conclude on Co-opetition's suitability to analyse alliances. If this turns out to be the case, we will be presented with some case by case examples of how PARTS – which is at the centre of Nalebuff and Brandenburger's theory and, as we will see below, stands for Players, Added Value, Rules, Tactics and Scope - provides theoretical or practical contributions to those with an interest in alliances. We will also be able to conclude on the issue of the mindset: are our cases more a manifestation of the war mindset or of the peace one? A supplementary analysis will come from applying the instability factor we focussed on by checking our cases against the issue of different agendas. In the final part of chapter four we will summarise and conclude our findings.

Research objectives and methodology

There is a number of objectives we endeavour to achieve with this research. They can be divided in those related to SBAs and those related to the telecommunications industry.

We fully realise that large gaps in academic knowledge due to its nascent state on SBAs will not be wiped out with one doctoral thesis. It is our aim to increase, even if marginally, the reader's understanding of this interesting mixture of competition and co-operation that is present in SBAs. For this reason we have taken an eclectic approach in which we review SBAs origin (the changes in the global economy), its theoretical legacy (ownership and control) and its highest-profiled dimension (the instability factor). For the theoretical dimension of the subject we selected a theory with an acclaimed reputation (Co-opetition) but that has not been linked to SBAs so far. Part of the research objective is to see whether there indeed is a defensible case to link Co-opetition to SBAs and if so what contribution does Co-opetition have for the subject of alliances.

As for the telecommunications industry, our research object includes the provision of insights in some of the dynamics within this industry, from the angle of alliances. Supplementary to that, a wider objective is to present a relation between Co-opetition and alliances in a number of industries. Within that objective, the application of the telecommunication industry should be considered a first attempt to be followed by other industries, for example the airline industry, pharmaceuticals, automotives or the defence industry. Such cross-industrial studies will substantially increase our understanding of both industries and alliances.

Given those research objectives we have chosen the methodology that we deem will best serve the attainment of the objectives. Our approach reflects the combination of theoretical and empirical research objectives. Regarding the former, we have opted for a qualitative approach in which we aim to test one central theory and annex two smaller ones. The testing of those three theories is done through setting a number of hypotheses after a review of the respective theories. With regard to the empirical part we recognised early on in the research trajectory that heavy reliance on obtaining the information of those involved in the alliances would be a risky strategy. The chances that essentially sensitive information of largely strategic issues would be revealed to us were not considered to be great. Nevertheless, we considered the potential appeal of subject too great to allow possible challenges of data collection to override the intension to research the topic. As a consequence, much emphasis has been placed on the mining of a large variety of sources varying from trade press to shareholder reports. Information obtained from a small number of interviews was merely used to assess whether acquired knowledge from different sources was accurate. In the case of Deutsche Telekom our contact provided us with a large amount of internal reports on Global One's strategy.

Changes in the global economy

Introduction

The types of SBAs we feature in this thesis have only been a feature in international business for the last two decades. Traditional joint ventures – typically between Western TNCs[3] and local firms, often resided in the developing world – have been in existence for a longer period. There is a number of reasons why SBAs came into existence in international business when they did. Essentially, such reasons find their roots in the structural changes that have taken place in international political economy: globalisation. It is not possible to fully understand the SBA phenomenon without grasping these changes. Those changes are truly global because their impact is felt not just in a certain group of countries (e.g., just the industrialised ones), but in countries from different regions in the world and of different economic strength. We will, briefly, review the most important structural changes in international political economy. These changes have shaped the environment of international business in such a way that on a number of occasions SBAs have become a necessary and preferred way of executing a strategy. In addition to that, our review of these structural changes also assists in explaining the outlook of the telecommunication industry in the part of the thesis that deals with the cases.

Reasons for the running of industrial sectors by the state

There is a number of reasons why states have been involved in the running of an industry. An important reason lies in national security considerations. These considerations have been dominant in the airline industry. Governments have always been anxious to keep a firm grip on what is allowed to invade the country's territory via airways. In different countries this has led to protecting their respective national airline. In most cases it has gone far beyond mere protection and states ended up running the airline company.

[3] In accordance with Strange (1988) and the official term used at the United Nations we prefer to use the term trans-national corporations (TNCs) rather than the more popular multinational corporations (MNCs). The latter may arouse the suspicion that such companies have more than one nationality, which was denied in the influential Barcelona Traction case. See International Court of Justice, Case concerning the Barcelona Traction Light and Power Company, Ltd. In the second phase – judgement 5 February 1970 - it was determined that companies have one single nationality which is where the company is incorporated and its head office is registered. The term TNCs indicate that the company's activity stretches across national borders and is more correct terminology, in our opinion.

Precisely in the airline industry one can find another reason for the state to get involved in the running of industrial sectors: safety and consumer protection considerations. Besides different utilities, another sector that has been subjected to governmental control is the financial sector. Specifically for our thesis, in telecommunications a special form of quality consideration, universal service provision, played a major role behind the rationale of governmental interference.

A final reason for governmental interference can be found in the concept of the so-called natural monopolies. In sectors such as telecommunications or gas and electricity supply, it proved that in many countries the provision of the service (or product) by more than one supplier was illusory. The basic problems in these cases were those of the enormous networks necessary to set up and maintain such a service. Not only were the costs involved in doing so often too high to have a number of companies engage in the provision of the service, it was also not always desirable from the point of view of creating the network, especially in the days when electricity and telephone cables had an impressive physical presence. In those cases where the service was run or the product was offered by a single company, the state protected the consumer against misbehaving by the monopolist, such as through excessive pricing and offering sub-standard quality.

The liberalisation wave

Liberalisation is the opening up of a service or product to more than one supplier often under the control of the industry regulator. This means that before liberalisation the service or product was offered in a certain market by one single supplier. The supplier could be a state-owned company or a private company, which activities in the pre-liberalised phase were totally or partially, yet substantially, regulated by the state. The general reasons for state interference in the market have been indicated in the previous paragraphs. In many cases such reasons are currently still present. In some cases they have even become stronger caused by the increasing importance and enhanced exposure of industries as the airline, the financial and the telecommunication ones. This is all the more true for protective arguments in the financial sector. Financial mayhem due to systemic risk in the last two and a half decades has secured governments interference in the sector.[4] In order to find the reasons why, in spite of the persistent presence of the reasons for state interference, liberalisation did take place, a broader focus on the international political economy is needed. Explanations for the start of a wave of liberalisations in the 1980s have either an ideological or an economic background.[5] Both had to be present for the liberalisation wave to commence despite the continuation of the reasons for state interference. By opening up the market in combination with privatisation and deregulation (see below) governments expected to spur competition.[6] This was a necessary condition to create a situation whereby the role of these governments could be reduced and hence their total spending curbed. The only safeguard that needed to be built-in, in order to prevent a return to a situation with one single provider (monopolist) in the industry, was a good functioning regulator.

Ideologically, influence on the liberalisation process was also asserted by the development of the trade rounds conducted under auspices of the General Agreement on Tariffs and Trade (GATT). Since the Kennedy Round trade barriers in a number of sectors had fallen and had made a number of industries more open on an international level. The GATT included clauses and procedures that were considered to make worldwide liberalisation inevitable. Companies in countries that liberalised early, "first movers", would then have an initial disadvantage over those that held off liberalisation because their markets had been opened up unilaterally for competition. But at a later phase, the first movers would benefit vis-à-vis "followers" due to experience gained from operating in a competitive home market.

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[4] Examples include the Savings and Loans scandal in the US, the Middle Eastern Bank BCCI in the City of London, Barings in Singapore, copper firm Codelco in Chile, Orange County in the US, collapse of a nation-wide Pyramid scam in Albania. Related to this, yet more an issue of failed corporate governance than systemic risk are the highly profiled cases of Enron, WorldCom, Tyco, Adelphia and Arthur Anderson in the US, Italian Parmalat and Ahold from the Netherlands.

[5] The approximate concurrent leadership of three neo-classical leaders in the US, UK and Japan – or the Triad countries (Ohmae, 1985) during most of the 1980s provides the ideological background that enabled the liberalisation wave. The economic background was provided by a widespread need amongst countries to reduce the scope of government as a means to reduce public spending and control the spiralling deficit.

[6] Again, the Triad countries often took leading roles. Most relevant to this thesis, in the telecommunication industry, particularly the year 1984 played an important role in all these three countries: UK's BT became a privatised company, AT&T from the US was broken up into a number of regional telephone companies and in Japan, parliament passed the bill to privatise NTT (Gottinger and Takashima, 2000).

The privatisation wave

The UK privatisation programme had an influence on economic policy throughout the world. Privatisation programmes were initiated in Asia, South America, and Africa, as well as in Europe and North America. From the mid 1990s the Central and Eastern European countries also adopted large scale privatisation programmes. Privatisation was considered a necessary condition to move from socialism to capitalism (Bishop, Kay and Mayer {eds.}, 1994). In the UK, the Thatcher Government made it as a corner-stone of its domestic industrial policy. Underneath the neo-liberalist umbrella we can identify a number of reasons for privatisation. These include reducing the involvement of government in decision-making regarding industrial activities, reducing the public sector borrowing requirement, encouraging workers to own shares in the company they are working for, attempting to increase competition and efficiency in certain industrial sectors. Most of the reasons fit, one way or another, within the following four main rationales that lie behind the reasons to privatise.

Firstly, an important rationale is an attempt to improve the financial situation of the government. Central point here is the reduction of government borrowing in order to reduce inflation. In the case of loss making state-owned enterprises, privatisation leads to double relief from a governmental point of view. In addition to this, the revenue that comes from the sale of such public-owned companies will also help bringing down public sector borrowing. A second rationale why privatisation is opted for finds its origin in efficiency considerations. Many of the public enterprises were inefficient in the 1970s. Privatisation, especially if accompanied by liberalisation and thus increased competition, would, so was the argument, enhance the efficiency of the company. The idea is that labour costs and operating costs of privatised firms go down while labour productivity goes up in these situations. Public sector managers may be under pressure to consider social issues as the provision of employment to obtain political support for the government in power.[7] A further reason why privatisation can be implemented by

[7] Under scrutiny, however, the empirical evidence shows that it is not necessarily privatisation that leads to increased efficiency but rather the entry of more competition, in order words the introduction of liberalisation. Some scholars claim to have found evidence that there is no difference between public

governments has a theoretical foundation in the principal-agent theory in economics. According to the theory, there is a problem regarding information and monitoring on the side of the principal (owner of the firm) concerning the perfect incentives to fully motivate the agent (the manager of the firm). In those cases where privatisation is introduced to enhance the possibilities of attaining the aim of profit maximisation, it is based on the assumption that the principal-agent relationship in the private sector is subjected to fewer difficulties than when this relationship takes place in the public sphere.[8] Finally, there can be a more sociological reason why privatisation is pursued by governments: "popular capitalism" (Grout, 1994). The possibility for the majority of the citizens to own part of a company, albeit modestly, will enhance the public's involvement as consumers as well as employees.

Consequences for regulation

Particularly the service sector in countries all across the world changed as a consequence of those two waves. Governments considered it necessary to adjust their policies due to those changes; they regulate industrial activity. The linkage of the notions liberalisation, privatisation and regulation goes as follows. For reasons mentioned in the paragraph on liberalisation, governments may decide to introduce liberalisation in a certain industry. If hitherto the monopolist that controlled supply in that industry was a state-run enterprise, the government could choose to pass on its responsibility to a private company. In the more liberalised market the new provider would have to compete with other private companies. In specific sectors, such as transport, energy and airlines, markets were partly liberalised to entail a mixture of public and private companies. In either case, governments may adopt a variety of tools to shape the newly emerged market structure to their preferences in order to achieve a desired outcome: regulation.

There are many different ways of regulating sectors and industries. Of the various types of regulation, the one dealing with the regulation of natural utility

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and private companies regarding efficiency (Saunders and Harris, 1994; Swann, 1988; Veljanovski, 1987).

[8] The main reason for this lies in the assumption that political forces stimulate governments to act with a short-term vision which harms the long-term development of companies. Furthermore, agents of a state-run enterprise can rely on public bailouts when bankruptcy looms. Additionally, contrary to the private sector, there is no takeover threat to correct inefficient management of the state-run enterprise.

monopolies is closest related to this thesis. This is because we draw our cases from the telecommunication sector which, certainly in the countries we feature, evolved from such a monopoly status. Regulation is not a new concept. It is one of the tools governments generally have used to take control of their markets. Ways of doing this included (and include) the setting of tariffs, which has a direct influence on price, and the setting of technical and safety standard, which has an indirect affect on price. What is new compared to more historic forms of regulation is the role of regulation in a created privatised environment. In the more traditional regulation governments' main role usually was that of producer of services. However in the new situation with the government no longer performing the role of (sole) provider its tasks have largely vanished or strongly diminished. The role that remains for the government is the one of regulator which, in this new context is a crucial one. At stake now is the promotion of competition and the government has to create optimal market conditions for this to take place. Additionally, it needs to protect the customers from substandard service by the new and private provider.

Earlier we set out the reasons to change the market structure and monopolist provider by liberalising and privatising the industry. Such transformations will necessitate regulatory changes. In case of a natural monopoly, typically the situation in many telecommunication sectors before the liberalisation and privatisation waves, the biggest market failure is the occurrence of high entry barriers. High entry barriers are problematic in this situation because in this case an increase in demand might not lead to an ending of the monopoly in the market. Such high entry barriers could be a consequence of extensive sunk costs. The objective of regulatory policy will then be eliminating such entry barriers in order to enhance competition in the market. The underlying assumption in this situation originates from neo-classical economic theory which advocates that competition enhances customers' welfare because it creates allocative and productive efficiencies (Whish, 1993, Robinson, 1999).

Technology's role in the globalization process

The increasing globalised character of contemporary business is evident in many respects. Many markets are global markets forcing companies to cross their national borders and even operate beyond the limits of their region. The global character of businesses refers to their customers and their operations. Technology plays an important role in enabling firms to sell and operate globally. It facilitates the conditions that has enabled firms to oppose challenges that otherwise would have prevented them from adopting global strategies. These challenges include: operational distance, operational complexity, geographical complexity and operational capacity.

Operational distance

The application of technology to means of transportation has had enormous consequences for business. The availability of cheap, yet reliable, air transport, due to technological improvements, enhanced managerial mobility. A greater mobility of managers has increased the level of control over foreign subsidiaries. The level of control was further enhanced by technology-related communication media. Also, the possibility to build corporate IT networks globally that replicate local on-site networks has brought overseas offices "closer" to home. Technological developments in containerisation and air freight enable cross-Atlantic transport of bulky products and products in high volume. That has made it more attractive for companies to relocate production stages to low-wage areas and transport manufactured goods to markets with demand and higher labour costs after completion.

Operational complexity

Technology has also diminished operational complexity. Through just-time-production and parallel engineering it has enabled companies to customise their mass production processes in design and custom-made output compared to the pre-IT era (Womack, Jones and Roos, 1990).

Geographical complexity

A higher volume of international trade is on its own not a necessary manifestation of globalization: production needs to be globalised, too. However, for this to materialise, geographical roadblocks needed to be taken. Technology has enabled the coordination of assembly, production and rationalisation activities. Hence, full advantage can be taken of global differences in wage levels, workforce skills, tax regulations and availability of natural resources.

Operational capacity

Finally, technology has made an impact on the supply of new or modified products by firms operating globally. The storage capacity of micro chips is constantly increasing and chips used in contemporary goods are much smaller than their counterparts were in the early 1970s. The higher capacity enables firms to produce goods of smaller size than before at a cheaper price. This has led to companies revitalising mature products and supply those on a global market. The decrease in production cost due to such miniaturisation has made it now financially feasible to sell certain products to consumers worldwide in markets with lower levels of disposable income.

Summary on globalisation

In these introductory paragraphs of this thesis we have briefly reviewed the most important developments related to the globalisation of business. Together they form the wider setting and create the background in which strategic business alliance came into existence. We described the reasons why a wave of liberalisation occurred. Once present, it forced monopolist operators to seek redress for actual or looming loss of revenue on their home turf. This *push* factor drove the (former) monopolist to the initiation of business across its national borders and thus outside its home market. Concurrently, liberalisation offered a *pull* factor for businesses to start operating abroad. Liberalisation in foreign markets provided new entrants with opportunities - even without the need to offset falling market share in the home market. Therefore, even firms that were not operating as a monopolist had incentives to conduct business activities abroad. We also drew attention to the reasons behind the privatisation wave. Transferring public ownership of enterprises into private hands across large parts of the world provided an opportunity for foreign business to obtain business assets. This *pull* factor also led to global changes in a number of industries and sectors, including the telecommunication service sector (as we will witness in our chapter on the cases). Finally, with regard to the "globalisation waves" we explained the emergence of the need by governments to install regulation in liberalised and privatised sectors. We ended the section on the changes in the global economy with a brief description on the important technological changes. Globalisation of business would not have been able to take the shape it has without those changes. In turn, without globalisation of business, strategic business alliances would not have featured as a worldwide way for companies to execute an international strategy. We will now turn our attention to the dominant strategic options open to companies that operate in global markets.

Ways of executing an international strategy

After the review of the most important forces behind the globalisation of business it is time to assess how this globalisation of business has taken place. Once a company's management decides that economic rents are to be gained from moving the company across its national borders, there is a variety of traditional options open to transfer such aspirations into corporate action. Traditionally, there is a choice from three approaches, with further variations. Firstly, the company can choose to serve foreign markets from its home country. Secondly, it can build and or buy overseas operations. And thirdly, it has the option to use cooperative contractual agreements to enter international markets.

Serving foreign markets from the company's home country

This strategy often is especially attractive for small and medium-sized firms that either have been subjected to increased competition from foreign firms in their home market (which is a passive or reactive strategy) and seek to respond to that, or assume potential gains from entering foreign markets due to their product specificity (which is an active or positive strategy). Such smaller firms usually do not have the necessary financial resources to engage in any of the other options or may decide against other options for a different reason.[9] There are two principal

[9] A firm may, for example, prefer to remain small and nimble rather than increase the size of its hierarchy (Williamson 1985). Another reason for a company to opt for serving foreign markets but doing so without establishing a foreign presence may be a reluctance to involve the company or its reputation (either in a cultural or political sense) in that market.

ways for a firm to market its products abroad in this direct way: exporting or setting up turnkey operations.

Building and buying overseas operations

Amongst all possible options, wholly or partially owning an operation abroad is a frequently chosen strategy for firms to do business across the borders of their home market. Certainly in regions where restrictions on foreign ownership, in the form of formal investment barriers, are modest or absent, such foreign-owned operations can be prospective. Also, as a counterpart to exporting, the existence of local content rules facilitates the presence of foreign-owned operations. Such operations can be in the form of highly standardised activities with low value added features ("screwdriver-plants"). Conversely, companies can establish them for high value added motives, as is the case when various research divisions are moved abroad to cluster areas where the infrastructure and specific conditions for such divisions are more favourable.[10] We distinguish two different strategies in this category: foreign direct investment (FDI) and mergers and acquisitions (M&As). Due to the fact that the latter is closely associated with the strategic business alliances, we will provide a brief expansion on M&As.

Mergers and acquisitions

In the case of a merger or acquisition, two or more separate entities are transformed into one. When it concerns an acquisition, the only entity left is that of the acquirer. Management, hierarchy, name and culture of the acquired firm will be absorbed by the acquirer and the firm that is taken-over ceases to exist. Strictly speaking, in the case of a merger the result is also one remaining entity instead of two (or more) as it was before the merger. However, in the case of merger it is more two firms smelting together than one absorbing the other one.[11] The advantage for the individual firm in the case of M&As lies in the possibility to compensate the firm's shortcomings in technological know-how, financial capital or infrastructure. Where creating such assets itself may be costly, time-consuming

[10] Examples of this are Silicon Valley, Seattle (also know as Silicon Forest), Bangalore, Tel Aviv and Taipei's industrial park Hsinchu.

[11] In practice the boundaries between the two forms are not always as divided and the concepts are fluid. It may, therefore, be useful to speak of mergers and acquisitions with "merger by combination" and "merger by acquisition".

or virtually impossible, a merger or an acquisition can prove to be a more attainable strategy. Other advantages are the possibility to realise growth relatively quickly, which will add to shareholders' wealth and, in the case of acquisitions, the maintenance of control and ownership over the acquired entity. Finally, M&As allow increased access to finance and managerial talent, as well as to qualified researchers. M&As have the disadvantage, however, that this type of investment is often expensive. Also, it could be politically sensitive in certain cases. Especially with international acquisitions the acquiring firm could face administrative and popular hostility. Additionally, the negotiation process that dictates the conditions under which the merger or acquisition will take place and that eventually has to lead to the shape of the 'new' company, can be lengthy and difficult.

Cooperative contractual agreements

A firm seeking access to foreign markets can dismiss the options of serving that market from its home country because there is a greater need to acquire knowledge on the foreign market(s) than such strategies will be able to provide the company with. At the same time, building or buying overseas operations may require investments the firm is not able or willing to make for the moment. In such cases cooperative contractual agreements provide an option for the firm. With a cooperative contractual agreement the company that owns the product or service sells or 'contracts' the rights to produce or sell its products or service to a, in our case, foreign company. Subject of the sale can be a product or a form of intellectual property (such as trade marks, business design, patents or technology). It will depend on the conditions of the contract to what extent the buyer acquires control and ownership after purchase. The three most adopted methods in this strategy are licensing, franchising and sub-contracting (or outsourcing).

Before featuring strategic business alliances we have two remarks. Firstly, it is beyond the scope of our current research to evaluate in our cases whether, before arriving at the conclusion, an assessment has been made to determine what strategy will best serve the companies goals. We assume, however, that at the very least a marginal or implicit assessment has taken place before it was concluded that entering into an SBA was the best option. Secondly, scrutinising certain executions of international strategies by firms exposes that some "SBAs" are in actuality not much more than a licensing agreement or, alternatively, are essentially mergers or turn into a full merger after an alliance phase. That highlights that the concept of SBAs is a fluid one and can have any position (or score) between contract and status as well as being used as a vehicle to move from contract to status. We will return to this below in the section on ownership and control.

Strategic Business Alliances

Introduction

So far we have reviewed the setting in international political economy that provided the background against which – as we will witness later - SBAs came into existence. We then assessed ways open to companies' management to cross the borders of their home market after they concluded that doing so would be in their companies' benefit. Some of the ways we highlighted have been established practices with firms for many decades; other ones have a shorter lifespan. We purposely omitted one further way for companies to move abroad, engaging in SBAs, because we will assess this way in greater detail since it is the topic of our thesis.

Compared to its competing alternatives SBAs are a fairly recent phenomenon. As will become clear below, the formation of partnerships in general has been included in corporate strategies for well over a century. One form of partnerships, the international joint venture, received substantial attention in academia after it became a widely applied strategic tool to nascent trans-national enterprises. However, prior to unravelling partnerships in general to concentrate further on SBAs in particular, a definition of SBAs needs to be established. We are certainly not alone when we observe that the task of defining what constitutes an SBA is a daunting one.

Many writers on strategic alliances do not define what they are, giving writers the flexibility to talk about any kind of inter-firm links, be they mergers, acquisitions, majority- owned ventures, minority equity participation, equal or co-owned joint ventures, or licensing. The approach makes it difficult to provide general guidelines to the readers (Yoshino and Rangan: 1995: 207, footnote 4)

As indicated above, SBAs are a relative new phenomenon. The confusion Yoshino and Rangan indicate could be a sign of the theory of SBAs suffering from growing pains. However, the passing of time has not eliminated the confusion. In an article as recent as 2001, mergers and acquisitions are considered synonymous to alliances (Wilcox, Chang and Grover, 2001). Another problem arises when scholars sidestep the issue of defining the phenomenon altogether by omitting to provide one completely. A combination of these two problems occurs when scholars fail to define SBAs but imply a too broad definition on basis of the types of corporate behaviour they include in their treatment within SBA literature (Reuer, 2000)[12] or when a definition is not only broad in terms of scale but also in terms of scope. By illustration, assess the following, very recent, definition. From it, it appears that besides mergers and "full partnerships" (acquisitions?) almost anytime two companies cross each others' path an alliance is formed:

> A strategic alliance is "an agreement between firms to do business together in ways that go beyond normal company to company dealings, but fall short of a merger or full partnership" [...]. Strategic alliances generally represent inter-firm cooperative agreements aimed at achieving competitive advantage for the partners. These alliances range from informal "hand shake" agreements to formal agreements with lengthy contracts in which parties may also exchange equity or contribute capital to form joint venture corporations. (Elmuti, Abebe and Nicolosi, 2005:115)

Not meant to be mutually exclusive and collectively exhaustive the following list with entries nominated by scholars to be included in the definition of alliances will indicate how wide the selection of items is that are covered by the term SBAs: research agreements, licensing agreements, development plus licensing agreements, joint research and manufacturing agreements, research plus marketing agreements, supply agreements, joint ventures, franchise agreements, management contracts,

[12] Reuer does not provide a definition of what type of partnerships or corporate behaviour in general is considered to be applicable to his research. From the article it becomes clear that he accepts a wide approach (for example wider than the traditional or "old style" international joint ventures to include more recent forms of co-operation). Implicitly, the only two forms of corporate behaviour that are certainly excluded are licensing agreements and acquisitions.

turnkey contracts, custom contracts, equity partnerships, relationship-enterprises, virtual firms, consortia, constellations, international co-operative ventures, etc.

All these remarks indicate that with the absence of a basic agreement on which corporate links and which strategies constitute SBAs, establishing a universally-accepted definition of SBAs still appears to be far behind the academic horizon. However, we are obliged to provide our definition of SBAs within this thesis to clarify our position within the continuing discussion of what SBAs are. Moreover, the aforementioned proves that there are vast differences in existing interpretations. Subsequently, we are left with definitional loopholes and conceptual booby-traps. In order to reduce potential confusion with the reader of this thesis we will, therefore, peg those floating characterisations down to one we subscribe to. Our definition considers SBAs essentially "form-free". This means that it could include the buying or swapping of equity but this is not a necessary condition. Similarly, it may often involve establishing a new and separate legal entity (i.e. joint venture) but again this is not a defining criterion either.[13] The area or areas of co-operation must refer to the companies' core strategy and should, therefore, not be of merely tactical relevance or refer to non-core areas. This criterion may contrary to the vision of some scholars, lead to the exclusion of many of the contractual arrangements from our definition. Our third requirement is that the partners to an alliance maintain control over their overall corporate independence. As such, mergers and acquisitions fall outside our definition. In sum, we consider an SBA a form-free corporate partnership that refers to the companies' core areas of activities in which the partners maintain their statutory independence.[14]

Prominent reasons for firms to enter into SBAs

Management literature distinguishes a variety of reasons why companies engage in alliances. Many of the main reasons build on thoughts developed in classic

[13] Whilst essentially form-free, arrangements that are too loose may be an indication of the absence of the strategic requirement.

[14] We can not totally eliminate the possibility that in some distinct cases even after an assessment of the requirements of our definition doubt may remain about the suitability of a particular partnership as an SBA. In case of such doubt (e.g. with regard to specific buyer-supplier relationships because those can be of varied composition) we provide an extra tool that may assist in deciding on whether such a partnership should be considered an SBA. Measured against the company's resources, the more substantial commitment of capital, physical resources, senior personnel and such to the partnership are, the more justification there is to label the partnership an SBA.

economic theories. There are, however, also reasons that are based on other disciplines mainly political economy and its power-related reasons. Generally, most rationales will fit within the following broad reasons:

Advantages of scale

Widening the scale of activities can bring a company straightforward benefits. Much of the literature on transaction costs is based on this premise (Williamson, 1975, 1985; Carroll, Spiller and Teece, 1999). The part of total costs that has a fixed character decreases per unit when the company's output rises. Leaving aside possible limits a company may face in increasing its scale (for example, shortage of any of the natural or physical resources or the presence of legal restrictions) the larger the component of fixed cost is within the total cost, the more imperative it will be to increase scale, provided the offering of additional products and services does not drive down profits per unit. Staying with international strategies, there is a number of ways for a company to increase its scale of which one is forging a strategic alliance. To be sure, in this case entering into an alliance is not the only way to increase scale. Other possibilities are discussed in the section on "Ways of executing an international strategy". The choice for any of the options in particular depends on additional factors as indicated in that section and it needs to be assessed what the optimal way to execute the chosen strategy is. If such an assessment leads to opting for an SBA one likely – and perhaps intended – consequence could be an increase in the customer base. The alliance partners may choose to produce a product or supply a service and market and sell that in the countries covered by the alliance agreement. The scale advantages are largest when the co-operation leads to synergies. Synergy occurs when the combination of the separate parts (i.e. the individual companies together) creates extra added value over the straightforward sum of the parts. Synergy can be considered as the prime reason behind companies engaging in SBAs.[15]

Technological imperative

In addition to entering into an alliance to spread the fixed component of overall costs (for example those related to R&D) over a larger product base, alliances may

[15] However, due to an inflation of the term, any form of co-operation (including those that merely generate added value of the straightforward sum of the individual parts) is prone to be trumpeted as synergetic.

also come into existence for technological reasons. One such a reason comes from the dynamics R&D itself poses on companies' strategic behaviour. Particular industries are strongly subjected to the impact of technology. Its manifestation can be twofold: decreasing economic life-cycles due to technological innovation and technological convergence.

a) economic life-cycles

A product (as opposed to a service) has two types of life-cycles: a physical and an economic one. The former refers to the time-span the product is sufficiently intact to enable its use for what it originally was set out to be used for. More important, however, is the economic life-cycle. This refers to the product's time-span in which it makes economic sense for the company to continue producing the product, when alternative products could be considered. In the last three decades, technological developments have shortened such economic life-cycles substantially (Ohmae 1990). This has led to increased pressure on companies. These pressures are coming from two directions. On the one hand, the costs of R&D have risen in most of the global industries but, on the other hand, the time for companies to earn back such investments has shortened. In other words, firms have less time to compensate a higher spending on R&D. As a consequence, firms seek a broader base to supply their products in the often relatively short period they are granted by the market to do so. Forging an alliance with a partner that enables the company to increase its market share can provide a way out of this technology trap.

With actors in the global economy realising such double pressures, different institutions are engaged in different types of R&D activities. Two scholars found a correlation between the type of institution that conducts a certain R&D activity and the possibility to exercise property rights of the fruits of the R&D conducted, i.e. the resulting "inventions" (Ouchi and Bolton: 1988). Essentially these properties can take three different forms. First there is private property. In the case of private property the owner can exercise property rights fully and unrestrictedly. (S)he can appropriate the product fully or transfer its ownership, should (s)he wish to do so. This type of ownership is radically different from what the authors call the public property form. In this case it is impossible for the inventor to appropriate the product. A third and final property is the leaky property. Leaky property refers to those types of inventions the owner can only appropriate for a relative short period of time. The period is relatively short with regard to the time available in order to earn a return on the investments of the inventions.

These different levels of ownership impact on the likeliness of different institutions to conduct certain kinds of R&D. The (single) private firm is the most likely institution to conduct R&D with private property characteristics. Public property prospects are most typically associated with research conducted in universities or government laboratories. For leaky properties inventions, industry groups (constellations) or strategic alliances are the most appropriate institutions. In other words, against the background of increased importance of technology, the possibility and level of exercising property rights over an invention has culminated in the emergence of SBAs.[16]

b) technological convergence

With regard to technology there is a second reason for companies to join forces as opposed to adopt a go-it-alone strategy. Besides the costs and the speed of technological developments, increasing convergence of technological application plays a role in a company's decision making process regarding what strategy to use to enter foreign markets. Especially between such industries as information technology (especially data-processing), telecommunication and media the overlap is substantial. For individual firms it often proves to be too challenging and indeed undesirable, to develop activities in all related sectors. Teaming up with a company that possesses ownership advantages in any of such sectors could make economic sense via the creation of synergies. When such synergies link complementary characteristics of different companies, alignment provides a sound

[16] Recent literature on strategic alliance has produced a relatively new academic stream: university – industry collaboration. To be sure, the phenomenon is not new. The biosciences, aeronautics and the defence industry have been co-operating with universities for several decades. But the explosion in literature of the last few years is a novelty. Some of the recent works include: Elmuti, D.; Abebe, M. and Nicolosi, M. (2005), "An overview of strategic alliances between universities and corporations", *Journal of Workplace learning* 17 (1); Brennan, L. (2003), "The view from the ivory tower: what do university alliances offer technology firms?", *Academy of Management Executive* 17 (1); George, G.; Zahra, S. Wood, D. Jr. (2002), "The effect of business – university alliances on innovative output and financial performance: a case study of publicly traded biotechnology companies", *Journal of Business Venturing* 17: 577-609; Lee, Y. (1998), "University – industry collaboration on technology transfer: view from the ivory tower", Policy Study Journal 26 (1): 69 – 84.

alternative to appropriation of all necessary skills and assets by one single company (James and Weidenbaum, 1993).

c) technological standard-setting

R&D in IT-related areas can lead to new applications of existing technology or even totally new areas. In either case the absence of a technological standard could potentially cause the emergence of different standards when different companies enter the new field via their own R&D. It is in the first mover's advantage to have its technological standard adopted as the industry-wide standard, either through a formal process (de jure) or in actuality (de facto). Such a position gives the owner of the technology that is set as the industry standard an advantage over its competitors and may generate royalty revenues. Therefore, the first mover has an incentive to co-opt peer companies or important actor positioned downstream the newly created field. Hence the occurrence of this type of alliances between software developers and computer manufacturers.

Avoid market barriers

In their choice on which of the available ways to execute an international strategy companies take into consideration potential problems with regard to entering foreign markets. There is a wide variety of barriers of entry that a company can be faced with whilst it attempts to establish operations in a foreign country. In some of those cases, using an SBA as a vehicle of entry may by-pass the barriers and allows establishing a presence in the targeted country. The two typical situations in this respect are trading blocs and emerging markets.

a) regional trading blocs

The presence of trading blocs has proliferated since the 1980s and their impact is steadily growing. Currently there are approximately ten major regional trading blocs. They differ in size, scope, membership, selection criteria and intensity. But by their very nature, they all have an impact on international business. Ever since their proliferation opposing views have existed with regard to whether such trading blocs facilitate trade, investment and other cross border activities of companies on a global scale, or whether they hamper such activities (Lawrence, 1991). Irrespectively of one's stance on that issue, undisputed is the fact that companies with a presence inside the protected walls of such trading blocs enjoy certain benefits vis-à-vis outsiders. Entry barriers are usually the highest for trading activities (see our discussion on exporting in the aforementioned section). Hence the choice of many firms to physically establish their enterprise within the areas of trading blocs via foreign direct investment, through a merger or acquisition or any of the contractual arrangements discussed above. However, entry barriers may include physical presence as in the case of foreign direct investment or restrict such a presence through such investment to a degree that it renders it insufficiently beneficial to the entrant. Similarly, barriers can effectively restrict entrance via a merger or an acquisition investment (these vehicles are in certain countries and regions often difficult to achieve due to regulatory resistance or due to the structure of the financial markets). The adoption of licensing or franchising can be unattractive due to a lack of adequate intellectual property protection rules within the trading bloc area. Entering a country within a trading bloc through an SBA may circumvent obstacles that make other options less feasible.

b) emerging markets

An argument similar to the one applicable to trading blocs can be addressed to entry barriers of emerging markets. In fact, of all types of corporate partnerships, joint ventures with the aim of entering emerging markets are the most traditional ones and have been established the longest. Western oil companies have had such linkages with local enterprises in order to enter developing countries, including emerging markets, since the turn of the century (Sampson, 1988; Yergin, 1991). The Western companies often could only enter the country they sought access to through such partnerships. In case of the oil companies the main reason for seeking access to the developing country with entrance requirements was to exploit natural resources. When companies enter emerging markets by means of a partnership with the objective exploitation of natural resources, it is referred to as a vertical or complementary partnership. Usually a state-controlled company or, at times, a private company with a mandate from the host country's government becomes the foreign company's partner. The host country's government may insist upon the use of a partnership as a mode of entry because it anticipates additional benefits to its own population which other modes of entry will not deliver. The local company in the partnership, it is hoped by the government in such cases, will gain from its alignment with the (usually Western and more-endowed) partner. The expected benefits could entail the local company being able to gain knowledge and hands-on expertise from the foreign firm due to its operational proximity. Comparatively, in a situation in which the foreign firm had entered through the foreign direct investment mode, close contact of a local firm would have been less likely. Beyond the benefits for the individual local enterprise, wider benefits can be drawn for larger sections of the host country's economy. Through moving up the learning curve the local company will assist in making the country become less dependent on foreign companies to exploit its natural resources in future.

Inter-partner learning

The earlier-mentioned technological convergence has resulted in the need for companies to master a number of different technological applications in order to produce the products or provide the services the global market requires. Companies can attempt to create the technology and subsequently master such technological applications by means of greenfield investments, or acquire a company that possesses the technology and has the know-how to apply it. Alternatively they could obtain the technology through co-operative agreements (for example, licensing) and subsequently master its application.

Where the ability to produce the technology and / or master such technological know-how is absent the company will assess whether this is possible within an economically viable timeframe. If such prospects do not exist, the need to integrate this ability from outside arises. As will be shown in the next chapter on theory within this thesis, gaining access to technology is conceptually different from being able to integrate technology within the company's activities[17]. Firms may enter into alliances in order to learn from their partner how to produce the right technology that can be integrated with the aim to decrease dependency on supply from others. Of all reasons listed here, this is arguably the one that potentially can cause the highest level of contention between partners in an alliance. Especially in those occasions where one partner does not know that the

[17] See the section on Hamel's theory, below.

declared motives for entering the alliance by the other are not the actual ones: there is a hidden agenda (we will expand on this below). Not only does the company that is not aware of such ulterior motives risk not achieving what it expects to achieve through the alliance, it may also contribute to the development of a future competitor.

Pre-empt competitive threats

Entering into SBAs in order to create scale advantage enhances Pareto efficiency.[18] Trading blocs are not Pareto efficient but a company that engages in an alliance in order to enter a trading bloc may be left no alternative but to act in such a manner. A different case is when a company with alternative options chooses to act inefficiently in the Pareto sense of the word. In a strict economic liberalist tradition this reason should not exist.[19] However, we believe there is little doubt that not all alliances are exclusively about Pareto efficiency. When a company enters into an alliance to pre-empt a competitive threat it is not acting in a Pareto efficient manner. However, strategically such a move may be justifiable. There are, however, two problems with this. One is that a company's management will need to justify entering in strategic partnerships to shareholders. Those shareholders would require more convincing that their value is not in the process of being destroyed if the sole justification is pre-empting a competitor. In other words, management will need to have at least an additional motivation if it distinguishes pre-emption as a motivation. This is related to the second problem, it will be difficult to prove ex ante that pre-emption is the main motivation for management to enter in an alliance. Explaining the need to enter in an alliance by using transaction cost economies will, if convincing, be an acceptable reason. Saving unnecessary expenditure and cutting cost are consistent with creating shareholder value. In the presentation phase, prior to the actual running of the alliance, company management appears to have little trouble showing how alliances will bring economic benefits through transaction cost economies. This

[18] An outcome is considered Pareto efficient if no alternative outcome can enhance the situation of one actor without, at the same time, leading to another actor being worse off. So, alliances have a role to play were alternative options lead to less optimal outcomes (for example, prevent a service from being offered by a single company due to the high cost associated with it provision). In those cases where the SBA enables the offering of the service that society would otherwise be deprived of the alliance is Pareto efficient.

[19] See Gilpin (1987) for an elaborate discussion on economic liberalism and realism.

provides a convenient justification for the alliance, even if the major, or only pressing, reason is pre-emption of competition. When, ex post it appears that predicted transaction cost economies were overestimated it may be due to management erring genuinely. However, we believe that the existence of pre-emption of competition as a reason to enter alliances exists in spite of its dubious status and its difficulty to expose.[20]

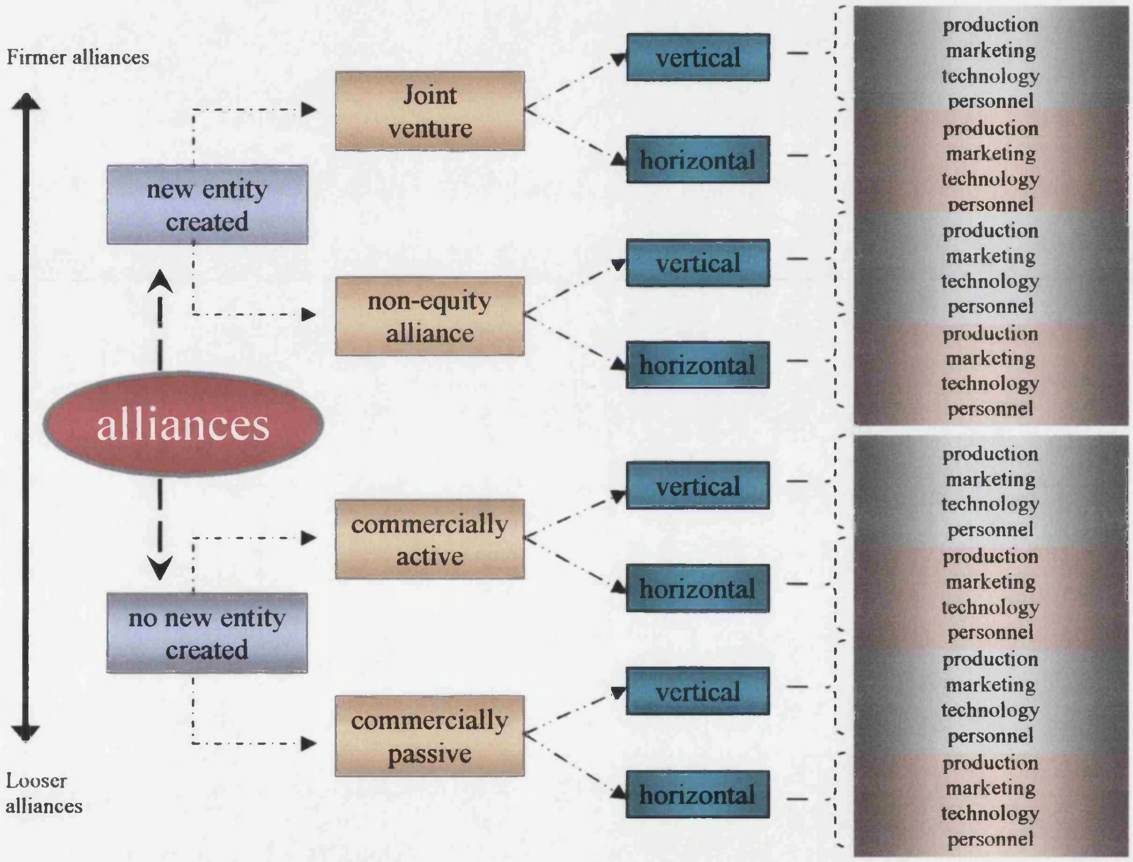
Minimise the costs of exiting an industry

This reason is less common than some of the other ones we have discussed; nevertheless it is an existing one. When a company exits an industry or sector it is likely to incur costs in doing so. Even if the exiting company is fortunate enough to sell its part or its entire business on, it may still have to write off value due to a lower price. Frequently, the exiting company may only be able to sell part of the business to a new owner. One associated problem with exiting an industry and selling assets on is the pricing of such assets. The new owner seeks to minimise its risk exposure whilst the former owner endeavours to recoup all its investments in order to limit the destruction of shareholder's value. SBAs provide a way for the two companies involved to work out an optimal exit and entry strategy. An alliance between these companies allows the new owner to assess the business for the duration of the SBA in a more precise way than in case of a spot transaction. Furthermore, during the alliance, the new owner can learn more about the company and, particularly if the new owner is a new entrant, also about the industry it is poised to enter. Additionally, the customer base may be retained by the new owners. More generally, the new entrant is eased into the industry more gently than if it had done so after an abrupt sale of the business. The exiting company has the opportunity to demonstrate the actual value of the company and may, besides more adequate compensation for its tangible assets, also obtain additional earnings from intangible assets, including patronage. Agreements of alliances that facilitate an exit strategy would normally include a sunset clause (an

[20] Perhaps even more controversially, we take a similar position on the existence of "herd behaviour" with regard to the formation of alliances. In other words, we believe the existence of a certain dynamic that spurs actors on to engage in alliances in period of alliance frenzy where they would have refrained from doing this had their industry not been alliance-laden. It will, however, remain outside the scope of this research to expand on the pre-emption argument or on the presence of herd behaviour.

explicit date of the termination of the alliance and a scaled hand-over from the old to the new owner).

Before we assess SBAs in greater detail we will present a skeleton division of alliances that provides an orientation of what SBAs entail. When we turn to the theory and subsequently to the cases, more specific features will emerge.



Ownership and control and the need for new paradigms

Introduction
An important element of the alliance phenomenon is the issue of ownership. To a certain extent, this can be seen in the light of the issue of ownership in the TNC. Traditional literature has dealt with this issue. However, in the case of alliances additional factors play a role. It is therefore our suggestion to test existing literature on ownership of TNCs on its validity regarding alliances and amend, adjust or alter the literature there where necessary. The next paragraphs will provide a first step in the direction of assessing the applicability of traditional theories on ownership and control to alliances.

As early as the 1930s, attention was paid to the divorce of ownership from control with regard to businesses[21]. The separation of these two crucial elements of the firm led to scholars expressing concern about this development. The fear concentrated on the perceived inability of the owners to maintain control over executive powers within the organisation. At first, these works dealt with this issue from a national perspective: it initially concerned large companies with operations in their home market. After the introduction in academia of the growing importance of the American TNC and the challenge of this to Europe an expansion of the literature on the issue of ownership to include TNCs followed. This placed the discussion in an international context. A central element became the relations between a firm's headquarters and its overseas subsidiaries (Brook and Remmers, 1970).

To a large extent, the contribution of these works has merit to assessing the same issue in the context of alliances. Similar to SBAs, with TNCs there are potential problems due to the fact that those who supply the capital for the organisation differ from who determine how this capital will be applied. As companies grew larger, organisations became more complex. In more complex organisations, the owners require more support from specialised managers that are able to handle the organisational, communicational, logistical and technological challenges typical of

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[21] Berle and Means addressed this issue in their work 'The Modern Corporation and Private Property', which as published in 1932.

such organisations. There clearly is some analogy with alliances: they too need specialised managers that have the ability to meet the challenges of that complex type of organisation.

In the theories of ownership and control regarding TNCs, a geographical dimension was added to Berle and Means' theory. The basic reason for the expansion of the theory was that the geographical separation in addition to statutory separation would disperse power even more. Similarly, in the case of SBA, the relation between ownership and control is one of the aspects at the heart of the phenomenon. Where, however, alliances differ from the more traditional complex organisations as TNCs is in the potential presence of an additional separation of the command structure. Following Weber's normative works on public administration, literature on organisational economics has often emphasised the importance of unity of command. Individuals, as well as groups or units within an organisation fare best when they report to one single superior only instead of two (Perrow, 1986). More contemporary management and organisational thinking has led to the introduction of less hierarchical and more flexible command structures. In certain cases this has led to the emergence of dual (or even triple) command structures. The Matrix structure is the most prominent example in this respect (Bartlett and Goshal, 2003). In the case of the Matrix structure, the application of the dual command structures manifests itself in the headquarters-subsidiary issue. While that relationship could be considered comparable to the relationship between a joint venture and its parent company, two important notions need to be stressed.

First, a joint venture is just one among many different types of alliances. In the case of a joint venture a separate (legal) entity is created and this makes comparing joint ventures with subsidiaries possible. However, there are other forms of alliances that do not result in the creation of a separate entity. This can be the case with certain equity alliances. If one company purchases shares into another company without obtaining a majority share holding or a majority in voting rights the analogy with a subsidiary is absent. There may nevertheless be a change in the ownership and control structure, due to this investment. The conceptually new situation caused by this type of alliance needs to be compared to traditional ownership and control conceptions. Where it appears that theoretical contributions are an inadequate, existing theory needs to be adjusted.

Secondly, even in the case of joint venture alliances, which, as we indicated could make for an adequate comparison with the traditional headquarters and subsidiary relationship, there is an added feature. A split in command as featured in the Matrix structure can lead to contention due to different interests. This occurs when two units or superiors at headquarters level (for example the regional manager and the product manager) have different goals or agendas vis-à-vis the subsidiary that needs to report to both actors. In such cases, corporate structure is normally as such that one actor (person or body) ultimately will decide how the clash should be dealt with in terms of preference or compromise. Hierarchical structures and ultimate unitary direction at the strategic apex level will make such a decision acceptable for all parties. In the case of an alliance there are two or more companies involved. There is therefore not always one single unitary direction at the top level because each company has its own dynamics and goals and those of the two separate companies may deviate. The closest to the situation of headquarters - subsidiary relationships is the situation where a separate board has been set up to decide on such occasions. However, the level of trust among partners in an alliance will in contentious situations be less than that of contending parties in the headquarters - subsidiary relationship. In situations of conflict, suspicion may arise because complete convergence of goals is not assured and partners may act with a hidden agenda (see below in the section on instability of alliances). In other words, even with the creation of such an umpire to mimic the headquarters – subsidiary situation it still remains that there is a possibility for the existence underneath of ultimately deviant goals, directions or agendas between partners in an alliance. Therefore, even after stretching the analogy with the headquarters - subsidiary relationship as much as possible, there still remains a major difference between traditional organisations or hierarchies and SBAs with regard to the separation of ownership and control. This requires a conceptually different treatment of the issue of ownership and control in the context of SBAs than in the case of traditional literature.

Ownership

The concept of ownership comprises the following three basic elements. First, ownership refers to the legal title to possess an asset and the right to enjoy its fruits, unless differently arranged by contract. Second, ownership includes the right to exercise control over the owned asset. Third, ownership provides a legal title to alienate the asset or parts thereof. Particularly the second element is of importance to the current discussion.

A legal title of ownership can be based on a contract between parties or follow from general legal provisions, which the proprietor can exercise towards all. Within the subject of alliance, a common example of ownership based on a contract between parties is an equity investment by one company in another. Another example is a shared production facility between two or more companies. Ownership from general provisions of the law includes the right to exercise control against others. In this case the rights are not derived from conditions specified in a separate contract entered into by two parties. It should, rather, be considered as a virtual contract between a company and the entire society (including other businesses). Unlike in the case of the actual and specific contract between two parties, in this case the contract is tacit at best and any relation regarding enforcing ownership rights stems from general legal provisions. A presence in the same society (or market) as the company with the right of ownership presupposes adhering to the conditions of ownership as well as accepting the conditions attached to that "contract". Examples of this type of contracts are patents, trademarks, copyrights and other intellectual property rights.

This division in the underlying basis for ownership bears relevance. Ownership stemming from contractual relationships corresponds with the traditional way of perceiving the firm: a portfolio of product market entities. However, as indicated by Hamel, a firm could also be seen as a portfolio of core competencies (Hamel 1991). Ownership based on general legal provisions (as opposed to based on contracts) is related to such a perception of the firm. Ownership structures originating in patents, proprietary technology, brands, managerial skills and the like refer to such core competencies.

Companies in the process of forming an alliance, as well as those that participate in an alliance need to assess all ownership-specific advantages (Dunning: 1993). In accordance with the above, this should be interpreted as assessing both ownership based on contractual agreements and ownership based on general legal provisions. While the former are usually apparent and not difficult to value, the latter may be covert and more difficult to value. Additionally, some ownership structures can have the characteristics that will at some times classify them in the one, but at other times in the other category. Technological know-how usually fits within the non-contractual ownership structures. However, when, as part of the alliance agreement, one of the companies involved in the alliance transfers technological know-how to the other, ownership of technology amongst the partners creates contractual relations. The same can be argued in the case of brands. Brands are intellectual property and are, therefore, enforceable towards all without the necessity for a multitude of separate contracts with all members of a society. However, the right to use a brand name or symbol can be an explicit part of the alliance agreement.

Control

Ownership usually comes to the surface when control is exercised. The two types of ownership described above, impact differently on the exercise of control by the owner. In order to fully understand the concept of control within alliances, it is important to distinguish the different elements it is composed of. These are focus, extent and the mechanisms through which control is exercised (Geringer and Hebert, 1989). Focus refers to the areas that are encompassed by control through the parent companies of the alliance. In other words, it relates to what part of the business does and what does not fall under the terms of the alliance. The wider or deeper the focus is, the more encompassing the alliance. The extent of control refers to autonomy level of the alliance vis-à-vis the parents of the alliance. Typically, a mature and successful joint venture enjoys more autonomy than a recently established shared production facility. There are no blueprints for autonomy per alliance type, however. It will depend on the situation and the demands of the parties what level of autonomy will emerge (Mohr and Spekman, 1994; Osborn and Baughn, 1990; Reuer, 2000). In addition to this, control is also subject to cultural factors. Generally speaking, Japanese parent companies exercise more control than European parents (Wiersema and Bird, 1993; Parkhe, 1993). American parents are somewhere in between the Europeans and the Japanese in this respect (Reich and Mankin, 1986).

The issue of control has been dealt with in the literature on alliances through the concept of the economics of transaction costs. This concept acknowledges that there are costs involved in exercising control. Incurring such costs is considered viable when they decrease opportunism (Williamson, 1985). Parents to an alliance will build in control mechanisms in order to assure maximisation of the output of the alliance, from their individual point of view. Control will be exercised in the relation between parent company and alliance but also in the relation between the two alliance partners (Hamel, 1991). The costs attached to the concept of control on the one hand, and the benefits of control on the other hand, indicate the essence of control in alliances: it is driven by a cost-benefit analysis. This analysis determines the place of alliances on the spectrum of costly control (hierarchy) and less cost-effective autonomy (market). The more control is exercised, the closer the alliance (or alternatively, the relation between partners[22]) resembles a hierarchy, the less control is exercised the more the relation resembles an arm's length situation.

The earlier mentioned analogy of contemporary alliances (including joint ventures) and old-style headquarters-subsidiary relationships makes research in this part of the subject less novel. New features in today's alliances require a different paradigm and existing literature on ownership and control needs to be amended. However, that is outside the scope of this thesis. We have merely stipulated the issue to indicate that a direct application of the traditional ownership and control theory does not fit well with SBAs and that further development of those theories is necessary to include the features of his new type of organisation. Although the issue of ownership and control plays an important role in SBAs, for the purpose of our research a more refined theory is not a priority: we can concentrate on our focus without the need to repair the failures of the traditional

[22] As indicated, exercising control refers to the relation between partners and alliance, but also to the relation amongst partners. The markets and hierarchies paradigm can be applied to either situation.

notions on ownership and control. We will end this section with some associated issues that are of direct relevance to our treatment of SBAs.

From contract to status

An important feature of SBAs regarding the relation between ownership and control is that in alliances ownership often does not only refer to tangible assets but also to intangible assets as knowledge and skills. When such assets form the basis for the alliance to one or more of the partners involved, the challenge of control has a special dimension compared to control of tangible assets. To be sure, existing theoretical frameworks have the ability to integrate intangible assets within the ownership structure of a firm (Dunning, 1993). But theory on controlling such assets in an SBA setting remains wanted. One central question for managers involved in strategic linkages with other companies, including fierce competitors, could be how not to expose intangible assets (for example information on efficient working practices in an area outside the scope of the alliance) that do not require exposure for the alliance to work. Assessing ownership versus control within SBAs is more complicated than a similar analysis in the case of a single firm's relation with its wholly-owned subsidiaries. Depending on the type of the alliance, the level of complication is higher. In the case of the creation of a separate legal entity where the staff, site, and information infrastructure are separate, controlling information from the individual company's point of view is generally less challenging than in a situation where it concerns a firm that has part of its equity owned by another firm and representation of that firm on its board of directors.

As has been indicated in the part on defining SBAs, the definition of the phenomenon has not provided management literature with a uniform outlook. We indicated the existing wide variety on this matter. Related to those definition issues and to our earlier assessment of the ways companies can execute their international strategy, some consider SBAs on par with contractual agreements; others consider SBAs as a form of building or buying operations. SBAs have in fact characteristics of both types of strategies. They share features of M&A with regard to adopting an approach that does not strictly rely on generic growth of the

firm. Where an SBA distinguishes itself from an M&A, however, is the lower level of hierarchy. In the case of a merger or an acquisition, as explained above, there is one single entity. The merged firms form one company and the acquired firm becomes part of the firm that has acquired it. The single entity has a hierarchical structure. In the case of an SBA, there is more than one entity involved, with, as we saw above, all the difficulties of managing this is accompanied with. The companies do not relate in as clear hierarchical structures as is the case with M&A. The position of the (formerly) separated parts of a merger or acquisition is based upon a status: the parts of the (newly created) company relate to each other on the basis of a certain hierarchical structure.
The contractual status of licensing and franchising also has similarities with the SBA strategy. Whereas licensing and franchising merely have tactical motives, in the case of SBAs the partnership concerns the heart of the companies' activities. In terms of markets and hierarchy, the position of contractual agreements is closer to the market side than that of SBAs. The parts involved in a license or franchise agreement relate to each other on basis of a contract. This places SBAs not only between a market and a hierarchy but also between these two different ways of executing an international strategy. As a consequence it is possible for companies to migrate from using a contractual agreement via an SBA to a merger or acquisition (from contract to status).

After we discussed the important changes in the global economy that both created an environment for SBAs to emerge and, at the same time, made them a necessary alternative to more traditional organisational modes (ways of executing an international strategy) we reviewed some of the reasons why SBA are created. We followed with a brief discussion on ownership and control because the interaction between these two notions is important to understand the SBA phenomenon. We will now turn to our theories which will be tested against our case-studies.

Chapter 2

The theories

Introduction

In the previous chapter we presented our definition of SBAs. There we mentioned that we consider SBAs form-free corporate partnerships that refer to the companies' core areas of activities in which the partners maintain their statutory independence. The fact that the companies remain independent results in a number of challenges related to this type of partnerships. This requires a different approach from management than in the case of unitary hierarchical situations (Draulans, de Man and Volberda, 2003). Another important feature of SBAs can be their concentration on reducing costs in some way. Williamson (1975, 1985, 1996) has provided an academic framework relating organisation to minimising costs. A reflection of the current academic literature on SBAs will reveal a heavy concentration on managing risk (in its widest sense), TCE-related considerations underlying (the choice for) SBAs or a combination of these two. We, however, will turn our attention to one game theoretical application. Our central theory is Nalebuff and Brandenburger's Co-opetition. One central notion in their book, a new Mindset, combines war and peace. In order to expand on this notion we have selected two theories, each representing one dimension of the Mindset notion. Those two theories will also be tested against our cases. Ultimately we intend to draw conclusions from the applicability of our central theory, Co-opetition, and of the theories representing the war and peace Mindset with regard to the cases we have selected for this thesis.

Co-opetition

Introduction

Nalebuff and Brandenburger wrote a book that approaches business from a different angle than standard strategy literature does. They base their thesis on the premise that two central elements in business impact on companies' activities: creating value and capturing value. Creating value is the establishment or the enlargement of demand in a particular market or market segment. Popularly, creating value is referred to as "creating the pie". Capturing value is essentially dividing up the pie. One of the first observations the authors make is the duality that exists as a consequence of these two central elements in business: they see creating value as an inherently co-operative process, whilst capturing value is inherently competitive. In other words, it takes two different types of mindset for companies to deal with the central elements of business.

Particularly the authors' stance on creating value differs from most standard strategy literature. Most other scholars will consider creating the pie as a competitive process first and foremost.[23] Those scholars see less of a duality in the firm's behaviour when it comes to deal with the two central elements because it does not take two different mindsets in their approach. In Nalebuff and Brandenburger's vision it is essential for companies to recognise their interdependence when it comes to creating value. In order to be successful in creating value, firms have to align themselves with a number of other actors (Players) and co-operate with them. But when it comes to dividing up value, the more traditional competitive approach for market share is prevalent. Capturing value could mean that the firm has to compete with the same actors it co-operated with in order to create value. The realisation of this requires new paradigms for firms in their relations with other actors.

The potential contribution of Nalebuff and Brandenburger's Co-opetition to our thesis

Based on these basic notions of what Nalebuff and Brandenburger set out to illustrate with their theory, there is justification to scrutinise their work for applicability to our subject SBAs. Central theme of their theory is the ability to create value in business that can be captured by the firm. To support the two central elements (creating value and capturing value) the authors make use of game theory because game theory offers ample flexibility.[24] More specifically, there is another justification to scrutinise Nalebuff and Brandenburger's theory. Their theory refers to the macro level: it sets out how the structure of the economy

[23] Most notably, the works of Michel Porter build upon this premise.
[24] They build on works originated by John von Neumann and Oskar Morgenstern.

and the state of (international) business dictates the behaviour of firms that aim to create value and subsequently divide that value. Due to the structure of the economy and the state of business, firms operating in contemporary business need to co-operate when they attempt to create value and compete when value needs to be divided. These very same macro-level dynamics may also apply to the micro level of a firm's strategy when a firm opts for an SBA. An SBA too, tries to perform both functions at the same time: it aims to create value and is a vehicle to divide up the value that has been created. The creation of value refers to either enlarging existing market shares for the alliance partners or creating a new market for the partners' benefit. Besides creating value, companies engaged in SBAs use these co-operative membranes as a vehicle to make arrangements on how to divide value after it has been created. In other words, what Nalebuff and Brandenburger see as the theme of co-opetition and what they consider as a duality that characterises contemporary business could be considered as a feature within SBAs. Essentially, in our thesis we will consider whether Nalebuff and Brandenburger's macro-level analysis applies to SBAs (a micro-level form of organisation) of the kind that are present in the telecommunication industry.

The new mindset: war and peace

In order to appreciate Nalebuff and Brandenburger's theory one first needs to dismiss the traditional one-dimensional notion that business is competition at all times. The popular analogy that follows the assumption that business can only be considered in competitive terms is that of equalling business to war. That, in turn, comes with the vision that business is about win-lose situations. Nalebuff and Brandenburger's theory rejects such a strict interpretation of business where there only is room for winners and losers. In fact, the normative part in their book suggests that in business all could be better off if win-win approaches are sought constantly. In order to achieve such win-win situations, co-operation is necessary. Viewing business merely in terms of win-lose and warlike circumstances will hamper the development of such win-win situations. There is a word of caution, though. While business is not a constant state of war in the sense of the traditional literature, it is not about peace and co-operation all the time, either. There is a guideline to determine when business needs to be of a competitive mindset with a win-lose mentality and when business is of a co-operative mindset with a win-win mentality. This guideline is provided by the aforementioned separation between creating value or creating the pie, on the one hand and dividing up value or dividing the pie, on the other hand. When it comes to creating value the right mindset is co-operation and "peace" and when it comes to dividing up value the right mindset is competition and "war". With this in mind, the authors continue that in order to increase one's success in playing, it may be necessary to change the game one finds oneself in. A game refers to the situation in which one has to deal with players and elements of the game. Before presenting the interaction between the company, its players and other elements of the game, Nalebuff and Brandenburger present their creation named Value Net to identify the mixture of competition and co-operation, or co-opetition.

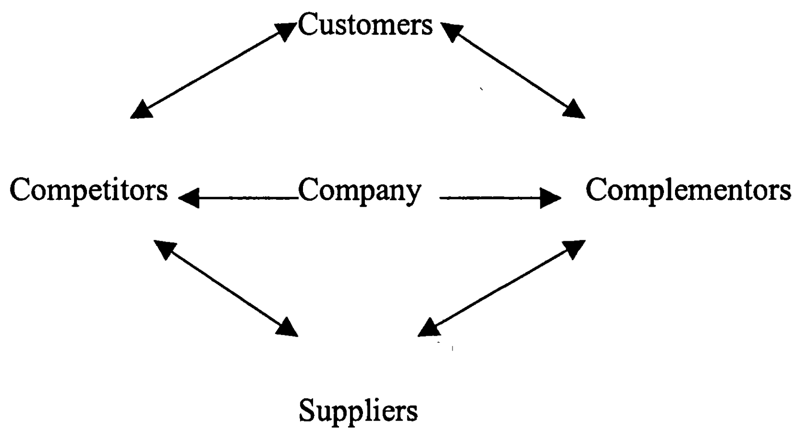
Understanding the Value Net

Traditional management literature overlooks one group of actors (or players), in the games of business. Customer, suppliers and competitors receive ample attention but players that provide complementary products and services are generally ignored. A new word is introduced as a mirror image of a competitor: a complementor. Nalebuff and Brandenburger define a competitor as: "a player that makes it less attractive for a supplier to provide resources to you when it is also supplying the other player than when it is supplying you alone" (p16). This definition differs from mainstream definitions that focus on the production side and describe competitors as those that make the same or similar products. Nalebuff and Brandenburger's definition has the advantage that it can comfortably deal with situations in which companies that make the same product are complementors (i.e. not competitors) in one or more issue areas as well as with situations in which companies that make different products end up competing with each other. In similar fashion as the authors define a competitor, they define a complementor as: "a player that makes it more attractive for a supplier to provide resources to you when it is also supplying the other player than when it is supplying you alone" (p16). Nalebuff and Brandenburger place great importance on complementors. They consider an important role for supply-side complementaries between firms in the current information economies. They predict that such supply-side complementors will increasingly become the norm and make the difference in industries where big up-front investments are necessary for research and development. A further observation regarding complementors is that they are always reciprocal. So it cannot be the case that one company is a complementor vis-à-vis the other while the latter is a competitor vis-à-vis the former. The authors describe a number of cases in which complements have made the difference between success and failure in business.[25] It is important for a business to recognise whether another player is a competitor or a complementor. With respect to a company's suppliers it is important to know whether the relationship (or parts thereof) is essentially competitive or complementary. The same company can be both, competitor and complementor vis-à-vis the same supplier and it is therefore essential to realise what its proper role within the relationship is.

Complementors supplement the three other players that do receive ample attention in business literature. The four players (customers, suppliers, competitors and complementors) are divided over two dimensions. These dimensions indicate two fundamental symmetries. Graphically portrayed, the vertical dimension shows the customers and suppliers and the horizontal dimension shows the symmetry between competitors and complementors. This means that customers and suppliers are equal partners in relation to creating value, as are competitors and complementors when it comes to the horizontal dimension. The consequence of the parity between the players on one dimension is that a popular perception like "the customer always has to come first" is rejected in this theory.[26] A company that lifts one actor above the other of the same dimension and grants it sole primacy could be causing the destruction of the company's overall value.

[25] However, the authors' observation that some downtown shopping malls have failed because of a lack of convenient parking seems somewhat simplistic. Other factors, like higher rents for downtown shopping malls compared to suburban malls, less available spaces for variety display, higher prices of displayed products due to less bulk purchase that in case of suburban malls and the need to compensate higher costs of products are likely to contribute to the failure of downtown shopping malls, perhaps even more so than the unavailability of parking space.

[26] For example, the strong focus and primacy allocated to customers in the Six Sigma approach is strongly at odds with Nalebuff and Brandenburger's vision.



Nalebuff and Brandenburger's Value Net

Strictly speaking, this is just part of the Value Net; in fact it is a simplification of actuality. The actual Value Net needs to be extended with the company's customers' customers, the company's suppliers' suppliers, the company's competitors' competitors and the company's complementors' complementors. To be even more accurate and inclusive, the suppliers of the company's suppliers' suppliers need to be considered, too and so on. However, including these multiple perspectives would hamper the graph's clarity. For that reason those second and third tier actors have been omitted. But companies are well advised to include these actors too in order to fully assess the game they are in. Another important function of the Value Net is that it helps to untangle complex relations that are the consequence of players occupying more than one role. A player occupying more than one role occurs more often than one might imagine. It is counterproductive to typecast an actor as having one particular role in the Value Net without taking into full consideration that the same actor can have multiple roles and thereby ignoring any of the other roles that an actor plays.[27] Understanding the multiple roles actors can take and assessing their role appropriately will enhance a company's ability to look for complementary opportunities as well as competitive threats.

[27] Nalebuff and Brandenburger describe the example of the movie industry to illustrate a misjudgement in this respect. Initially, in the early 1980, this industry considered sales of videocassettes as a threat (competitor) only. It later discovered that, rather than a mere substitution good for movies, videos were often used in a complementary fashion: people would see a film in the cinemas as well as on video. After this observation the videos were made cheaper to benefit from opportunities to enlarge the pie.

Special role of the government

The government is the ultimate example of an actor occupying multiple roles and able to occupy every position of the Value Net. It can appear in the role of customer (when buying military equipment), supplier (selling radio spectrum), competitor (when it competes with the private sector for personnel) or complementor (in the position of providing civic order). Moreover, Nalebuff and Brandenburger consider government extra special because it has the power to make laws and regulations that govern transactions amongst other players (the so-called behind-the-scenes role of the government).[28] We would like to challenge the speciality of this governmental feature. It is unclear why this ability of the government is substantially different from the ability of companies to make (or change) the rules of the game. The government's rule-making ability can be integrated in the framework instead of being considered a special feature outside the authors' framework.[29] The only difference in the case of the government vis-à-vis other actors is that the mandate to make rules has a stronger base because ultimately it comes, albeit indirectly, from the entire population of a country. But in essence the influence of the government's rule-making ability on the game is the same as with other actors: it changes the game.

The new mindset and the Value Net

Nalebuff and Brandenburger link their war and peace mindset to the Value Net and pose two stern warnings. Firstly, whilst complementors are essentially positive because they can help to enlarge the pie, they become a liability when they appropriate more than they added to the pie in the subsequent phase where the pie is divided. The second warning refers to competitors and flags the likelihood of lose-lose outcomes in case of exclusively approaching one's competitors with a war mindset. Such a mindset may also favour the adoption of

[28] This role ties in with the parts on regulation we presented in our first chapter. Moreover, we will see some actual consequences of this role in the case of telecommunication alliances in the next chapter.
[29] For example, when the government is a customer its ability to change the rules of the game may be linked to Added Value of PARTS. Another example, when government acts as a complementor, its ability to create laws and regulations could be seen in combination with Scope of PARTS. In any case, there is no compelling reason why government should have an "extra-Co-opetition" position when it can be fitted in the theoretical framework.

head-on price cutting strategies which only in exceptional cases lead to the actual elimination of a competitor. More common is that it merely damages the competitor's operation. The competitor will then have less to lose and may become more aggressive in its operations towards the player that cut prices as well as towards other competitors. This, in turn, could lead to yet more aggressive behaviour within the industry leaving all actors/players ultimately worse off.

Whilst we agree with the authors' premise that the adoption of the war-like mindset in all occasions is counterproductive, we do feel that not enough credence is given to the fact that there are sufficient examples of companies faring well due to the adoption of price cuts. Neither in their introductory discussion of the Value Net nor later on when Nalebuff and Brandenburger discuss the Players of their PARTS framework do they appear to acknowledge or allocate adequate weight to this reality. Furthermore, they do not devote much attention (or value) to the positive effects of price cuts to consumers. To Nalebuff and Brandenburger such positive effects are short-lived at best and will be detrimental in the long term. This is because they will lead to the elimination of players in the market or will lead to lower investment levels for product or service improvement (e.g. through R&D) because subdued profits will hamper such efforts. The former justification runs somewhat counter to their claim that such eliminations in the market are sporadic when they assert that the actual elimination of a competitor is rare. Evidence of the latter position is not produced and there is reason to adopt a contrary view. The airline industry provides a number of examples (some of which they indicate themselves in their book) of increased efforts to improve services against an overall backdrop in revenues due to price cuts. Another observation we would like to make, relates to the authors suggestion of an alternative approach to the always-on competitive mindset that will benefit all. They argue that, at times, it makes logical sense to let your competitors do well. This can be done through working together with them, as opposed to competing with them, in order to develop a common complement. Another way of enabling competitors to do well can be letting them succeed as competitors. In other words, refrain from activities that will frustrate the successful execution of their strategy. The first method is, in our view a stronger one than the latter. Particularly pressure from higher management levels or of shareholders may make the latter way of enabling competitors to do well an unrealistic one.

The Value Net, the new mindset and cartels

In sum, far from advocating the lose-win scenario of being nice and expecting others to reciprocate, the authors acknowledge that relationships among competitors are essentially win-lose. Incumbents lose when others enter the game. They point out that losses can be minimised if win-win interactions with new entrants are sought. Another point they stress is that whether it is a customer, supplier, competitor or complementor, no actor should be considered as friend or foe in all cases. All relationships exist of duality, reflecting the multiple roles of the actors. A final and related point they argue is that actors are complementors in making markets (creating the pie) and competitors in dividing up markets (dividing the pie). Nalebuff and Brandenburger claim that these notions are applicable to all types of organisations. They do, however, at no point address the cartel phenomenon or place it within their theory. A possible explanation for this is because it makes for an awkward customer in their framework. In the case of a cartel the market is divided up as a way of co-operation. In other words, here we see a cross section of the Nalebuff and Brandenburger framework. Their way out might be that a cartel is an illegal form of organisation but illegal or not, one should still be able to provide an explanation for this type of organisation.[30]

Introducing game theory[31]

The aforementioned discusses the authors' presentation of the Value Net. We consider this presentation largely empirical in the sense that it describes what type of relationships every actor (business or any other organisation) has with other actors. The aforementioned also discusses the authors' presentation of the co-opetition mindset. We consider that presentation normative: it indicates how every

[30] Had we chosen the oil industry as opposed to telecommunications for our case studies, this element would have made for a disturbing factor.
[31] Game theory started off as a branch of applied mathematics. Game theory is essentially the science of strategy and analyses situations in which people's fortunes are interdependent. Game theory allows for a systematic development of strategies when the fate of one actor depends on what other actors do.

actor should behave in order to create value and capture as much of it as possible. The next step is an assessment of a systemic method that will allow an actor to change the game it finds itself in. To this effect Nalebuff and Brandenburger draw upon game theory. Human activities, including those in the realm of business, can be portrayed as games. The actors in a game are called players and their interaction culminates in a certain outcome. From the individual player's point of view, it may be beneficial to change the game in order to increase success in playing it. In order to change a game one or more of the five basic elements of any game need to be changed. Game theory does not only allow for changing the way the game is played but also allows for changing the game itself. The relative power of the players determines what each will get in a game.

Introducing PARTS

In the discussion of the Value Net, Nalebuff and Brandenburger show the different roles actors can perform in games. Thereby they introduce the different types of players. There are a number of other elements that play a role in games. In Nalebuff and Brandenburger's discussion of game theory, and consequently in separate chapters, all these elements are reviewed and special attention is paid to how they can change the game. Ultimately, these elements are to be seen as building blocs that allow for a creative application to a wide variety of real-world situations. The five elements are present in any game and are components of a single whole. Various elements may seem to overlap in individual cases, which is because they are interdependent. It remains important, nevertheless, to assess each component individually to assure that none of the elements is being overlooked.

Players

The central issue with regard to this element of the game is that every actor has to realise that the game changes upon entering it. This, the authors consider, is a point that is often missed by actors before they become a player in a game. Before entering, it is important to assess the consequence of entering and, on basis of the perceived outcome of this assessment, decide whether it is worthwhile entering the game and becoming a player.

When to enter a game
A sound measurement to determine whether an actor will be able to profit from entering a game is determining whether (s)he has Added Value (see below). It may not be a straightforward to determine this because the possession of Added Value may be covert. An actor may lack Added Value at first glance, yet carry a great deal of Added Value in actuality. Nalebuff and Brandenburger indicate this through three small cases in which they compare the different reactions of companies at a pivotal position with regard to creating competition in a game. In those cases one of the players was left without substantial or credible options in its game vis-à-vis the other player. None of the companies assessed in the cases had Added Value upon entering the game but they could all change the game due to the fact that their entrance would raise the level of competition in the game. Providing one of the players with an alternative was their Added Value. In two of the cases the company did not realise this, or, at the very least, did not react like it did and failed to profit from its attempt to enter the game. In the third case, the company did take advantage of its competition-enhancing position and got rewarded handsomely for doing so. Players should, therefore, always assess whether their Added Value may actually be their sheer presence in a game (that lacks competition) and if this is the case they should ask the beneficiary of their presence in the game to pay them (Nalebuff and Brandenburger call this the "Pay-Me-to-Play" strategy). The reason why this is important is because becoming a player usually comes with costs. Those could be obvious ones and the costs can be low or high.[32] In addition to obvious costs there are some hidden costs associated with entering a game. These so-called hidden costs of bidding, eight in total, are presented in the Players section but play a central role and re-appear in the sections of the other elements of PARTS.

As can be evidenced from their repeated quotation throughout the book, Nalebuff and Brandenburger place great importance on these hidden costs of bidding. However, a first observation is that only the first point is actually a hidden cost of bidding itself. The subsequent seven point, realistically, only become cost factors

[32] The costs of entering a game can be as low and straightforward as quoting a price over the telephone or as expensive and complicated as building a nation-wide rail network from scratch, and of course, everything in between those extremes.

after the bid has proved to be successful. In other word, there is one hidden cost in bidding and seven hidden costs of a successful bid. This is not merely an issue of wrong labelling. From the way Nalebuff and Brandenburger present the eight hidden costs it appears that every time a company makes a competitive bid it is subjected to the list of hidden costs. In reality it is only subjected to the hidden costs associated with spending time and resources in that case. Only when the company actually wins over customers with its bid are the other hidden costs a reality.

There is a further observation regarding their eight hidden costs that needs to be mentioned. All but one (again the first one) of the eight hidden costs presupposes that the competitive bid was based on offering lower prices. Whilst this may be the case in a majority of cases, competitive bids are also based on improved products, better service or, in line with the authors' theory, the inclusion of (additional) complements. Even if the occurrence of these alternative reasons as the basis for a competitive bid is less frequent than a straightforward lowering of price, still seven of the eight hidden costs of bidding have a more limited value than may appear at first glance.[33]

Bringing other players into the game

A company may have sound reasons to bring other players into a game. Nalebuff and Brandenburger's discussion of this part is a mixture of reasons why and ways in which such actors can be brought in. The circumstances will dictate which of the actors a company may seek to bring into the game but any of the actors in the Value Net could be reviewed as a possibility to bring into the game.

Bringing in customers

First and foremost a company may attempt to bring in more customers. Bringing in customers has two advantages from a company's point of view. First, it increases potential revenue (makes the pie larger). Second, it decreases the Added

[33] To be sure, the three benchmark considerations (where Nalebuff and Brandenburger state the disadvantage associated with the fact that existing customers, new customers and rivals will all take the low price the bidder sets in order to take the business away from an incumbent as a benchmark) could be extended beyond a competitive bid based on price to include a competitive bid on improved service. However, the authors explicitly focus on price-related competitive bids and seem to disregard other types of competitive bids.

Value of the existing customers, thereby increasing the position of the company vis-à-vis all its customers.

Bringing in suppliers

Like with customers, there are a number of ways to bring in suppliers. In this case too, an extra supplier improves the bargaining position of the buyer (the company bringing in suppliers) because it makes the incumbent supplier(s) less essential.

Bringing in complementors

Adding complements to a product or service enhances the value to customers, particularly if the complements are cheap. Nalebuff and Brandenburger indicate that in certain scenarios the best strategy may be to become one's own complementor rather than waiting for a third party to offer or develop one.

Bringing in competitors

It may even make sense to bring competitors into the game. This could be because some customers may only be willing to do business unless there is competition in the market. Alternatively, competition may be created for an internal purpose: it keeps the company alert.

Nalebuff and Brandenburger also discuss the opposite situation: when there are too many competitors. To us, this discussion illustrates one of our points of criticism towards Nalebuff and Brandenburger treatment of some of the notions. We consider that they tend to perceive matters in a too simplistic way, at times. In a declining industry acquiring competitors in order to rationalise industry capacity is an appropriate way. However, it may be hard to buy up a competitor in an industry segment where one of the two (or of the few actors) may soon become redundant. Therefore, Nalebuff and Brandenburger suggest considering selling to the competitor as a workable solution in such cases. But in many of such cases selling will not be without some major hurdles, be those regulatory, managerial or imposed by labour unions.[34]

[34] One of the few examples in which it actually happened is the UK cable industry in 2005. On that occasion, UK's largest cable company NTL acquired the country's rival and number two operator Telewest. However, generally, in the service industry regulatory hurdles may make this a far less straightforward option than Nalebuff and Brandenburger imply.

Added Value

In game theory the concept of Added Value plays an important role in understanding which of the actors has power in any game. The concept of Added Value offers a way to measure what the different actors bring to the game they are in. Nalebuff and Brandenburger define Added Value as:

> The size of the pie when you are in the game
> minus
> the size of the pie when you are out of the game
>
> the difference is your Added Value

This definition will help understand that it is unlikely for an actor to obtain more from participating in a game than its Added Value. Otherwise, the other players are better off playing the game amongst themselves and thereby increasing the overall Added Value ("size of the pie"). The authors point out some common mistakes actors make in assessing their Added Value. One mistake is to only consider half of the overall equation. An actor should not only asses how much it would be worse off not participating in a game, it should also assess how much other actors stand to lose without its participation in the game. In other words, an actor should want to find out what its entrance to or presence in the game adds to the overall game. Such an analysis will lead to more than a mere focus on the minimum pay-off the actor is willing to accept. It will also include what the other players are willing to pay to have the actor in the game. Besides assessing how Added Values may be influenced by an actor entering the game, Nalebuff and Brandenburger also indicate the importance of assessing how Added Value changes in case an actor were to leave a game it is in.

Added Value of a monopoly

The notion of competition is important because whether or not a company has competitors has a direct impact on its Added Value. For this reason Nalebuff and Brandenburger distinguish between Added Value in a monopoly position and Added Value in a competitive market. When a company holds a monopoly position there is no game without this company. In other words, that company's Added Value equals the entire pie. Other actors may make a claim on the pie, too but to what extent they will be successful depends on their Added Value when they make their claim vis-à-vis the Added Value of the monopolist. In a monopoly market, shortages can play an important role. A monopolist can create shortages through undersupplying customers or under-demanding a supplier's resource. The latter is less common than the former.[35] Nalebuff and Brandenburger review the advantages and disadvantages of limiting the supply (creating shortages) in a monopolist position and we can find ourselves in agreement with most of those. However, one of the disadvantages they mention is that it shrinks the pie, i.e. decreases the overall Added Value. We feel that this should not be classified as a disadvantage per se. Much will depend on the game dynamics whether this loss is offset by capturing a larger size of a smaller pie.

Added Value in a competitive market

As indicated, Nalebuff and Brandenburger separate their discussion of Added Value between the case of a monopoly and that of a competitive market. Attaining Added Value as a player in a competitive market differs from doing so in a monopolistic market. Above it was shown that for the monopolist Added Value equals the entire pie. In case of a competitive market the pie is shared with a large number of other actors which each have limited Added Value, at best. Furthermore, creating Added Value usually comes with a cost-quality dilemma. Creating Added Value through improving the product will increase cost. But creating Added Value through cutting cost will compromise the product's quality. It appears that attempts to engineer Added Value are subjected to this trade-off. In spite of the cost-quality dilemma there are still ways to create Added Value in a competitive market: trade-offs and trade-ons. Regarding the former, one way is to raise the amount customers are willing to pay for a product improvement by more than the incremental cost of the improvement. In other words, if, after a product improvement, the price customers are willing to pay for the new product increases with x, Added Value is created if the extra costs of the improved product are below x. Similarly, Added Value is created when cost savings on a product

[35] Nalebuff and Brandenburger provide an example. The control of the South African monopolist in the world's diamond market, DeBeers, is used to show how a monopolist can withhold supply and also manage demand. Mainly through advertising, DeBeers succeeds in maintaining the belief that diamonds are scarce and that a second hand market is frustrated.

amount to x but customers devalue the product for less than x. In these cases, Nalebuff and Brandenburger suggest to split the difference between incremental price and incremental cost in the first situation and between cost savings and decrease in price in the second situation. That will lead to win-win situations.

Supplier's cost of improvement = y

Added Value is created if $x > y$

Customers willing to pay for improvement = x

Trade-ons are even better than trade-offs. In case of a trade-on the cost-quality dilemma is eradicated completely: there is higher quality and lower cost at the same time. Trade-ons can be achieved through establishing a virtuous circle. With a virtuous circle a trade-off is turned into a trade-on. This happens when, after costs of an improved product have risen initially, an increase in sale volumes offsets the rise in cost. Because of the higher sales volumes than was the case at the outset, more can be invested in attempts to lower the price by benefiting from advantages due to higher volumes. By that time the improvement in quality has led to lower cost and price of the product. This will increase sales yet more. The result is a trade-on in the form of a virtuous circle. Similarly a virtuous circle appears when lowered costs lead to an improvement in quality.

Added Value of a relationship

Due to the nature of competition, companies may still fail to gain much premium over cost. Particularly companies with substantial fixed costs and low variable costs will be affected in those situations. A way to engineer Added Value in a competitive market is to engineer a relationship with customers. The airline industry was one of the first to recognise and apply this on a wide scale through the adoption of frequent-flyer programmes. Other industries have followed the same principal adjusted to the nature of their relationship with customers, much to Nalebuff and Brandenburger's satisfaction because they think every business should have loyalty programmes.

Nalebuff and Brandenburger's deviating stance on the issue of imitation and long-term success

Extending on the loyalty programmes, Nalebuff and Brandenburger challenge standard business strategy textbooks, once again. They take issue with the textbook argumentations that imitation erodes the Added Value of the originator and that business strategies cannot generate success on a long-term basis. Successful strategies will be imitated and copied by competitors and the originator will lose its edge and will need to produce a new strategy. Nalebuff and Brandenburger observe that strategy textbooks fail to register "healthy imitation", which is win-win and, instead, consider all imitation harmful and win-lose that could culminate into lose-win (when a competitor imitates the winning strategy and applies it to the originator) or even lose-lose (in case of competing on price because ultimately both competitors lose when they dodge each other price). However, although ignored by textbooks, the existence of healthy imitation is evidenced by the frequent-flyer programmes. Imitation of the first frequent-flyer programme enabled every airliner to have a programme of its own. All had, therefore, their own group of loyal customers. In that scenario price cuts become less effective because customers are less likely to switch and lose their frequent-flyer advantage. It is also less risky to raise the price (slightly) because customers are less prone to react to such changes. With less incentive to compete on price and less risk for all suppliers to raise price a win-win scenario has appeared. We think, however, that Nalebuff and Brandenburger push this point a little too far. They advice companies that have invented a win – win strategy to refrain from keeping it a secret. The reason why they advise this is because they argue that the more competitors adopt the strategy the better it is for the originator. Whilst we do not question the theoretical validity of their conviction, it is at odds with realism. Also, Nalebuff and Brandenburger do not address the realistic possibility that an adopter of a loyalty programme (e.g. frequent-flyer programme) will not be satisfied with the division of loyal customers across the industry. It then becomes a matter of whether the dissatisfaction is enough to upset others' loyalty programmes with aggressive competitive behaviour. The threat of unhealthy imitation is not always apparent and a company may actually facilitate unhealthy imitation through a co-operative strategy. In order to guard itself against the occurrence of such leakage, Nalebuff and Brandenburger suggest to acquire stakes in those companies that are granted a large piece of the pie. That way part of the lost Added Value due to unhealthy imitation can be recouped. This strategy would be consistent with the earliest theories that provide room for co-operative strategies. Most notably, Williamson's "Markets and Hierarchies" framework states a case for such shareholdings.[36] However, the reasons behind arguing such shareholdings differ. In Williamson's case it is for partners to establish "credible commitments" vis-à-vis each other whilst Nalebuff and Brandenburger see such shareholdings as a more direct way to create value by boosting earnings.

Rules

Theoretically games can be totally form-free but in practice most games have some type of structure in negotiations. In business, games are always subjected to rules. These rules come from custom, contracts and law. Rules, like added value, are an important source of power in games. Nalebuff and Brandenburger indicate that a Player should consider changing the rules if not satisfied with the outcome of the game (s)he is in or if Added Value can be increased. It is best not to concentrate on those rules that are well-established laws and customs but on the rules found in contracts, instead. Inserting or changing a single clause in contracts can heavily tilt the balance of power in favour of either of the contracting parties. Nalebuff and Brandenburger review a number of rules and analyse their effect on the game. In terms of contracts they separate between contracts with customers and contracts with suppliers. They also look at mass-market rules and the special position the government has regarding rule-making.

Government rules and general positioning

The government makes many rules of the game such as tax laws, patent laws and minimum wage laws. These laws govern transactions among all players in the economy. Governments also make rules that dictate what rules other players can make: the "meta-rules". This is one role of antitrust laws. In their discussion on government rules Nalebuff and Brandenburger devote considerable attention to criticising the one of Federal Trade Commission's yardsticks the so-called facilitating practices.[37] Our reason for explicitly mentioning this is because the treatment of this issue is symptomatic for a more general view the authors have

[36] O.E.Williamson (1975, 1985)

[37] Nalebuff and Brandenburger reject FTC's challenging of practices that allow companies to sustain prices above variable cost (facilitating practices). It is their opinion that FTC's stance does not recognise the new economics of the knowledge-based economy. Pharmaceuticals, jet engine and other knowledge-based products do not fit traditional economic models. They require huge upfront R&D cost in relation to the variable cost of making the product. Without having the ability to price above variable cost such companies cannot receive a return on their investment.

regarding business and one that surfaces at a number of places in their book. Nalebuff and Brandenburger are fervently opposed to competition on price, particularly fierce ones. Their emphasis is on preventing price wars and retaliation practices. As long as a market manages to contain dynamics that are detriment to price stability, they view the market positively. The fact that price competition can have positive effects for consumers is considered myopic by the authors. They stress that long term this will be harmful for all: producers, suppliers and consumers. We feel that Nalebuff and Brandenburger are perhaps too much on the side of the suppliers and producers and that price competition, even a prolonged one, can be beneficial to consumers without automatically annihilating the market. For example, competition in a sector like computer manufacturing has shown this point.

One final notion on Rules deserves attention. The significance of rules and the opportunities to change them are underestimated. But the freedom to change rules is a double-edged sword. Players should not follow rules blindly but should also not count on others to follow rules blindly, either. It is therefore good not to push a rule too far. Rules are also under threat when the ruler's power vis-à-vis another Player loses ground. Even the most established rule is subjected to renegotiations and if a rule cannot be controlled it is risky to base a strategy on it.

Perceptions

Perceptions are an important element of the game and need to be included in any description of a game. A sound analysis does not only include the perception of the game by its actors but also how they believe other people perceive it and how they believe other people believe the game is perceived. The importance of perceptions comes to the forth in the case of negotiations. This can be illustrated with the classic negotiation problem of dividing up value.

Texas Shoot-Out

The so-called Texas Shoot-Out is a common rule that attempts to provide a practical solution in what otherwise could be a difficult negotiation process. The

Texas Shoot-Out is a Rule often instated by partners that have set up a business or a partnership. In this case the Rule will help if one of the partners wants to end the relationship. According to the Rule, the dissatisfied partner states a price. The other partner then has the choice to either buy the first one out at the stated price or sell the partnership to the first one, again at that price. This way, if the partner that sets the price does this at a too low amount, the other partner will be able to buy the first partner's part of the business cheaply. So if the actor sets the price too low, it will sell short. Setting the price too high, however, is not in the price-setters favour either. It will most likely result in the other actor declining to buy-out and instead choosing to be bought out. The first actor, that set the price, will then be a victim of its own inflated price because in the Texas Shoot-Out Rule it will be forced to buy the other party out for the quoted price. This highlights that setting the price at the "right" level is crucial. This is when perceptions come into the equation.

In a $100 million business, a $50 million break-up price is not necessary the best price to suggest in case of a Texas Shoot-Out.[38] From the point of view of the first actor (the "shooter") not only its perception of the value of the business matters but also how the other partner values the business. The right strategy in setting the price takes both perceptions into account. So if the shooter who values the business at $100 million knows that the other partner values it at $60 million, setting the buy-out price at $50 million does not amount to a lot of sense. At $50 million the shooter is indifferent to buying or selling but the other partner has a clear preference to sell its share in the business. Receiving $50 million for its "half share" of the business is only $10 million less than its overall valuation of the business. So in order to achieve the same effect (buying out its partner), the shooter could have stated a buy-out price of $31 million (or perhaps $35 million to be on the safe side).

[38] Nalebuff and Brandenburger do not address this issue, but a fifty – fifty split (and a $50 million stated price for the buy-out as a consequence) without taking the element of perceptions into account, can only meet the same appreciation from the partners if both have contributed exactly the same value to the venture in all respects. We expect that in practice this will hardly ever be the case.

Struggling with the Texan Shoot-Out dilemma

Whilst the authors' discussion of the Texan Shoot-Out is adequate, they struggle with answering the self-imposed question: is it reasonable to presume you know your partner's perception of the value? They indicate that, although the exact value may be difficult to determine but one may have a fair idea based on the fact that it concerns one's partner. However if, in a Texas Shoot-Out, any notion of the partner's value is absent, Nalebuff and Brandenburger provide two solutions. The first is to fall back on the 50/50 division and a stated buy-out price of half of the business value. The other solution they propose is to let the other player shoot first. That will provide the advantage of being able to buy or sell at the stated price. We believe that neither of these solutions makes good advice. Nalebuff and Brandenburger have in fact already provided the problem with the first solution. The actual valuation of the business by the partners (which could, of course, differ from the valuation of the business by external analysts or, if applicable, the stock market) is bound to produce different results. Above we saw, the consequences this can have in case of a buy-out offer based on a single valuation instead of valuations of both partners involved in the buy-out situation. In essence what the authors suggest with their first solution is to return to a situation without the element of perception taking into the equation. As for their second solution, Nalebuff and Brandenburger started this premise from the point that one of the partners was dissatisfied with the business. It is not realistic that the other partner will shoot first since such a position is less favourable then the position in which the partner can choose on basis of a stated price. Part of the Texas Shoot-Out Rule will be that the partner that indicates its dissatisfaction (first) is the one that will need to shoot first. The authors had done better if they had acknowledged that the Texas Shoot-Out is not much more than a shot in the dark (or, alternatively, a shot from the hip) for the shooting partner if it is not known how the other partner values the business. In other words, when attempting to provide a remedy for the absence of a perception of the partner's valuation, Nalebuff and Brandenburger break their own rule: not only the actor's own perception of the game is important but also insights in how other actors perceive the game.

Returning to the central point of Nalebuff and Brandenburger's argument on tactics, perceptions are fundamental to any game. This is regardless of whether they are accurate or not. Perceptions play a central role in negotiations. When people's perceptions change, the game changes. Shaping perceptions is the domain of tactics. By "tactics" Nalebuff and Brandenburger specifically mean actions that Players take to shape the perceptions of other players. However, the entire interplay of actions and perceptions does not always take place in a transparent environment. Perceptions often need to be made under uncertain or even totally unknown circumstances. Nalebuff and Brandenburger refer to such circumstances as fog. From a tactical point of view a Player in the game has three options in dealing with the element of fog. (S)he can lift the fog, preserve the fog or stir up the fog. Applying the right treatment of fog influences successfulness in the game and it is therefore important that a Player chooses the right tactic in dealing with fog.

Preserving the fog: hiding information

Once a Player has been able to influence the perception of customers favourably, it has an interest in maintaining this perception. Information that leads to customers revising that perception needs to be prevented because it is in the Player's interest to preserve the favourable impression. This can be done by – what Nalebuff and Brandenburger call: "burying projects that have been turned down". In fact, this is a case of preventing the exposure of information that could potentially show a failure on the actor's side. It is important that harmful information that compromises the actor's good standing does not see the light of day but stays buried. Another way of preserving an attained favourable impression is by following the herd. That way an actor can not fail alone, failure will overcome all (i.e. the entire herd) and no individual loss of reputation is suffered. Once again, the fog is preserved. A third and final way Nalebuff and Brandenburger indicate to hide information in order to preserve a favourable impression occurs when an actor intentionally sets up mechanisms to fail. Nalebuff and Brandenburger do not expand this last element. Given its place in the theory we argue that they refer to actors that fail to make a genuine effort in order to achieve something. By not making a genuine effort it remains unclear whether the actor does indeed have the necessary capability or not. Again, the fog is preserved because the actor hides information on his capabilities.

Boundaries or Scope of the game
Before linking the issue of boundaries of the game or its scope to game theory, the most important observation regarding scope needs to be made. In principal, there are no boundaries to a game. But in practice boundaries are drawn for practical reasons. Whilst this increases oversight, the drawback is that important parts of the game may fall outside the scope and, thus, escape analysis. We will return to this below.

Rationality and irrationality
It is a misperception to assume that game theory requires rational behaviour from its players. That is not a reflection of reality and game theory attempts to reflect reality as much as possible. The early works on game theory were on zero-sum games as poker and chess. However, Nalebuff and Brandenburger believe that games in business are seldom zero-sum.[39] The upshot of this is that it is not always about one player winning at the expense of another. Player can succeed together or fail together. Within such scenarios a Player will have a vested interest in the level of another Player's rationality. The authors define rationality as: "a person is rational if he does the best he can, given how he perceives the game (including his perceptions of perceptions) and how he evaluates the various possibilities in terms of game outcomes"[40]. The authors include motivations as pride, fairness, jealousy, spite, vengefulness, altruism and charity as possibilities that still make rational behaviour. In fact they condemn those that deem others as irrational when they do "crazy" things. Dismissing someone as irrational closes the mind and it is better to try seeing the world as the other person sees it, no matter how different that world is. However, it needs to be indicated that the authors contradict themselves on this point when they dismiss a cab driver in Jerusalem as "simply crazy" when he put pride ahead of income.

The issue of whether someone is rational or irrational is irrelevant. Viewing the game from all of the Players' perspectives (multiple perspectives) is what counts.[41] There is a tendency with actors to view games egocentrically: in other

[39] This is an important assumption in Nalebuff and Brandenburger's point of view.
[40] p.57
[41] There may certainly be merit in doing that but we assert that anticipating the behaviour and perspectives of an irrational actor is easier said than done.

words, focussing on one's own position. Game theory's contribution in this respect is that it propagates allocentrism: the importance of focusing on others. This, however, does not equate to ignoring one's own position and completely placing others' perspectives at the centre of analysis. Nor does it mean that an actor should analyse the game from the perspective of other actors. What it does mean is that an actor assesses how other actors analyse the game from their own perspective. For this analysis to be complete the actor needs to include the other actors' analysis of the way he would see the world. Furthermore, it requires an assessment of how other actors perceive the first actor's view of the world.

Allocentrism

Nalebuff and Brandenburger link Scope's element of allocentrism to Added Value, Rules and perceptions (Tactics) through the element of Players.[42] Nalebuff and Brandenburger acknowledge that trying to put yourself in someone else's shoes is "a fundamental challenge" because you know too much about your own case. Their solution to overcome this is to have someone assist you. They suggest the aid of a colleague in a role-play. They even propose to lift this to a more formal level through the setting up of two teams within the company wherein one team plays out the company's strategy and the other team plays the role of a competitor. We question the realistic nature of this suggestion. Even if it is actually carried out, it is doubtful whether the outcome makes for a valuable contribution. The second team (as the first) is still a group from within the company with, at least, a certain level of inside knowledge on the company that cannot be erased for the purpose of the role-play. How, for example, does one erase the "corporate culture" in these circumstances? Yet the company's corporate culture will influence the ability to put oneself in someone else's shoes. This, in fact, is another example of our belief that Nalebuff and Brandenburger's strength lies in their theoretical framework and their weakness in their attempts to find practical solutions for weaknesses within their framework. Accepting that the

[42] What the conceptual difference is between the consequences of this linkage between rules and perceptions is not clear. In the case of Rules they say: put yourself in the shoes of the other players to anticipate reactions to your actions. In the case of perceptions (Tactics) the linkage will lead to the practice of: putting yourself in the shoes of the other players to understand how they see the game. We believe the differences between these two notions to be minimal at best.

framework has a few shortcomings would have been better than producing forced remedies that fail nevertheless.

As pointed out, at a fundamental level, there is only one game. Everything is connected. This makes the game enormous. Therefore, in practice games are divided in the more workable strategic levers of PART (Players, Added Value, Rules and Tactics) but in theory there are no boundaries. Consequently, in order to complete Nalebuff and Brandenburger's theory, one last element needs to be included: Scope of the game. Because there are no boundaries every game is linked to other games. A game in one place affects games elsewhere and today's games influence future games. Also, the mere anticipation of future games influences current games. It is, therefore, important to recognise the links between games. Once a Player has distinguished links, they can be used to its benefit. A Player can also decide to either create links or severe existing ones. These actions change the scope of the game.[43]

Links between games
Since PART describes all there is to a game it must be able to describe how the pieces of the whole fit together. PART must describe the links between any two games and is a way to classify the links. In the case of Players, any time when a Player of a particular game is a Player in another game, the two games are potentially linked. In order to assess whether the games are actually linked the rest of PART needs to be assessed. The player linking the two games could be anyone of the Value Net: customer, supplier, competitor, or complementor. Links through Added Value can emerge each time customers or suppliers participate in multiple markets. There is, however, a caveat to this with regard to Added Value. When an actor enters another game, (s)he may become his/her own competitor rather than complementor. In that case, (s)he lowers rather than raises Added Value in the original game: this is called cannibalisation. Rules constrain players' movements. Through such constraints, otherwise separate games can be linked together. Two games can also be linked because an actor intends to do so by way of Tactics. Issuing threats or establishing precedents are Tactics that create links across

[43] "Create" links is the terminology the authors use but it is a wrong one. This is because the authors state that the links are always present. It is more a matter of discovering or acknowledging them rather than creating them.

games. Nalebuff and Brandenburger provide a rather elaborate discussion of links through the separate elements of PART.[44]

Hypotheses

Within the Co-opetition theory, PARTS framework provides the toolbox Nalebuff and Brandenburger offer actors and players in order to change the game they are poised to enter or that they are in, respectively. Having reviewed those aspects of Co-opetition that most likely may find their application to our feature strategic business alliances it has become apparent, once again, that the target of the theory is not alliances, *per se* but instead a variety of aspects of business in general. In a broad sense, Co-opetition provides the tools for players (and potential players) to spot all types of potential co-operative opportunities, as well as tools to watch out for competitive threats. A realisation of the value that we hope Nalebuff and Brandenburger's work will have to our thesis depends on whether a shift from the macro level (the intended target of the authors) to a micro one (where SBAs reside) can be made so that the PARTS framework will generate contributory value to developments in the cases we selected. In order to establish whether indeed this shift can be made and the Co-opetition framework adds value to the main topic of our thesis, we have formulated two hypotheses that link Co-opetition to SBAs. These two hypotheses will, in combination with some other hypotheses derived from two other theories below, form the basis of our assessment of Co-opetition's relation to SBAs in the telecommunication industry.

1 Schematically, the Value Net provides a clear overview of how a range of other Players relate to the featured company.

2 Although constructed for conducting business in general, Nalebuff and Brandenburger's Co-opetition framework has both analytical theoretical and practical relevance for the more specific phenomenon of SBAs.

[44] This is not done for Players because it is taken for granted that the games have one or more players in common.

Classification of alliances

Alliances and competition

As we indicated an important branch within the literature on alliances is that part of the literature that includes an overview of the different types of alliances one can distinguish in the wider field of corporate partnerships. Over time this section of the literature has grown in stature and matured in outlook. This maturity shows itself in increasingly sophisticated models of classification of alliances that currently show a more detailed reflection of reality than earlier models (M. Cauley de la Sierra, 1994; M. Y. Yosino and U.S. Rangan, 1995; R.J. Mockler, 1999). The typical aim of authors within the classification literature is to address the issues of manageability of alliances. In fact, the indication of the different types of alliances, their respective different characteristics and, often also, the reasons why companies resort to a particular sort within the classification presented serves a double purpose. Firstly, it informs the reader on the wider subject of strategic alliances. By providing an overview of the different types of alliances the author distinguishes, the reader is presented with a “navigation map”. This map may unravel some of the otherwise murky phenomenon of alliances. Besides this informative function towards those taking an interest in the question what constitutes an alliance, the classification literature has a second purpose. It is usually linked to the theme of challenges to managing strategic alliances. We have referred to this above in our section on ownership and control. Here it suffices to observe that the variation in types of alliances refers to an almost equally varied outlook of challenges associated with such different types of alliances.

Yoshino and Rangan (1995) have developed a useful and original model. The provision of their ‘integrated framework’ corresponds with the need to classify alliances. Their starting point is that there are two managerial dimensions that a firm should take into account. Every firm has the choice between co-operation, on the one hand, and competition, on the other. Managing alliances is all about optimising between these two dimensions. The two dimensions provide the tools to obtain the firm’s key strategic objectives. Yoshino and Rangan distinguish four categories within the key strategic objectives of a firm: maintaining flexibility, protecting core competencies, enhancing learning, and maximising added value.

Of these four objectives two serve to enhance the firm's effectiveness, these are positive objectives. The other two objectives are defensive in character: they are aimed at preventing loss of effectiveness rather than enhancing existing levels of effectiveness. One of the positive objectives within an alliance is adding value to an activity. The other positive objective is learning from the partner(s) within an alliance and thereby enhancing the firm's strategic competencies. With regard to the defensive objectives, a firm must try to strike a balance in between facilitating flexibility through its alliance formation yet without becoming too reliant on the partner(s). As such this is an objective for the company engaged in an alliance. A fourth and final key objective of firms is to guard its core competencies or strategic advantages it possesses against appropriation by a partner.
Yoshino and Rangan acknowledge our earlier mentioned observation that non-traditional ownership structures play an important role within the subject of strategic alliances:

> It can be argued, with some justification, that a firm's competitive edge derives from proprietary knowledge. This is obvious in the case of patents; often it is not. Firms rely heavily on accumulated knowledge in R&D, manufacturing, marketing, and other areas for competitive success. Such knowledge is often not codified, and its confidentiality is critical to firms' strategic plans. To prevent interfirm links from leading to uncontrolled disclosure of such information, protection of core competencies must be treated as an explicit strategic objective (Yoshino and Rangan 1995:18).

Based upon these strategic objectives, Yoshino and Rangan designed a conceptual framework: their typology of alliances.

Typology of alliances

pre-competitive alliances A	competitive alliances B
pro-competitive alliances C	non-competitive alliances D

The diagram is based upon two variables. On the vertical axis (A and B versus C and D) the potential for conflict is the dividing criteria. On the horizontal axis (A and C versus B and D) the dividing criteria is the extent of organisational interaction.

<table>
<tr><td colspan="2">conflict potential and extent of organisational interaction</td></tr>
<tr><td>high potential for conflict and low extent of organisational interaction
A</td><td>high potential for conflict and high extent of organisational interaction
B</td></tr>
<tr><td>low potential for conflict and low extent of organisational interaction
C</td><td>low potential for conflict and high extent of organisational interaction
D</td></tr>
</table>

Potential conflict in this typology refers to disagreements due to dividing tasks, costs and benefits within the alliance. However, it also refers to potential conflicts, which may arise from the fact that partners are competitors in the market at areas other than the one(s) specified in the agreement of the alliance. The extent of organisational interaction hosts a list of elements all forming part of the overall scope of interaction between two or more firms collaborating. This refers to the frequency of the interaction, the number of functional areas of each partner involved in the alliance, the kind of information that is exchanged and so forth. Yoshino and Rangan provide characteristics of their classified types of alliances. In general, pro-competitive (cell C) alliances are inter-industrial and vertically structured. In most of the cases these alliances are between manufacturers and suppliers or distributors. These types of alliances have a low level of organisational interaction. Because these firms are not rivals, potential of conflict is low. Due to these features protecting core competencies and learning vis-à-vis a partner are not the most important objectives within the alliance. Maintaining flexibility and adding value to the firm's operations is of greater relevance. Contrary to pro-competitive alliances, non-competitive (D) alliances are usually intra-industry connections. These alliances share the fact that partners are not rivals with the pro-competitive alliances. The mixture of intra-industry links and non-competitive outlook is a consequence of different positioning of the companies. Input from the partners is essential to reach the alliance's goal. The level of interaction is high because the co-operation is subjected to a considerable share of fine-tuning. Therefore maintaining flexibility is not the most crucial element. Learning from the alliance, however, is what partners aim to get out of the alliance first and foremost.

In the case of competitive (cell B) alliances, the level of organisational interaction is high, too. However, unlike the case of non-competitive alliances, rivalry is a dominant feature. The companies are involved with direct competitors in the final product market. In non-competitive alliances, size or core market positioning differ substantially. In competitive alliance this is not the case. Yet the nature of the alliance requires intense interaction and close co-operation, in spite of such competitive threats. Hence there is a high potential for conflict in this type of alliances. Crucial is the protection of strategic competencies. Learning through the alliances is of strategic importance as well. Of the different types of alliances this one is the newest type and the alliances that we will be assessing are typically from this cell.

Finally, pre-competitive alliances (cell A) are among firms from different industries. The firms often do not have the technological or marketing know-how to operate individually. Interaction is limited and competitive threats are too in the initial phase. In this phase flexibility, which enables the partners to fully explore what to do with whom, is the most important strategic objective. However, as product development proceeds, the phase of market commercialisation enters, competitive pressures increase. By that time the partners have gained more insight into each other's core strengths and protecting the core competencies of the firm becomes the most important objective within the alliance.

This final observation indicates one of Yoshino and Rangan's important contributions. Their model is not static. Firms can migrate from one cell to another. For example, pre-competitive alliance can turn into a competitive alliance over time, migrating from cell A to cell B in other words.

The Mindset

Mindset I: "War"

Introduction:

Hamel's model on inter-partner learning[45]

Hamel's research reflects an interest in skill-based competition and has both complemented and challenged research on collaborations. Although not the first on the subject of inter-partner learning, Hamel's approach to the subject has set a benchmark in this stream within the theory on SBAs.[46] Particularly some of the more recent literature on alliances has taken Hamel's angle on the subject on board and, perhaps still in an embryonic stage, it appears that a branch of inter-partner learning is emerging in the literature.[47]

The following notions provide the distinctive vision of Hamel and his justification for alliances. Hamel's vision on alliances is that the phenomenon is not so much an optimal compromise between markets and hierarchies (and here he challenges Williamson and his followers) but a transitional, half-way house on the road from markets to hierarchies: a dynamic rather than a static process.[48] The difference is that in Hamel's case internalisation (essentially of skills, not assets) should be the main aim from the individual firm's point of view. For Hamel an alliance is not an alternative to market-based transactions or full ownership but an alternative to other modes of skills acquisitions. Such alternatives include acquiring the partner; licensing from the partner; or developing the needed skills through internal efforts.

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[45] Not everyone is convinced that inter-partner learning exists, in the first place. Cf. Weick for example. Although he is not addressing SBAs specifically he is doubting the existence of inter-partner learning (Karl E. Weick. (1991), The non-traditional quality of organizational learning, *Organizational Science* 2 (1): 116-124.

[46] For example David Teece, also an eminent scholar in the TCE stream of theories on SBAs, preceded Hamel with theoretical contributions in inter-partner learning.

[47] Cf. for example: Pierre Dussauge, Bernard Garrette & Will Mitchell (2000). Learning from competing partners: outcomes and duration of scale and link alliances. *Strategic Management Journal vol. 21, issue 2*; Prashant Kale, Harbir Singh & Howard Perlmutter (2000). Learning and protection of proprietary assets in strategic alliances: building relation capital. *Strategic Management Journal vol. 21, issue 3*; Andrew Inkpen (2000). A note on the dynamics of learning alliances: competition, co-operation, and relative scope. *Strategic Management Journal vol. 21, issue 7.*

[48] This is not to say that Williamson outright dismisses shifts on the market and hierarchies continuum.

Crux of the matter is that for some skills, the so-called invisible assets, the costs of internal development may be almost infinite.[49] Only through close observation of a successful partner can complex skills, based on tacit knowledge and arising out of a unique cultural context, be acquired. In this respect, alliances are effective tools to attain the firm's goals of internalisation due to their timeliness and efficiency advantages. Alliances can short-circuit the process of skills acquisition thereby avoiding the opportunity costs of being a permanent follower in the industry. Internalisation via collaboration is preferred over a straight acquisition of the entire firm. This is because when a firm acquires another, the acquirer must also pay for non-distinctive assets, and is confronted with a substantially larger organisational integration problem.

By and large we agree with Hamel's rationale (we will test the validity of analysis for our cases, below) but we would like to note one point of criticism regarding the final notion. Whilst it is true that the costs of acquiring the full firm are generally larger than those associated with forming an alliance, alliances come with additional costs, too. Alliances with competitors or potential competitors will require substantial exertions to protect the company's core assets vis-à-vis the partner. Such exertions (and expenses in time, capital and personnel) will raise total costs. These additional transaction costs (in Williamson's terminology) are not present in case of an acquisition.

Capturing value versus creating value

There are two basic processes in any alliance: value creation and value appropriation. Value creation depends first on whether the market and competitive logic of the venture is sound and then on the efficiency with which the partners combine their complementary skills and resources, in other words, how well they perform joint tasks. Each partner then appropriates value in the form of monetary or other benefits. In general, research has given more attention to the process of value creation than the process of value appropriation. This way, the literature

[49] See H. Itami and T.W. Roehl (1987). Mobilizing Invisible Assets. Harvard University Press: Cambridge, MA.

fails to capture the dynamics that determine collaborative outcomes, and the individual monetary and long-term competitive gains taken by each partner.

Hamel distinguishes two mechanisms for extracting value from an alliance: bargaining over the stream of economic benefits that stems directly from the successful execution of joint tasks, and internalising the skills of a partner. Hamel believes that these "value pools" are inter-related. Bargaining power at any point in time within an alliance is a function of which of the firms needs the other one the most. This, in turn, is a function of the perceived strategic importance of the alliance to each partner and the attractiveness to each partner of alternatives to collaboration. Depending on the bargaining power a partner will gain a greater or lesser share of the fruits of joint effort. An important issue is what factors prompt changes in bargaining power. Some factors will be exogenous to the partnership, e.g. a shift in the market or the competitive environment could devalue the contribution of one of the partners. However, one determinant of relative bargaining power that is within the firm's control is its capacity to learn. Where most literature fails is in establishing the linkage between learning and bargaining power and the individual firm extracting value from the alliance. If bargaining power is a function of relative dependence it should be possible to lessen dependency and improve bargaining power by out-learning one's partner.

The process of collaborative exchange

Hamel sees as alliance as a collective membrane, through which skills and capabilities of the partners flow. Access to people, facilities, documents and other sources of knowledge forms an ongoing process of collaborative exchange. As operating employees interact day-by-day, and continually process partner requests for access, a series of micro-bargains are reached on the basis of considerations of operational effectiveness, fairness and bargaining power. Most of these micro-bargains are implicit rather than explicit but they carry great importance. The terms of trade in any particular micro-bargain may be only partially determined by the terms of trade which prevailed at the time the macro-bargain (the grand agreement that established the alliance) was struck by corporate officers. A firm may be in a weak bargaining position at the macro level, but may be able to strike a series of advantageous micro-bargains, if it possesses the capacity to learn at the operational level.

A skill-based view of the firm

Instead of as a portfolio of product market entities, Hamel considers the firm as a portfolio of core competencies and encompassing disciplines. These disciplines (such as total quality control and just-in-time production) allow a product to be delivered to customers at the best possible price / performance trade off. Conceiving the firm in these terms suggests that inter-firm competition is essentially concerned with the acquisition of skills. Hamel's research does not address why there are differences in skill endowments but focuses on the role international strategic alliances might play in effecting a partial redistribution of skills among partners. While skills discrepancies have been recognised as a motivation for international collaboration by other scholars before Hamel, the crucial distinction between acquiring such skills in the sense of gaining access to them and actually internalising a partner's skills had seldom been clearly drawn before Hamel brought attention to this issue. This distinction is of crucial importance. Only once a partner's skills have been internalised can they be applied to new geographic markets, new products, and new businesses. For the partners, an alliance may not only be a means for trading access to each other's skills (quasi-internalisation) but also a mechanism for actually acquiring a partner's skills (de facto internalisation).

Hamel's model

With the aforementioned in mind we would like to present Hamel's model of inter-partner learning, which rests on six core propositions that emerged from his research. We will review them briefly.

<u>Competitive collaboration</u>

Partners often regard their alliances as transitional devices where the primary objective is the internalisation of partner skills. Eventual termination of the agreement is in such situations evidence of successful learning rather than of a failed collaborative venture. Deskilling partners can be the unintended outcome of the collaborative process. In these cases the competitive implications of unanticipated (and usually unsanctioned) skill transfers is mostly understood when it is too late to prevent such skill transfers.

Hamel indicates he has found evidence for the proposition that partners who possess parallel internalisation and international expansion goals will find their relationship more contentious than partners with asymmetric intents. Particularly in situations of bargaining is the fact that partners possess equally ambitious learning goals such contentiousness apparent. In general, whenever two partners seek to extract value in the same form from their partnership – whether in the form of inter-partner learning benefits or short-term economic benefits – managers are likely to find themselves frequently engaged in contentious discussions over value-sharing. Managers are least troubled by recurring arguments over value appropriation when one partner is pursuing a learning intent and the other a short-term earnings maximisation intent. In these cases the latter becomes progressively more dependent on the former. Hamel poses a warning: contentiousness does not, by itself, indicate collaborative failure, and an abundance of harmony and good will does not mean that both partners are benefiting equally in terms of enhanced competitiveness. If a firm merely has an intent to avoid investment and substitute its partner's competitiveness it may be perfectly content not to learn from its partner. However, since in Hamel's vision such a failure to learn will ultimately lead to a loss in the firm's competitiveness or even threaten its independence, such contendness should not be considered a sign of collaborative success.

<u>Learning and bargaining power</u>

In a joint study with Prahalad, Hamel found that managers often voiced a concern that, when collaborating with a potential competitor, failure to "out-learn" one's partner could render a firm first dependent and then redundant within the partnership, and competitively vulnerable outside it. As a consequence a "race to learn" emerges within a firm engaged in a competitive alliance. In doing so a firm moves towards its goal of independence. The more a firm succeeds in moving closer to its goal of independence, the better its position is to successfully raise the "price" for its continued participation in the alliance, particularly if its pace of learning is faster than that of its partner. Somewhat contrary to the co-operative spirit, partners in competitive alliances are more likely to view collaboration as a race to get to the future first, rather than getting there together.[50]

The more experience Hamel's interviewees had in administrating or working within collaborative agreements, the more likely were they to diminish the role of the formal agreement in patterns of learning, control and dependence within their partnerships. In fact, the formal agreement, due to its perceived essentially static character, was placed last in most rankings of importance. This is because, contrary to the formal agreement, the race for capability acquisition and control is considered to be essentially dynamic. Interviewees indicated that power came first from the relative pace at which each partner was building new capabilities internally. This was followed by the ability to out-learn one's partner and then by the relative contribution of irreplaceable inputs by each partner to the venture. Further down the ranking were the relative share of value-added and the operating structure (i.e. which partner's employees held key functional posts), followed by the governance structure (i.e. which partner was best represented on the board and key executive committees). As said, last in line came the legal structure, such as the share of ownership and legally specified terms for the division of equity and profits.

Within the propositions regarding learning and bargaining power two propositions regarding the longevity of competitive alliances emerged from Hamel's research. In general, the alliance would continue to exist so long as the partners are:

50 Interestingly, in their section on healthy imitation, Nalebuff and Brandenburger echo Hamel's race to learn to a large extent: "Not everything is win- win. [...] The trick is to run faster and faster. You make a better product. Others then copy you. But by then you're a step ahead. You've already improved your product. The game isn't about how good your products are; it's about how good you are at improving them. It isn't where you are; it's how fast you're moving. It isn't position; it is speed. [...] What if others copy your improvement process? They become as good as you at improving products. What then? You've already improved your improvement process. [...] It's about how good you are at improving your improvement process. [...] It's [about] how fast you can speed up. It's not about position or speed. It's about acceleration. And in principal, there's even improving how you improve your improvement process, and so on."
(Co-opetition, p.143)

a) equally capable of inter-partner learning or developing skills independently and / or

b) both substantially smaller than, and mutually vulnerable to, industry leaders.

Three determinants of learning

Internalisation is subjected to three determinants of learning: intent, transparency and receptivity. Intent establishes the desire to learn, transparency the opportunity due to a level of openness and receptivity determines the capacity to learn. In addition to these endogenous determinants (the firm can turn these determinants in its favour within the alliance) there seems to be some inherent determinant of inter-partner learning, more or less exogenous to the partnership itself. This determinant plays a deciding role in establishing whether a firm can come to positive long-term learning outcomes or will fail to successfully exploit opportunities to learn.

Intent as a determinant of learning

One collaborative intent present in all partnerships is investment avoidance. Firms have either an internalisation intent or a substitution intent. In the latter case, the firm seems satisfied (at least in the beginning) to substitute its partner's competitiveness in a particular skill area for its own lack of competitiveness. The presence or absence of an asymmetry in collaborative goals is important in this respect because Hamel found that in none of the cases did systemic learning take place in the absence of a clearly communicated internalisation intent. In other words, learning takes place by design rather than by default (e.g. through structural meetings by the parent company to guide and debrief its employees engaged in the collaborative membrane). Skill substitution or surrender by default occurs in the absence of design.

Hamel distinguishes four factors for observed differences in intent:

1) whether the firm considers the partnership as a permanent alternative to competition or as a temporary vehicle for improving its competitiveness vis-à-vis its partner. When a firm perceives the alliance in terms of substitution intents, it charachterises the partnership in terms of "role specialisation", "complementary"

and "centres of excellence". These labels indicate a view of collaboration as a stable division of roles based on each partner's unique skill endowments, rather than as a potentially low-cost route to replicating partner skills and erasing initial dependencies.

2) its relative resource position vis-à-vis its partner and other industry participants. It appeared from Hamel's research that an abundance of resources and a legacy of industry leadership (perceived or real) hamper a firm to accept it has something to learn from a smaller partner, thus obstructing inter-partner learning.
3) its calculation of the pay-off to learning. If skills that can be acquired from a partner are seen as critical to the increase of the entire company's competitiveness and not merely beneficial to enhancing competitiveness of a single product or business, internalising intent is the strongest. On the other hand, in those cases where competitiveness is defined solely in end product terms and no objectives exist to apply acquired skills across the entire company, intent is far less apparent. In the latter case alliances are viewed as short cuts to a more competitive product line by relying on a partner for crucial components or perhaps entire products. Furthermore, the perceived pay-off to learning is sometimes calculated in terms of a partner's calculation of the cost of continued dependence, e.g. the risk of being arrested in its development by its counterpart's pre-emptively ending of the relationship or faced with a disadvantaged position when the financial terms of the agreement are re-negotiated.

4) its preference for balanced versus asymetric dependence within the alliance. This, the weakest developed factor within Hamel's listing, strongly reflects a cultural component. Particularly in alliances between Western and Japanese partners Hamel found that trust does not make up for asymetric dependency of one partner on another. In those cases where trust was absent or insufficient an intent to learn was to undo asymetric dependence on a partner.

Transparency as a determinant of learning

Some partners are more transparent (more open and accessible) than others. Every partner expects to share some skills with its opposite number. Even the most protective firms accept some degree of openness as a price for enticing the partner into the relationship and successfully executing joint tasks. Concerns expressed are generally relating unintended and unanticipated transfers. Such concerns arise in cases where managers believe their partner's learning has exceeded what is deemed essential for the successful performance of joint tasks. It may turn out that a partner's learning is more intensive and / or more extensive than foreseen in the formal agreement.

The asymetry in perceptions of relative openness are influenced by the extent to which a firm's knowledge base is context-bound. Context dependent knowledge (e.g. principles of industrial relations in Japan) is less transparent than context-free knowledge (e.g. the principles of the transistor). Furthermore, the more clannish an organisation is the more opportunities for access will be limited, and the lower transparency will be. An employee involved in a partnership will generally maintain a sense of identity with, and loyalty to, the parent. When conflicts arise which reflect a clash between parent and partner goals, an employee, as a "clan member" to its firm, will search for solutions consistent with the parent's goals.

In addition to organisations, some types of knowledge are more penetrable than others. Explicit knowledge is more encodable than tacit knowledge because it can be obtained from engineering drawings or extracted from patent filings. Discrete knowledge is more easily distracted from a partner than systemic knowledge. Generally, specific technologies (e.g. microprocessor chip design) are more transparent than deep-seated competencies (e.g. value engineering skills). In sum, asymmetry in the nature of skills contributed by each partner can lead to asymmetric learning, too.

Transparency to its partner is also determined by the pace of a firm's innovation. In some cases a partner's speed of innovation out-rans the other's pace of absorption. Also, partners can employ a wide variety of active measures to limit transparency, e.g. gatekeeping of partner's requests for information or its people's access to the other's staff and facilities. In the case of gatekeeping individuals are assigned with monitoring knowledge flows and access across the collaborative membrane (non-natural barriers, see below).

Another determinant of relative transparency is the extent to which the nature of joint tasks require regular and intensive intermingling of staff from the partners. At one extreme there is the situation in which a joint performance is done in an atmosphere of intensive cross-membrane interaction. At the other extreme, partners provide single "plug-in" components to the overall cooperative product or service, with minimal interaction. The former extreme makes partners more transparent than the latter does. Firms that can rely on passive or natural barriers (such as linguistic or cultural barriers) to transparency have an inherent advantage over partners that cannot. This is partly because natural barriers are the most difficult to overcome but more so because active measures (non-natural barriers) are sometimes regarded by partners as provocative. Establishing contractual clauses and other active means to limit transparancy opens the company up for partner claims of acting in bad faith or undermining trust. However, a partner that possesses passive barriers can claim itself the high ground of trust and openness whilst still reaping the benefits from difficult to breakdown barriers to partner intrusion.

Receptivity as a determinant of learning

An attitude of receptivity, i.e. generating an enthusiasm for learning, depends largely on whether the firm entered the alliance as a late-comer or as a laggard, (i.e. whether the alliance was seen as a proactive choice to support ambitious growth goals or, alternatively, as an easy solution to an emerged deteriorated competitive situation: the perspective of the late-comer and laggards, respectively). In laggard firms, middle managers and operators are more likely to adopt an acquiescent attitude towards dependency and learning opportunities. Learning may be seen as a laudable goal but little enthusiasm is present for learning to take place. In those cases where the laggard firm has struggled and failed to maintain their competitiveness, alliances are often seen by operating-level employees as confirmation of their failure, and not as a means to rebuild skills. Such a stigma of failure is absent to firms using alliances to build skills in new areas, i.e. closing skill gaps as opposed to compensating for skills failures. The notion of receptivity applies to two levels: the corporate and individual level. Individual learning becomes collective (corporate) learning when (a) fragmented individual learning is recorded and integrated; and (b) learning is transferred across unit boundaries to all those who can benefit from what has been learned.

Determinants of sustainable learning

Once a skills gap is closed due to inter-partner learning the challenge is to prevent it from re-opening again in a later phase. Indeed, Hamel considers this the greater challenge. Whether or not a firm will succeed in preventing this from happening depends on several factors. All together they can be labelled "the capacity for self-sustaining learning". Once a firm has successfully intercepted a partner's skills it then needs to match the a partner's underlying rate of improvement over time. In order to do this and ultimately break free from dependence on the partner, the firm has to match its pace of absorption to its partner's pace of innovation and then at least equal its partner's capability for autonomously and continuously improving those skills.

Final point regarding determinants of sustainable learning made by Hamel is that in order to fully capture the benefits of sustainable learning the lessons learned from the partner need to be applied to a global scale, not just regionally.

Hypotheses

In order to assess the suitability of Hamel's theory for our cases we identify the following five hypotheses.

Hypothesis 1:

SBAs are not an alternative to markets or hierarchies but an independent mode of organisation. In other words, SBAs are a static mode with no relation to the markets and hierarchy continuum rather than a dynamic mode that can take any position between market and hierarchy.

Hypothesis 2:

Central aim of SBAs is the internalisation of skills not assets.

Hypothesis 3:

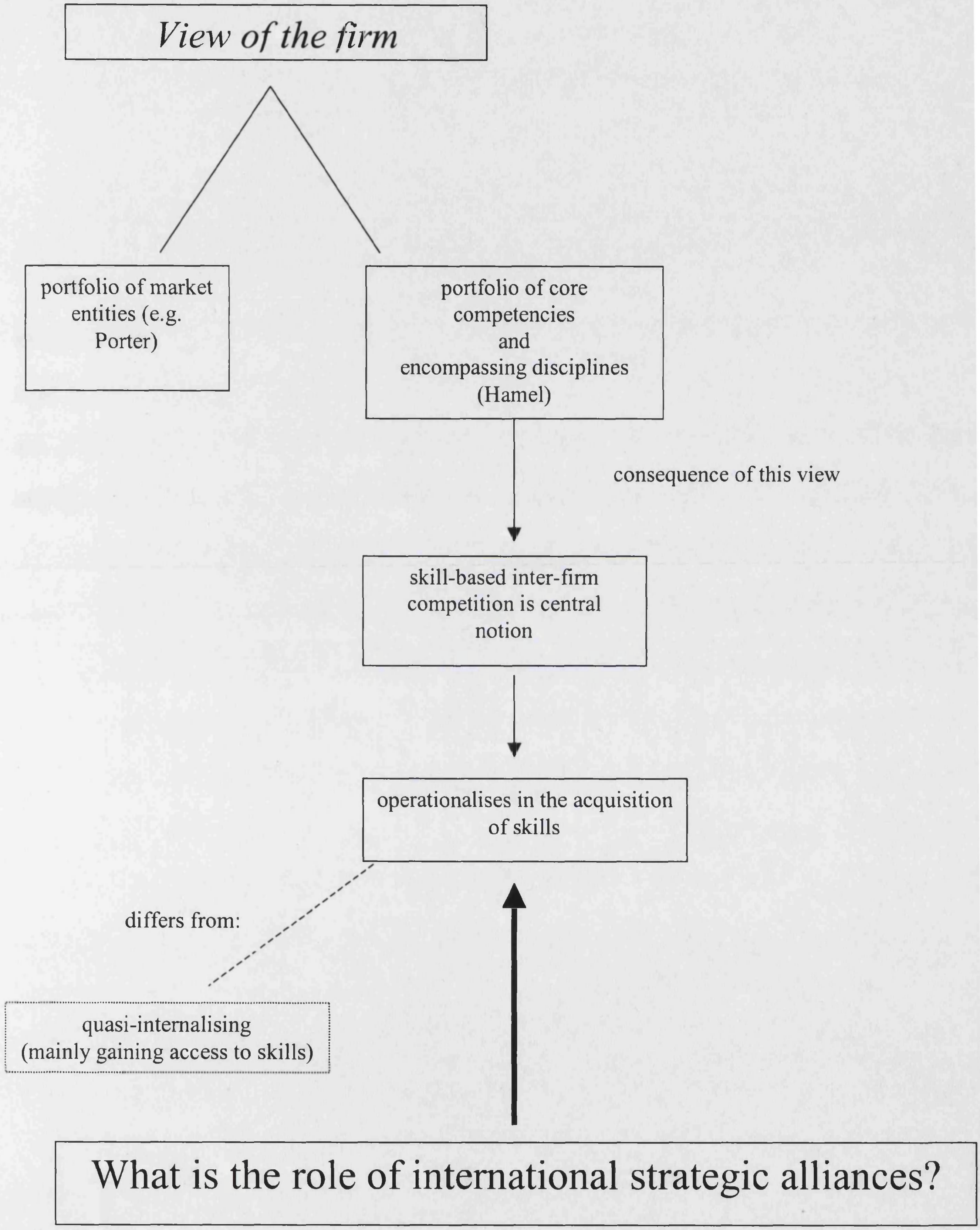
Intangible assets are the primary rationale behind the formation of SBAs.

Hypothesis 4:

Inter-partner learning is an endogenous tool parties use to increase their bargaining power. There is a constant process in which parties use their (increased) bargaining power in order to change the alliance so they can appropriate more value from it.

Hypothesis 5:

With the ultimate aim of seeking independence of one's alliance partner, internalisation by both partners will lead to a race to learn.


View of the firm
portfolio of market entities (e.g. Porter)
portfolio of core competencies and encompassing disciplines (Hamel)
consequence of this view
skill-based inter-firm competition is central notion
operationalises in the acquisition of skills
differs from:
quasi-internalising (mainly gaining access to skills)
What is the role of international strategic alliances?

Hamel c.s. versus Williamson

an SBA is a half-way house on the road from markets to hierarchies and an alternative for other modes of skills acquisition

justification for alliances

an SBA is an optimal compromise between the extremes markets and hierarchies

due to <u>invisible assets</u>:

1) only to be duplicated through close observation of the "best in class"
2) in case of acquisition of firm, non-distinctive assets also included in price

our note: alliances with (potential) competitors come with extra "transaction costs"

Mindset II: "Peace"

Introduction

As we indicated at the start of our section on the theory of SBAs, the Co-opetition theory from Nalebuff and Brandenburger will serve as the central theory that we will assess on basis of the three cases that we present at a later stage in this thesis. We acknowledged that Co-opetition was not written by Nalebuff and Brandenburger with the sole and explicit aim in mind to apply to SBAs. Hence, there may be a possibility that Co-opetition does not contain enough matching power with SBAs. With this we refer to a situation in which Co-opetition's structural notions are too remote in concept to apply sufficiently direct to issues emerging in the treatment of our SBA cases. Because Co-opetition, by the authors' own admission, is intended to provide a framework with analytical and problem-solving instruments for all aspects of business, there is a danger that the theoretical framework is too broad for an application to the more specific phenomenon of alliances that we take interest in. We felt, therefore, a need to hedge our position with the extension of the central notion of Nalebuff and Brandenburger's theory through an interpretation of that central notion. In this interpretation we link the "peace" versus "war" mindset that Co-opetition is based on with to two articles that each represents one of the two mindsets: one on the war mindset and the other on the peace mindset. Because both articles deal with partnerships (albeit it not necessary the sub-specie that we will feature in our section on the cases) their theoretical contributions should make for a relative fluent match with our cases. In doing so, an assessment of the appropriateness of those articles, as an extrapolation of war and peace in Nalebuff and Brandenburger's mindset, can be presented. It will, thereby, provide a statement on the relation between theory and practical experience through the cases. Finally, it could also present us with an opportunity to weight the mindset part of Nalebuff and Brandenburger's theoretical contribution against our cases and conclude to what extend we consider the theoretical framework appropriate to such type of alliances.

In order to adjust the peace and war mindset from the intended general application to all aspects of business (as the authors of Co-opetition seek out to achieve) to the more specific business phenomenon of partnerships, we will need to operationalise the two extreme notions in elements that fit within the theory of partnerships. In the previous section we have done this with the "war" side of the mindset. As we discussed there, Hamel has offered an almost Machiavellian approach to alliances that is well-suited as an operationalisation for that part of the mindset. In a similar manner the "peace" notion will be linked to and, subsequently, explained through another scholar's treatment of a theoretical concept that we consider an appropriate way to portray the peace mindset. As in the case of Hamel's race to learn through internalisation of skills (with a dose of suspicion towards the partner's long term intentions) the operationalisation of the peace must be carried by a notion that is central to theories on partnerships. This is not to suggest that in all theories on partnerships this notion has been allocated a front seat. On the contrary, the key point of the implementation is to indicate that different theories can emphasise different, even conflicting, notions yet still provide an adequate theory on partnerships. It is our intention to assess which of the two extremes matches best with the cases we selected.

The notion of trust as operationalisation of the peace mindset

Hamel's underlying notion is that partners in an alliance will need to co-operate for their own benefit but need to be aware of the looming threat of acting in a manner detrimental to them when they co-operate. As a consequence, the atmosphere between the two (or more) co-operative authorities, i.e. companies that form the alliance, will be prone to mistrust[51]. Opposite to the emphasis on Hamel's notions which, in practice could vary from benign prudent to outright hostile suspicious, is an approach to alliances that focuses on the importance of trust in the co-operative situations. Here too, in a practical sense, there could be a continuum between total and naïve trust and openness on the one side and conditional trust (bordering benign prudence) on the other side. Neither an approach of hostile suspicion nor one of total trust and openness will be conducive for the alliance in the long run. Partners will have to decide how far from the

[51] We refer to the co-operative authorities because with them such a mentality is *prescribed* by Hamel and deemed to be for the company's own protection and in its own benefit. However, the atmosphere of mistrust can also manifest itself *within* the collaborative membrane. In other words, besides the parent companies of the alliance, those actually involved in the alliance's operational side can be steered by mistrust too. Striking a healthy balance between a fully open and co-operative approach and adopting a mistrust-laden strategy may be absent and tipping too much towards the mistrust side if this is the dominant mood within the collective membrane.

centre and in which direction of the two extremes they would position themselves in the alliance. After having assessed one half of the continuum through Hamel's approach, we will now elaborate on the other half by means of Madhok's trust-based approach in joint ventures (Madhok, 1995).

Madhok's theory: introduction

Madhok starts off with the observation that an inconsistency exists with regard to international joint ventures. On the one hand, they have increased drastically. But on the other hand, managers engaged in such joint ventures express high levels of dissatisfaction with them. In his article, Madhok addresses this inconsistency and provides an explanation why there is so much dissatisfaction with international joint ventures. His explanation is that this is due to an overemphasis on the outcome of the joint ventures which neglects social processes that underlie the outcome. He pleads, therefore, to adopt a co-operative approach with regard to inter-organisational collaborative relations and this approach should be based on trust. He applies his theory to – what we refer to as traditional – international joint ventures, which, essentially, are between a parent company and a subsidiary in a foreign country.[52] Madhok highlights the point we observed earlier in Yoshino and Rangan's model (see above). The dual hierarchy in partnerships, which is the consequence of shared ownership, can give cause to high levels of potential conflict. In fact, that dual hierarchy breeds conflicts of interest. Such conflicts arise as a consequence of divergent objectives between the partners. Madhok argues that the upshot of such conflicts of interest is that firms engaged in joint ventures lose flexibility in decision making and that conflicts of interest also hamper the firms' ability to co-ordinate their own activities globally.

Ownership-centred versus trust-centred approaches

Management literature concentrates on two streams to deal with the problems arising from conflicts of interest. One approach is the ownership-centred

[52] As has been made clear in previous parts of this thesis, our focus is on a more recent form of inter-organisational collaborative relations: those between companies engaged in an SBA. Like in the case with Hamel, we are interested in the theory because it represents one of the elements of Nalebuff and Brandenburger mindset and we believe that Madhok's theory, much like that of Hamel, occupies a fairly radical position within its cluster. The fact that Madhok's focus is not exactly the same sub-specie of general partnerships is of no concern: the important thing is to use the basis of the argument and later manipulate the cases with this theory.

approach. In this approach the parent firm's subsidiary is wholly-owned. That provides the firm with unambiguous control which provide it with a tool to neutralise the suggested negative consequences of conflicts of interest. Through owning the subsidiary fully, the parent firm has enough flexibility to co-ordinate its activities on a global basis. Furthermore, the wholly-owned subsidiary also prevents loss of decision-making power on the side of the parent firm. Ownership enables the parent firm to apply direct means of control and it can thereby avoid the occurrence of problems associated with managing conflict in international joint ventures.

A contrasting approach focuses more on the social dimension within which the relationship is embedded. Where in the ownership-centred approach the desired flexibility came through unambiguous control, in the current approach, which is called the trust-centred approach, flexibility is a product of the co-operative attitude between the partners. In this approach the central notion is trust and its related elements are reciprocity, commitment and mutual forbearance. Contrary to the ownership-centred approach, the trust-centred approach does not consider ownership and control as commensurate with each other. Where the two approaches meet each other is in the objectives they seek to achieve. In either case the objective is to enhance flexibility and efficiency. Only in the case of the ownership-centred approach this is done through hierarchical relations while in the trust-centred approach it is done through emphasising the merits of social relations between the partners. Ownership-centred approaches are outcome oriented and more static than trust-centred approaches. They also fail to encompass the critical role social phenomena in inter-organisational relations play.

In his article, Madhok shows how he believes the trust-centred approach has added value to our understanding of trans-national ownership and tolerance for joint ventures. Before doing so, however, Madhok first examines what he constitutes as trust (the "dynamics of trust").

The structural and the social dimension of trust
Madhok uses Thorelli's definition to define trust:

> Trust is based on a set of mutual expectations or anticipations regarding each other's behaviour and each other's fulfilment of its perceived obligations in the light of such anticipations (Madhok, 1995:3).

Trust refers to the probability that an actor (e.g. a partner in an alliance) violates implicit or explicit agreements. It refers, therefore, to a perceived likelihood of others acting in a self-interested manner. There are two components (or dimensions) associated with trust. One is the structural component and the other is the social component. The two components differ but are inter-related and reinforce each other. In essence, the structural component refers to the complementarily of the resources contributed. It is through the synergy of this resource complementarily that value added is created, which is the inducement to parties to contribute to and maintain in the partnership. The social component focuses on the quality of the relationship because that is to be believed having a strong impact on the nature and the value of exchange that takes place within the partnership. Trust, created through long-term involvement of partners, plays an important role in the continued benevolent exchange between parties. Because of trust partners behave in a manner that is not based on self-interest and trust also reduces the need to monitor the partner. Whenever the partnership is facing uncertainty, trust becomes even more important. Also, in those situations where performance is difficult to measure, trust can play an important role too. If trust is present in such a situation the inability to measure performance is less problematic because trust decreases the need to monitor performance.

The way the social component provides the desired flexibility is through acting like social "glue" within which economic exchange can occur. When parties invest in building trust in their relationship a stock of goodwill is created. Each party can draw from that stock in times of need. The realisation that the stock exists for either party to draw from creates an atmosphere of reciprocity and a regime of trust. That, in turn, encourages flexibility within the relationship. With reference to earlier literature, Madhok points to a caveat. For the reciprocal obligations to encourage flexibility, over the long term there needs to be an approximate balance for the regime of trust to sustain. In Hamel's theory there is a constant need for parties to assess their position vis-à-vis their partner and use their bargaining power to increase their slice of the pie (in other words, to appropriate more value from the partnership). Such short term gratification is absent in Madhok's interpretation of the trust-centred approach. Parties are not seeking to achieve at least equal satisfaction levels with each round but are content when they are satisfied with the general pattern of interaction even if this includes spells in which their proceeds from involvement are low (for example compared to their partner's). As long as these periods are not too extended and fortunes turn in one of the subsequent phases.

The structural component of trust provides actors with an incentive to abstain from behaving in a self-interested manner. The incentive not to act that way comes from the consequences of that type of behaviour. If parties pursue self-interests they will undermine their own success alongside that of their partner, making that sort of behaviour costly. Opportunistic behaviour in the form of the pursuance of self-interest will deplete the potential value added that would otherwise have emerged from the parties' complementaries. Because this counts for either party, both firms are in a mutual hostage situation. Much of this echoes Nalebuff and Brandenburger's equally positive outlook on co-operation when they emphasise parties to use mutual forbearance.[53] But Madhok goes one step further. In his social component of trust mutually oriented behaviour is more positive in nature. Here partners are not reacting because they are in a mutual hostage position (which constitutes a negative motivation) and they are not driven by motives to prevent value depletion but, instead, by attempts to enhance the relationship's value. The two components together lower the probability of the occurrence of opportunistic behaviour and create trust by doing that. But it is important to realise that both components need to feature for optimal levels of trust to be present. They cannot substitute each other but rather, they are supplements to each other and the one reinforces the other. The structural component makes for the dimension that established the relationship. The structural component refers to the fact that the two parties have something valuable to offer to each other (something that can

[53] This should not come as a surprise: after all we introduce Madhok in order to magnify Nalebuff and Brandenburger's peace mindset.

increase the other party's value added). This is the basis for any partnership and therefore the structural element of trust. Parties will refrain from self-interested behaviour because it will be to their own detriment if the relationship breaks down. That abstinence fosters trust: there is, as a consequence of the mutual hostage situation, a certain likelihood that the partners will act in concert. Absence of the structural component constitutes a situation in which at least one of the partners does not benefit from the relation. The presence of the structural component is, therefore, essential. However, the structural component is not sufficient to make the relationship sustain. There are two reasons for this. Firstly, when trust in the relation merely possesses the structural component and its social foundation is weak the potential value of the synergy that can be gained from the pooling of assets by the partners will be undermined. This is because in this situation contributions to the partnership will be more tentative. Also, the costs of each partner associated with the relation will increase. Expectations of the partner's opportunism will increase and, consequently, more will be invested in installing safeguards against such opportunism. This rise in costs destroys overall value of the partnership. The second reason why the occurrence of a mere structural component of trust will jeopardise the endurance of the partnership is because it is impossible to continuously match contributions evenly. The social dimension of trust needs to perform the role of social glue to tide over periods of disequilibrium, provided that such periods are temporary, of course.

Likewise, the social component of trust is not self-sufficient either. A strong underlying social foundation enhances the potential value of the synergies the partners can create. Often within relations the period of inequity are temporary. If the social component is absent in such cases the relationship will falter. But with the presence of the social component the partnership will sustain and partners will be able to continue deriving value added from it. Had there not been a social component the value added obtained from the partnership would have stopped. Because over a period of time such inequities are frequent the social component is important. But the glue role it performs is not done with "superglue". In other words, the social component is not able to patch together everything but merely facilitates the continuation of the relationship during the intermittent periods of inequity. Due to the social component the relation becomes more resilient than had there not been a social component. However, the structural basis needs to be present otherwise the relation will become unstable. So, like the structural component, the social component, too is a necessary but not a sufficient component of trust. For the relationship to fully benefit from trust and attaining flexibility and efficiency from it, both components need to be present. The structural component facilitates the underlying synergistic potential and the social component facilitates the objectives set in the collaboration. It does this through creating more sustained and higher quality inputs as well as through lowering conflict and co-ordination costs. From this we can derive what Madhok considers necessary conditions for successful inter-firm co-operation:

the potential for the creation of synergies that bring value added must be present; there must be a more mutually oriented behaviour that facilitates the creation of a pool of trust to tap from and enhance the relation.

Madhok indicates that a trustful relationship only comes into existence through gradual evolvement over time and that soft and hard commitments during the period of repeated successful interaction are necessary. Partnerships are further helped by compatibility of the partners. The greater the compatibility is the higher the probability of balance between inducements and contributions will be. Possible temporary imbalances will be smoothed out by trust. From the beginning of the article we know that Madhok criticises the ownership-centred approach and that the wholly-owned subsidiary is not the solution for the problem of dissatisfaction with partnerships. Besides the fact that the ownership-centred theories are static and that they fail to encompass the critical role of social phenomena in inter-firm partnerships it is not explained where those theories really fail. In the application of his theory to joint ventures he indicates one problem. The critical issue with regard to those joint ventures is that the formal distribution of income through the partnership is carried out on basis of the percentage of equity owned by the beneficiaries. That is the wrong division according to Madhok. There should be more equity and fairness in this division and not simply ownership percentages but the process of the relationship should be the lead of how residual income is distributed. Without the adoption of this perception of equity it will be difficult to encourage mutual oriented action beyond the minimum contractual obligations of the agreement. A final observation with regard to Madhok's theory is on the relation between trust and information. Not only will a trustful orientation appear as a consequence of a successful pattern of interaction between partners but there will also be more open sharing of information. That, in turn, will lower information asymmetries and the scope for opportunistic behaviour. A lower scope of opportunism will, via a lower perceived probability of opportunism lead to a decrease in maintaining safeguards and thus to a higher value added.

Final remarks on Madhok's theory

We have two brief observations on Madhok's theory. Firstly, and this is perhaps a matter that will be answered when we assess the case. Essentially, our question is whether there are practical implications regarding the difference between the structural and the social components. Does this really matter or is it merely analytical?

The second observation is somewhat less concise and, perhaps, a more important issue. Madhok indicates that the structural component and the social one reinforce each other. The question is how, though. If we refer back to Hamel, in his theory the essential presence of the structural component must be present there too, although Hamel would not suggest that this leads to trust. In spite of the fact that both partners have to gain from refraining acting on basis of self-interest, Hamel would still warn against adopting a trusting attitude towards the partner as a consequence. The race to learn prevents a too trusting approach because the moment one has been outraced by a partner – i.e. through inter-partner learning followed by internalisation of what it intended to derive from the partnership – the entire basis for further co-operation has vanished. Madhok does not address these dynamics. In his view the structural component persists as long as there are potential synergies and partners will continue to co-operate as a consequence. This is because the mutual hostage situation drives them to act in that manner. But he does not indicate when or due to what synergies or potential synergies may disappear. Conversely, that is exactly the issue Hamel is most occupied with. He considers that the synergy potential is bound to disappear at some point. For the individual partner it is therefore best to prevent ending up as the one that has failed to internalise the skill sought after before the counterpart has done so. As we saw, the upshot of this is the race to learn which, in fact, speeds up the arrival of the end of potential synergies for both. Madhok, at the very least, gives the impression that as long as partners concentrate on the trust dimensions all will be good. By continuing to nurture their social dimension of trust the relationship maintains a strong buffer. Admitted, this does not mean that Madhok automatically considers the potential synergy to be present indefinitely. In fact, he explicitly indicates that it needs to be present as a necessary condition for the partnership to be established. But once established he devotes not much attention to how this will sustain other than through the social dimension, which, however, he does not explain how this process takes place. The crux of this all is that he indicates that the two dimensions reinforce each other but he does not expand on this or indicates how this reinforcing takes place. This is an important point because if it is true that they reinforce each other then fostering the social component leads to the enhancement of the structural component, which, per definition means that the potential synergetic conditions remain present. In that case, Hamel's fears for the inevitability of those potential or actual synergies to disappear would be unfounded (and the race to learn can be called off!). There is, however, in Madhok's theory no indication how the social component can reinforce the structural one and no evidence that it does. If, for example, the dynamic of the industry of a partnership are as such that the potential synergetic value decreases (and, thus the structural component slides with it), how can the social component reverse the market dynamics for the partnership? The answer to that question is not provided by Madhok even though it is implied in his assertion. It is nevertheless of some relevance because the starting point of Madhok's article is that there is dissatisfaction with regard to alliances. They are unstable and Madhok thinks that this is mainly due to the conflicts of interest that are present due to the dual hierarchy. Particularly in those cases where the industry changes quickly, dual hierarchy may lead to divergent opinions with regard to the interpretation of the changes in the industry. That makes the threat to the structural component a very real one.

Hypotheses

In order to assess the suitability of Madhok's theory for our cases we identify the following two hypotheses.

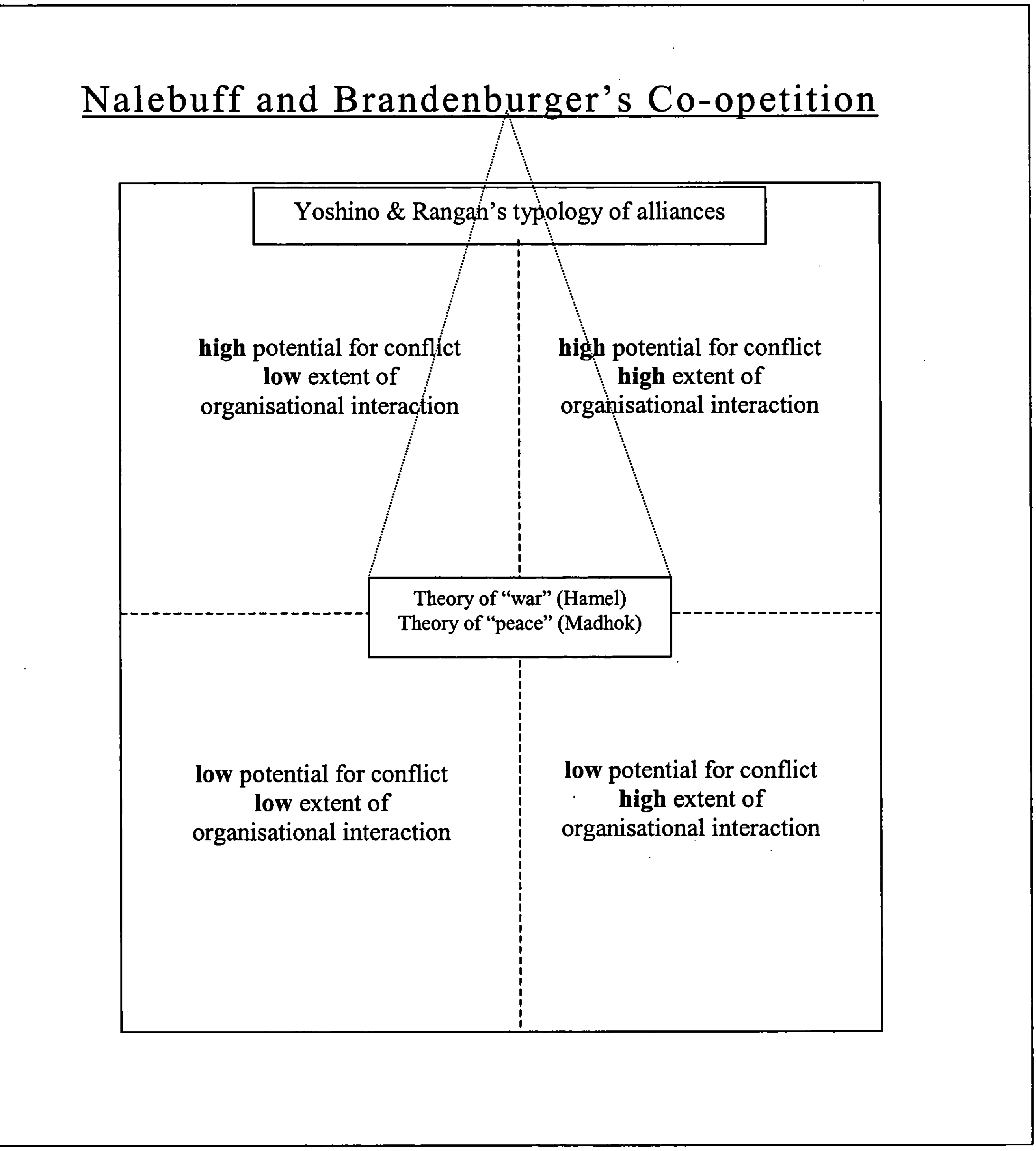
Hypothesis 1:

Madhok's central theme is that the presence of a sufficient amount of trust will decrease dissatisfaction with alliances. Given this, we will be able to attribute possible dissatisfaction in our case alliances to a lack of trust.

Hypothesis 2:

In those cases where we can attribute dissatisfaction to a lack of trust we can identify those case where there was an absence of the structural component of trust and those cases where there was an absence of the social component.

The relation between the different theories used in this thesis



Instability and high failure rate of SBAs

In management literature on SBAs, their alleged inherent instability and high failure rate are often cited (Das and Teng, 2000; Gill and Butler, 2003; Cauley de la Sierra, 1994; Bery and Bowers, 1993; Inkpen, Andrew C. and Ross, Jerry 2001[54]). In this respect it is often mentioned that alliances impose extra challenges to management due to their specific features. Given time, between the partners, conflicts of interest are almost a certainty. Also, the two (or more) partners may have differences in culture, both national and corporate, and could differ in a number of other ways (Gill and Butler, 2003; Koka and Prescott, 2002; Reich and Mankin, 1986). When these differences concern important elements to the firm or the partnership, for example differences in shareholder relations, it may result in the alliance being substantially more difficult to manage than traditional organisational mode or single hierarchies. The extra challenges imposed by SBAs to management may often be insurmountable. That then leads to the dissolution of the alliance which, typically, is interpreted as a failure of the SBA. Due to the scale in which this takes place SBAs have acquired a reputation of porcelain: they break easily. In turn, this high failure rate is considered to be a reflection of the inherent instability of alliances. For that reason, alliances should best be avoided or only be considered as a second or third best option compared to other modes of organisation, most notably mergers or acquisitions.

Whilst alliances do impose extra challenges on partners involved, it is our belief that the high break-up factor is not necessarily an indication of inherent instability, or a reason to evade this business organisational mode. For a review of the reasons we refer to the literature in the beginning of this paragraph, particularly the study by Das and Teng. Although the theme of the alleged instability of alliances is not at the main focus of our current research we are nevertheless interested in one reason amongst the many: the situation in which the alliance terminates due to different agendas on the development of the alliance. This is, however, not just

[54] Contrary to most literature on the instability and failure of alliances, these scholars pay attention to when alliances should be terminated rather than finding out what alliances are to do to prolong their existence by taking out the instability element. Since the instability or failure of alliances is not the main focus of our thesis we will do neither. Our intension is to magnify and map one of reasons that can be attributed with alliance termination but for analytical empirical reasons rather than with a normative agenda.

one single reason but a collection of a number of different ones. We will expand on this with the aim to later review and see whether termination of the alliances in our cases can be captured by any of the reasons reviewed in our extended assessment.

Different agendas on the development of the alliance

As stated, there are various reasons why an SBA may be terminated. Moreover, an SBA may also be terminated for multiple reasons. Furthermore, some reasons may be connected. The issue of different agendas we are about to expand on is, for example, connected to reasons of alliance termination that feature changes in strategic objectives. Different agendas can also be connected to changes in corporate leadership. This dual or even triple reasoning should not impose a problem for our treatment even though it will not be possible to completely isolate our reasons from other reasons outside the scope of different agendas on the development of the alliance. The presence of different agendas on the development of the alliance at some stage is arguably the most typical reason for dissolution associated with failure of an SBA. However different agendas in this respect do not always lead to the dissolution of the alliance.

Status and Contract

It is an easy assumption to make that the parties involved are aware of the nature of their agreement, the different roles and their partner's expectations. This is, however, a dangerous assumption. Partners may interpret the agreement and their role differently or may assess their partner's expectations wrongly. Based upon such misunderstandings partners could end up with different agendas with regard to the alliance. Such different agendas may, amongst others, apply to the benefits of the alliance (individually or jointly), the timeframe and the level of commitment.

Different agendas can be a consequence of developments over time or can exist from the beginning of the venture. In the former case, certain developments can lead to divergence of the partners' interests in the alliance. Where such divergence is detected on time and partners harmoniously come to a new agreement these changes due to dynamics in business need not have negative consequences for the alliance or its partners. However, in those cases where divergence of the partner's goals and ambitions with regard to the alliance remains undetected before a confrontation between partners, negative consequences may appear. At the extreme this may lead to termination of the alliance. The occurrence of a divergence in agenda setting between partners over time is, in fact, a manifestation of the dynamic nature of strategic alliances. Just because there are at least two entities involved, dynamics within the inter-partner relation often result in shifted - and consequently diverging – agendas. Whilst that can be considered an almost inevitability, the other case of diverging agendas is not. This is the situation where different agendas are not a consequence of developments over time but a fact from the beginning of the alliance. This can lead to a variety of cases, especially when one of the parties involved is aware of this fact but does not inform the other party (hidden agenda). It is also possible that divergent agendas existed from the beginning but neither of the parties realised this.

If a divergence in agenda exists between partners it is essentially an information problem manifested in a contracting issue: the current agreement does not reflect the actual will of both partners. This is because at least one of them is operating on the basis of false information. The original contract was never a proper one since it did not reflect the actual will of both parties. In case the divergence came after the alliance evolved over time there is a status issue: the partners have changed from the original contract and their current status is not reflected in the contract. Whilst in this case the original contract did reflect the actuality, due to the changes within the alliance it no longer does so.

The variables

We use the variables harmony and conflict as two opposing outcomes to indicate how we expect the issue of different agendas will affect the relationship between the SBA partners in the different scenarios. We expect that some scenarios of such different agendas have a higher likelihood of enhancing conflict between the partners than others[55]. We match these to opposing outcomes with differences in

[55] The assumption in this respect is that the differences or divergence of interest come to the surface. If this is not the case (but proven by a retrospective analysis of such a divergence) the divergence will not

time. One situation portrays scenarios in which the different agendas were present from the beginning of the alliance. The other corresponds with scenarios in which the agendas diverted during the alliance.

We consider the following scenarios in the issue of different agendas:

From the beginning	Evolved over time	Harmony or conflict
None of the parties realised	Early detection of divergence	Higher likelihood of harmony
One of the parties realised (hidden agenda)	(Too) late detection of divergence	Higher likelihood of conflict

When none of the parties realised that the alliance was based upon different agendas from its beginning, detection of the divergence may not necessarily lead to an increase in conflict between partners. Most important factor regarding this situation will be the extent to which parties will be able to understand and accept each other's different interpretations of the alliance based upon the agreement. Also important is whether all parties accept that their partner(s) acted in good faith. Good faith in this respect stands for genuinely not knowing that the alliance was based upon a misreading of actuality regarding the interpretation of each other's agendas and is closely connected to trust (see section on Madhok's theory of "peace"). The size of the disparity will largely determine whether the logic to continue the alliance is still in place. If parties decide to continue the alliance, the extent of the ability to accept and understand the other's point of view will determine whether trust in the partner has been violated. If parties decide not to continue the alliance, that same ability will determine whether the termination of the alliance will be in harmony or discord (conflict). The nature of the agreement in strategic alliances is generally codified in written contracts after intensive negotiations. Large disparities between partners from the beginning of the agreement are therefore unlikely. In case the contract is terminated, resemblance to the legal figure mistake will diminish the occurrence of substantial reparation.

have practical consequences. Changes in terms of more or less harmony / conflict will then not occur for reasons of divergence.

In case one of the parties realised the existence of a difference in perceiving the alliance from the beginning but refrained from indicating this to the counter party, the party with the information advantage is operating on basis of a hidden agenda. There are two possible outcomes: the other company discovers this in time (before the partner operating on basis of a hidden agenda has reached its objectives within the alliance), and the other company does not discover this in time. In the former case, there are two main ways of dealing with this. One is, the cheated party does not seek a termination of the alliance agreement but merely a restructuring of the contents. In the other possibility, which according to our opinion is more realistic, the cheated party seeks a termination of the agreement, regardless of whether the underlying rationale for the alliance has been irrevocably damaged or not. What has been damaged is the element of trust and other considerations are deemed to be secondary to that.

It is of course possible that the party operating on basis of the hidden agenda does this so well that the opposite party does not discover this element of cheating. In this case there are two possible scenarios: the cheated party moves to end the alliance or the party with the hidden agenda moves to end the alliance. Alliances will sustain as long as parties consider them to be beneficial to their objectives. In this case of a hidden agenda one of the parties will seek termination of the alliance when the alliance ceases to serve the purpose sought for by the alliance party. For the party that is not aware of the hidden agenda, this is until it realises that its objectives will not be met by the alliance due to the behaviour of the counter party (e.g. non-co-operative or too focused on its own objectives). Frustration with the course of the partnership will eventually lead to the ending of the co-operative agreement by the cheated party. For the 'cheating' party the alliance will lose its attraction when the item(s) on the hidden agenda have been achieved. It may then be able to go-it-alone or forge an alliance with a different partner to achieve new a goal.

The listing of these conceptually different situations has relevance for the likelihood of harmony and conflict thereby elaborating the break-up factor. Reviewing the above in tables, results in the following display:

The issue of different agendas

<u>Evolved over time</u>

Early detection

	Most likely to terminate or continue the alliance	Most likely to be harmonious or confrontational
	Continue	Harmonious
Will largely depend on	Whether the elements that led to the companies forging the alliance in the first place are still present after discovery of the divergence in agendas and whether it is possible to re-direct the alliance to mutual satisfaction.	Whether both parties see the differences in agendas developed over time as part of the strategic alliances phenomenon. Especially if both parties are convinced of mutual openness within the alliance so far, pursuance or exit of the alliance will prevail in harmony.

(Too) late detection

	Most likely to terminate or continue the alliance	Most likely to be harmonious or confrontational
	Terminate	Confrontational
Will largely depend on	Whether the alliance underwent damage in the inter-partner relations in the period prior to establishing the divergent behaviour within the alliance due to different agendas. If a rift has occurred the chances of re-directing the alliance are slim.	Whether or not partners succeed in accomplishing an adequate agreement on resolving the alliance with an acceptable division of the fruits of the alliance to all partners. However, the fact that divergent agendas were detected (too) late usually indicates that some friction has surfaced already. It may proof to be too difficult to maintain harmony after such friction.

From the beginning of the alliance

None of the parties realised

	Most likely to terminate or continue the alliance	Most likely to be harmonious or confrontational
	Continue	Harmonious
Will largely depend on	Whether parties are mutually convinced of each other's 'good faith' regarding misinterpreting the alliance. Also important is the size of the disparity between parties when they realise that the occurrence of different agendas has been present from the beginning. The smaller the disparity the higher the likelihood that the alliance can sustain.	Since this is predominantly a contracting issue, it depends largely on whether the parties succeed in changing the agreement so that it reflects the genuine situation, if the disparity allows for closing the gap by means of a changing the original agreement. Even if the disparity is too large to cover with a revision of the contract, harmony will still be in favour: when both parties acted under the legal figure of mistake it is not likely that relations turn soür. Only if the detection of the disparity came after a period of decreased mutual co-operation within the alliance will the relation be based upon confrontation rather than harmony.

One of the parties realised

Other party discovers in time		
	Most likely to terminate or continue the alliance	Most likely to be harmonious or confrontational
(A)	Continue	Confrontational
Will largely depend on	Whether the issue does or does not dominate this partner's viewing of the alliance. Also the extent to which the necessary elements to pursue the alliance are still present and the availability of alternative potential partners that can deliver the same desired value.	It is likely that trust has been violated from the perspective of the party that was cheated and, certainly in the short term a harmonious situation seems to be unlikely. This party will seek confidence-building measures from the other (in some form of compensation) in addition to a restructured agreement.
(B)	Termination	Confrontational
Will largely depend on	Whether the cheated partner feels that trust has been violated beyond any repair and that the necessary basis for co-operation has disappeared. Also, if for the partner operating on a hidden agenda the alliance after discovery of that fact becomes less valuable, termination is a likely consequence.	It is likely that the situation has created a rift between the partners and soured the relation. Termination will be determined by legal arrangements but will generally be in an antagonistic environment. Absence of an adequate legal provision or loopholes therein will display the confrontational attitude of the parties.
Other party does not discovers in time		
	Most likely to terminate or continue the alliance	Most likely to be harmonious or confrontational
	Termination (sought by 'cheated' partner)	Harmonious / Confrontational

Will largely depend on	Whether the behaviour of the partner that is operating on basis of a hidden agenda frustrates the cheated partner to the extent that it seeks to end the alliance.	The cheated party will largely determine what the atmosphere will prevail. Whether the party that seeks termination blames its frustration on the lack of co-operative behaviour of the other party and the depth of the frustration will determine how the atmosphere between partners will be (harmonious or confrontational).
	Termination (sought by 'cheating' partner)	Harmonious
Will largely depend on	The partner with the hidden agenda (the 'cheating' partner) will seek termination of the alliance once its objectives through the alliances have been reached.	If the party that seeks termination in this case determines the atmosphere, it is likely going to be harmonious. A scenario where the atmosphere may be confrontational is in case the other party is frustrated when it has not been able to achieve its objective to the same extent as the partner has. An ending of the alliance could be seen as to its detriment whilst the partner has been able to improve its situation and position by means of the alliance.

Two final remarks need to be placed with regard to the above hypotheses. Firstly, termination of the alliance can take place through separation of the erstwhile partners but also through an acquisition of one of the partners by another. Although these terminations differ substantially our hypotheses have not been expanded to include this difference. Secondly, as indicated earlier, it is important to realise that neither the length nor the level of harmony is a measurement for the success of the alliance. Success depends on the achievement of the goals the individual parties have set and sought to attain through the alliance. Subjectively, the level of attainment of these goals in the individual case determines the level of success for that particular partner in the alliance. In case both partners conclude that the alliance has contributed substantially to attaining their goals[56], the alliance can be considered successfully from an objective perspective. The above tables reflect on the "instability" issue of alliances and indicate how operating on basis of a hidden agenda affects this issue.

[56] The definition of the goals may have shifted during the alliance's time span. A contribution to the attainment of the goals, therefore, is not a simple case of comparing the originally list of goals with the current state of affairs.

Chapter 3

Telecommunication cases

BT's international strategy: three stages of Concert

Introduction

BT's international strategy evolved for a long time around a dual approach. This approach manifested itself on one pillar being its main alliance Concert (with switching membership) and the other pillar formed by a number of smaller European alliances.[57]

BT's European operations

In addition to entering into one major alliance as the key approach to execute its intended international strategy, BT started involving itself in some smaller alliances in a number of European countries simultaneously when it started developing its main alliance. Based on the motivation to set up these alliances, BT applied two types of alliances in its European operations. In most cases European alliances were intended to exploit perceived future benefits in the national market where the alliance was set up (and not much more than that). In some cases, however, an additional reason for these alliances was beyond exploitation advantages present - or on the verge of becoming available. In those cases the rationale behind the alliance included the exploration of more widespread opportunities. Through these alliances BT hoped to gain expertise or knowledge that it would be able to apply in other markets in future. The difference between these two types of alliances is not as strict as our analysis may make it seem. Moreover, due to developments, particular alliances may have made conceptual shifts, i.e. originally starting out in one of the types (e.g. pure and exclusive exploitation of local benefits) but subsequently shifting to the other type. Generally, we consider the pure exploitation alliances, or phases in alliances of this pure exploitative nature, more as tactical alliances because they are similar to

[57] BT also made investments in a number of countries outside Europe, particularly India, New Zealand as well as in Singapore (in a joint venture with Japan's NTT), China, Malaysia and Japan but those investments do not form part of a coherent (clear and integrated) strategy.

the traditional joint ventures, as we described in the theoretical section. Where in alliances the explorative content was – or became – the dominant feature, the alliance had a more strategic element.[58]

BT was the first privatised European telecommunication incumbent and the first amongst its peers to be subjected to competition in its core markets.[59] Anticipating upcoming liberalisation of national telecommunication markets in the European Union, its first international strategy entailed entering some targeted telecommunication markets in the European Union. This way it hoped to benefit from the experiences it had gained by operating in a liberalised home market (Thatcher, 2004). Such benefits would be twofold: creating added value from the markets it entered ahead of the liberalisation date but also, learning from these alliances and thereby obtaining first mover advantages over those that would start operating in foreign telecommunication markets at a later stage. This strategy to enter European markets had a few rules. First, BT would use a variety of partnerships to test their effectiveness. Second, BT would not align itself with the incumbent operator of the country it entered but rather with potential challengers that, ideally, were not telecommunication operators themselves. Third, in order to sidestep the need to construct an infrastructure, BT sought partnerships with owners of nation-wide networks such as utility companies or railways. Fourth, lacking a customer base as a new entrant, BT would seek partners with customer bases from other service sectors.

In Germany BT formed a joint venture called VIAG Interkom with the German industrial group VIAG in 1995. Initially BT held a 50% stake but when Norwegian telecommunication incumbent Telenor entered both original partners scaled their involvement back to 45% to grant the newcomer a 10% stake. VIAG owned a fixed line business and digital mobile phone license. In Spain, BT set up fixed line operator BT Telecomunicaciones in 1994. This was followed by a 15.8% stake in Airtel, Spain's second mobile operator. In this consortium BT co-operated with its biggest UK competitor Vodafone. In April 1995, BT announced

[58] Because we are not concentrating our analysis on BT's European alliances but merely review them in order to increase overall comprehensiveness we will not expand further on this issue.
[59] Spain's Telefónica was actually the first of the European telecommunication incumbents to start the privatisation process. However BT's totally completed privatisation was ahead of that of Telefónica.

it would set up Albacom, a joint venture with Banca Nazionale del Lavoro (BNL), at the time the third-largest bank in Italy. Operations started in the summer of 1995 and in 1996 Silvio Berlusconi's Fininvest Group's media division, Mediaset, joined Albacom. Target of the partnership was (and continues to be) the business community.

BT has been operating in Switzerland since 1989 (Geneva). Two years later BT also started operating from the German speaking part in Switzerland (Zürich). BT's involvement is through a 21% stake in Newtelco, which operates under the brand name Sunrise and targets corporate customers. Other Newtelco partners include: Tele Danmark, Union Bank of Switzerland, Swiss Railways and the country's largest retailer Migros. Together with its two Nordic partners from other ventures, Telenor and Tele Danmark, BT announced a Swedish joint venture called Telenordia in May 1995. The joint venture was established to offer national corporate services as well as global solutions from BT's Concert alliance. A 50-50 joint venture with Ireland's Electricity Supply Board (ESB) was set up in Ireland. The combination of ESB's extensive electricity network and BT's telecommunication expertise was to challenge Ireland's incumbent provider. BT's operations in Belgium started in 1988 when it sought to serve the country's business community. On 16 October 1996 BT entered into a partnership with Riverland to pioneer the Belgium market in providing internet and intranet services. In the Netherlands BT formed a 50/50 joint venture with the Dutch national railway network operator NS (Nederlandse Spoorwegen) in March 1996, after this partnership was announced on 22 November 1995. This Amsterdam-based joint venture was called Telfort, BV. The target market was the Dutch business community. Using NS' fibre optics cable network, the joint venture initially offered corporate solutions and international products from Concert Communications Services (see below).[60] Finally, in September 1997 BT acquired a 26% stake in France new telecommunication company Cégétel, set up by the water utility company Générale des Eaux (Chan-Olmsted and Jamison, 2001).[61] Cégétel was established to challenge France Télécom in both fixed and mobile

[60] Subject to regulatory approval, end June 2005 Dutch incumbent and the country's number one telecommunications provider, KPN, paid €980 million to acquire Telfort. Telfort had been controlled by Dutch investor Marcel Boekhoorn, who, in turn, had obtained his 51% stake one year prior after Telfort had been acquired by private equity firm Greenfield and by Enertel for €25 million in 2003.

[61] In April 1998 the telecommunications, publishing and entertainment divisions of Général des Eaux changed their name to Vivendi, leaving the original name to the company's water business.

(through SFR) services. BT's other shareholders besides Générale des Eaux, which held 44%, were Mannesman from Germany (15%) and US local telephone company Southwestern Bell (also 15%).[62]

The role of Concert in BT's international operations

Concert's first stage

BT adopted strategic business alliances later as a tool in its international strategy than some of its European peers did (see our other two cases). When BT engaged itself in a strategic partnership most of the other incumbent telecommunication operators in the European Union had already joined one of the two existing European alliances in the two years prior to BT's inclusion.[63] BT, though a first mover with regard to operating as a privatised company in a liberalised home market, was not a first mover regarding the adoption of strategic alliances. But, unlike some of the European countries' incumbents when the British company finally did choose for an alliance and an alliance partner, its choice was highly focused and made strategic sense.

On 2 June 1993 BT announced its intension to buy a 20% stake in MCI for approximately £4.3 billion (Bonardi, 2004). BT and Washington DC-based MCI, which, at the time, was the second largest telecommunication company in the US and the third largest international carrier in the world, were to create Concert Communication Services (of which 75.1% was to be controlled by BT and the remaining 24.9% by MCI). This Anglo-American joint venture's main market segment was the corporate sector (Bonardi, 1999). Particularly the largest TNCs because those were considered the companies most in need for the advanced, integrated services Concert intended to supply. Also, that segment could bring the joint venture the highest margins. On 1 October regulatory clearance was obtained.

[62] After Mannesman was acquired by Vodafone in 2000 this stake fell in Vodafone's hands; Southwestern Bell changed its name to SBC Communications in 1998.

[63] Stet, currently Telecom Italia, was the exception. The Italian former monopoly incumbent did not join an alliance until 1997. See case on Telefónica.

A wave of liberalisation in telecommunication markets

Both BT and MCI anticipated an increase of competition in their home markets. In the UK, BT was faced with arguably the toughest regulatory regime for a former EU incumbent (Bonardi, 1999).[64] Oftel (on 1 January 2004 replaced by Ofcom), the UK regulator, adopted an approach that facilitated competition in such issue areas as interconnection pricing, cable operators' development and the ability for operators as Colt to "cherry-pick" (concentrate on only the most lucrative market segments without being hampered by a universal service obligation). As a consequence, BT's position in the UK market came under threat and the company sought strategic moves that could offset possible revenue losses at home by the development of business abroad. For similar reasons, American operator MCI sought expansion overseas. The US 1996 Telecommunications Act (see below) provided the company with opportunities to enter a new market segment but it also increased competition in the long distance sector from potentially strong competitors. Additionally, a number of relatively new telecommunication operators, "start-ups" had been very successful in the US long distance market and were attacking MCI's bottom line.

Through Concert, BT and MCI expected to take full advantage of the imminent liberalisation of telecommunication markets in the United States, Europe and worldwide, thereby offsetting home market losses caused by the changed competitive landscapes (Gottinger and Takashima, 2000). Liberalisation of telecommunication services in those geographical markets would be the eventual final step of a process set in motion in the liberalisation wave described in the first chapter of this thesis. BT's previous international moves had all been in anticipation of such liberalisation opportunities. The altered outlook and conditions of the telecommunication market since the late-1980s had resulted in the perception that full exploitation of opportunities offered by liberalisation could not been achieved without a strategic partnership when liberalisation finally would become a reality.

[64] The only other telecommunications regulator that matched UK's in terms of toughness within the European Union was Reg TP, the German regulator. See our case on Deutsche Telekom.

In the US, preparations were in full swing to produce what would become the 1996 Telecommunications Act. Both Concert partners were aware that the central notion of the Act would be conditional opening of long distance telephone markets to local telephone operators and, conversely, conditional opening of local telephone markets to long distance operators. The local telephone markets had been the sole domain of the Regional Bell Operating Companies (RBOCs) for the last twelve years.[65] An alliance with MCI would provide BT access to the US telecommunication market, by revenue the largest in the world. The actual attraction of the US market to BT was the corporate sector. Gaining access to this segment of the US market would bring a number of, potentially lucrative, possibilities to BT. First, it would enable BT to provide services for trans-national corporations (TNCs) it served in its home market. UK or European-based TNCs with offices in the US could then be served by one operator, Concert, instead of needing to connect with an additional separate operator in the US. This one-stop-shopping approach would be beneficial to the TNC and present a business opportunity for BT (and similarly for MCI with regard to its American customers with operations in the UK or other parts in Europe where BT had established an operation).[66] Second, BT, with its US partner, would be placed better to add US clients to their customer bases; 30-40% of the companies BT targeted were based in the US. Third, BT would be able to benefit from MCI's marketing expertise, an area in which the US company had build up a good reputation.[67] From MCI's point of view the Concert alliance, besides the reciprocal advantages to their clients with operations in the UK, also provided the company with a stronger presence in the European market. Also, although not included in the Concert joint venture aims, in the long run, long distance operator MCI anticipated benefiting from BT's 90 year expertise in providing telecommunication services in local markets after liberalisation.

[65] RBOC are the spin-offs sprouting from the break-up of AT&T on 1 January 1984, after an antitrust suit launched by the Department of Justice on which AT&T settled by accepting to break itself into eight smaller companies, the RBOCs or *Baby Bells* on 8 January 1982.
[66] See our section on the role of globalisation where we mention cross-Atlantic expansion of US and European firms since the 1960s.
[67] The most obvious example of BT gaining from its relationship with MCI in this respect is the adoption of the successful programme BT's Friends and Family, which BT copied from MCI.

Following the 1992 Green Paper on telecommunications, the European Commission had issued a Directive on competition in markets for telecommunication services on 28 June 1990.[68] In this Directive the date for liberalisation of telecommunication services and equipment within the Union was set at 1 January 1998[69]. Not included in this Directive and not subjected to its liberalisation conditions were satellite services, mobile telephony, paging services, radio broadcasting, TV broadcasting and voice telephony services to the general public. Separate Directives dealt with such services and stipulated to what extent they would be liberalised.

In addition to the national liberalisation in the United States and regional liberalisation in the European Union, worldwide liberalisation took place simultaneously. After three years of negotiations and periods of crises including when the US delegation walked out of the negotiating talks in April 1996, there finally was success. On 15 February 1997, sixty nine World Trade Organisation (WTO) members agreed to open up their national markets of basis telecommunication services to international competition. This move liberalised 93% of global trade in telecommunication services with a value of $700 billion in one stroke and included the important Japanese market (Sasamoto, 1998). The Agreement on Basic Telecommunications came into force on 5 February 1998 and provides a framework for liberalisation in a number of phases.[70] Particularly important to foreign operators, it also provides a framework of regulatory principles.

Concert's second stage

In 1996, supported by a strong balance sheet and pushed by criticism that it did not put its financial strength to sufficient use for its shareholders, BT stepped up

[68] This Commission Directive, 90/388/EEC, has been of crucial important for the liberalisation process in EU telecommunication markets. After having been amended by subsequent Directives (e.g. 96/19/EC and 96/2/EC), 90/388/EEC is no longer in force.

[69] Luxembourg (1 July 1998), Spain (30 November 1998), Portugal and Ireland (1 January 2000) and Greece (31 December 2000) were offered an extension of liberalisation deadline because their telecommunication markets were considered to be too underdeveloped and their incumbents not prepared enough to meet full competition on their home turf. However, Spain waived the right to exercise the suggested grace period and liberalised its telecommunication markets at the same time as the 10 EU members that did so on 1 January 1998.

[70] Sixty eight of the sixty nine members ratified the agreement. Argentina withdrew after a dispute with the US on Argentine beef, textiles, peanuts and shoes.

activities with regard to its international strategy. The first notable evidence of this was the negotiations with Cable and Wireless (C&W) to come to a £35 billion merger company. Although C&W is a UK-based telecommunication company, too, the merged entity would have had a sizeable international presence with C&W bringing operations in the Caribbean and Far East to those of BT. Talks collapsed, however and were called off formally on 2 May 1996.[71]

On 3 November 1996 Concert partners BT and MCI officially announced their plans to create the largest merger in corporate history after signing the definitive merger agreement. Under the terms of the agreement each MCI share was to be converted into 0.54 of a Concert American Depository Share which would have a value of 0.54 of a BT share converted Concert American Depository Share plus $6.00 in cash (PR Newswire, 1996). The merger was in fact an acquisition by BT of the remaining 80% of the shares it did not own already. The mixture of cash and shares BT offered had a value of approximately $21 billion, which meant that BT valued MCI in its entirety at $24 billion (Whiterow, 1996).[72]
The merger was to continue under the name of the alliance between the two telecommunication operators, Concert. The merged entity would have its headquarters in Washington DC and London. Concert's board of directors would comprise of 15 members, 8 from BT and 7 from MCI. Concert would be the first global telecommunication company with a multinational management team and dual transatlantic headquarters.

Regarding the division of marketing Concerts' products and services, it was agreed that, for the time being, BT would continue to sell and service customers under its own brand in the UK and MCI would continue to do so in the US. An important and strategic element in the merger agreement was that MCI would

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[71] The challenges to form a merger between the two were posed by expected regulatory opposition. C&W's Mercury, BT's first competitor after liberalisation of the UK telecommunication market, would have to be sold off. Also, in Germany either company was involved in a separate alliance. Any solution BT and C&W would find could still have been sanctioned by the EC regulator. There were also conflicting assets in Hong Kong. Furthermore, for C&W to maintain what was essentially their biggest asset, this being the licenses it possessed overseas, a complicated take-over formula had to be worked out. The eventual and real deal buster was the price, however. The two companies could not agree upon a price.

[72] This amount represented a 30% premium to the value of MCI before rumours surrounding the deal appeared (Whiterow, 1996).

aggressively seek access to US local telecommunication markets (then estimated at a value of $100-150 billion).

At the announcement of the merger the new company was expected to generate revenues in excess of $42 billion, have 183,000 employees and serve 43 million business and residential customers in 72 countries. In their partnership BT and MCI had outperformed the other existing major telecommunication alliances. Concert was the only of the telecommunication SBAs to approach its financial break-even point, which would be one year ahead of the expected date announced at the alliance's inception. This relative success of Concert Communication Services (the joint venture before the merger) provided the basis for the two companies to excel their co-operation from a joint venture into a merger. Additionally, the merger was intended to reduce costs through cumulative synergy benefits from full integration (instead of forming an alliance), which were estimated at $2.5 billion within five years following the closing of the merger. Continuing from their joint venture, the merged company would address the European and US markets and provide global services and solutions in wireless, global system integration, internet and intranet and specific international corporate services (for instance virtual private networks, conferencing, calling centres, and network security). Compared to 1993 when the two companies started their joint venture, BT had gained in experience in operating in foreign markets through a broad range of international relationships in Europe and other parts of the world. In turn, MCI had been successful in its own market through capturing over 40% of the total growth in US' long distance market over the last five years.

BT's biggest international rival, AT&T, objected to the merger at US regulatory authorities on grounds of a lack of openness of the European market for US telecommunication companies (Bonardi, 1999). Nevertheless, the merger gained necessary approval from the US Department of Justice (on 8 July 1997 with the proviso that the Department would be supplied with more information on Concert) and the Federal Communications Commission (21 August 1997 but with the concession that foreign operators would be granted easier access to the UK market). The third regulatory body involved, the European Commission, granted permission to the deal on 14 May 1997 with some minor preconditions.[73] More troublesome was obtaining permission from the owners of the companies, the shareholders. Those of MCI were not a threat to the deal: its shareholders welcomed the deal with a 77% in favour of it (European Telecommunications, 1997a). More hesitant were BT's shareholders. There was a general feeling that the price BT intended to pay was too high. Also, particularly institutional shareholders questioned the projected figures Concert was expected to produce as over-optimistic. Nevertheless on 16 April BT shareholders did approve the merger with a 99% vote in favour as well as a £280 million strategic alliance with Telefónica and a smaller partnership with Portuguese Telecom (European Telecommunications, 1997b).

The demise of the BT – MCI partnership

On 10 July 1997 MCI issued a profit warning. It announced that its expected losses over 1997 suffered from failing to make substantial inroads into the US local telephone markets were not valued at the earlier indicated $400 million but would more likely be $800 million. As pointed out above, BT shareholders had almost unanimously approved the merger plans with MCI but concerns had been raised with regard to the price and the projected successes. MCI's profit warning not only caused a resurface of those doubts that culminated in demands to renegotiate MCI's price (Chan-Olmsted and Jamison, 2001). This confronted BT management with a dilemma. On the one hand, attempting to lower the price could result in MCI abandoning the deal (in which case BT's long term plans would be upset) or, alternatively, MCI could resort to legal action, in addition to a £89 million break-up fee which BT would have to pay MCI.[74] On the other hand, failing to negotiate a substantial reduction would seriously alienate it from its shareholders, particularly its largest institutional investors Mercury Asset Management and Prudential (Reguly, 1997). With this dilemma BT's management found itself in a difficult position. It stressed that the merger still made strategic

[73] The Commission voiced its concern over BT's dominance in the UK audio and videoconferencing market; access of competitors to Concerts transatlantic submarine cable; and fear for a monopoly position on the UK - US route.

[74] In its home market, MCI had built up strong reputation as a litigious company. AT&T, in the 1970s often the recipient of such legal action had called MCI – which stands for Microwave Communications Inc. – "a law firm with a microwave antenna on its roof" (Latour and Berman, 2005).

sense and that the need for BT to have access to the US market was too strong to allow the deal to turn sour. Long term, access to the world largest telephone market would be in shareholders' benefit in spite of the short term setback. MCI also would not want to see the deal collapse but faced similar pressure from its shareholder not to accept a lower price. A collapse of the deal, regardless of which of the sides would turn out to be most stubborn, would almost certainly send MCI shares in a tale spin (Jensen, 2004).[75] Although BT's management clearly still supported the merger plans, its CEO, Sir Peter Bonfield, was ostensibly disgruntled by the fact that he was only informed on the contents two days before the profit warning (Reguly, 1997).[76] Whilst never voiced publicly (nor at the shareholders' meeting on 16 July), rumours that BT would demand the resignation of MCI's senior managers Doug Maine (CFO) and Tim Price (COO) were never denied. True or not, the important matter is that mutual trust between the two prospected partners had been violated tremendously (Whiterow, 1997).

Under pressure from its own shareholders, MCI was reluctant to accept the lowering of the original deal. But BT's management did succeed in pleasing its owners and reduce the offer with a little over $5 billion to approximately $19 billion. In turn, BT pledged to pay a sizeable penalty, $750 million, to MCI in case it would not be able to convince its shareholders to approve the new price. This amount was much higher than the respective original amount in the merger contract. That amount was $150 million and could only rise to $450 million in exceptional circumstances (Moss, 1997). That BT raised the standard penalty it had to pay with $600 million may appear odd but should be considered as a measure to increase the likelihood of shareholders approving the deal. However, to cover itself against possible dissenting shareholders in spite of the lower price, BT reduced the level of voting majority from 75% to 50%. It can be argued that this victory of BT's shareholders can only be seen as a Pyrrhic one. MCI's shareholders were dissatisfied with the write-down and the company's management had had a major clash over the profit warning with its peers from the

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[75] The effect of a collapse on BT's shares was less obvious and more open to interpretation.

[76] There is, however, a curious side to this. Sir Peter, deputy chairman Sir Colin Marshall and non-executive Keith Oates were all BT Board members sitting at MCI's Board. Their presence should have guaranteed them of knowing how MCI's business developed and they should, therefore, have been warned in advance that losses were substantially larger than originally portrayed.

company that was about to acquire them. Even if MCI's management positions, particularly those of the CFO and the COO, would not be affected short and long term, it was obvious that the atmosphere between the two management teams had been smudged, at the very least.

Notwithstanding recent clearing of the final regulatory hurdle (21 August 1997), the troubled nature of the relationship between the two companies prompted an opportunistic move from US' most successful long distance telephone operator. WorldCom, a Clinton, Mississippi start-up delivered a $30 billion all-stock bid for MCI ($41.50 per share) on 1 October 1997.[77] WorldCom was not the only company attracted by the potential opportunity to nestle between the Concert partners in order to acquire MCI. GTE, a non Baby Bell US local telephone company placed a $28 billion cash bid ($40 per share) for MCI, making this the biggest cash-based acquisition bid in US history (European Telecommunications, 1997c). In the weeks that followed MCI held talks with the individual companies. But because the entire situation was a consequence of BT lowering its bid for MCI, it was not likely that BT would increase its bid again, in spite of the arrival of competitors. Therefore, talks were also held between MCI, BT and GTE jointly because BT and GTE considered a three-way merger through a joint bid in order to fend off WorldCom's bid. But when WorldCom raised its bid from $41.50 per share to $51 per share for MCI shareholders and the total bid thereby increased to $37 billion in stock and cash, BT nor GTE (although it did raise its offer to $45 per share) could follow and stop the largest corporate merger in history from taking place (Moss, 1997). On 10 November MCI agreed WorldCom's 45/55 bid, leaving BT and Concert behind.[78] BT received $7.4 billion in cash for its 20% stake in MCI. This was a profit on those shares of approximately $3 billion (Reeve, 1998). Additionally, BT received a $465 million break-up fee as a compensation for MCI's negation of the merger deal (the Economist, 1998).

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[77] In 1985 Bernard Ebbers started Long Distance Discount Service (LDDS) in Clinton. After in 1995 LDDS had acquired telecom provider Williams Telecom Group (WilTel) it changed its name to WorldCom. From then on the company continued to grow using an acquisition strategy which enabled it to build a $7 billion corporation through over 40 acquisitions at the time of its offer for MCI.

[78] In fact, this marked the second time that BT's intended partner was snapped away from it just before BT intended to acquire it. In 1994, AT&T bought the US mobile company McCaw Communications just before BT set out to acquire the remaining shares it did not own already. Like in MCI's case, BT possessed a 20% stake in McCaw.

Whilst the settlement deal brought immediate and excellent value for BT's shareholders, the company's international strategy, based on Concert, had collapsed.

Concert's third stage

With the formal completion of WorldCom's acquisition of MCI on 14 September 1998, BT acquired the 24.9% stake in the joint venture Concert Communications Services for £607 million. Concert became thereby a wholly-owned BT business. In order to establish Concert's independence from MCI, it had to undergo alterations (estimated cost at £150 million) which were expected to take till March 2000. Concert did not remain a wholly-owned BT business for that long, however. Whilst still on the rebound from MCI, BT found a new partner to fulfil its global ambitions. This was essential because BT's European alliances did not provide an adequate backup with its main alliance off the global telecommunication map. These smaller European partnerships would only be able to come near any attempt to offset reverse conditions as a consequence of breakdown of Concert if cumulatively – if not all individually - they had been prospering at the time. But most of the individual alliances were suffering from adverse conditions themselves. In Spain, BT had intended to merge its wholly-owned BT Telecomunicaciones with Telefónica, which would join BT and MCI. However, the split between BT and MCI caused by WorldCom's successful bid resulted in uncertainty regarding Telefónica's status vis-à-vis the former Concert partners. Ultimately, Telefónica chose to partner MCI and WorldCom.[79] BT could, therefore, not continue with unwinding its Spanish operations and had to restore them instead. However, neither BT Telecomunicaciones nor BT's 15.8% stake in Airtel were very successful at the time (Telecom Markets, 1998). In Italy, BT expected the bidding alliance Picienne Italia which it was part of, to obtain the third cellular alliance but the consortium failed to secure one.[80] BT had similar problems in Switzerland where it failed to win one of the two mobile licenses on

[79] Telefónica had conducted extensive negotiations with both BT and MCI but MCI's contacts with Telefónica's international division TISA possibly could have provided the additional and determining leverage in the Spanish Group's choice to follow BT or MCI (see case on Telefónica).
[80] Later in 2000, BT attempted to enter the Italian mobile market once again through a different consortium, Blu (Cairo, 2000a). However this bid failed because the consortium collapsed over disagreement with regard to how to proceed during the bidding phase.

offer. BT's operations in major market Germany where under strain, too. The company had more success in the Netherlands but the scale of this market was not substantial enough to compensate for less favourable conditions at other European ventures (Telecom Markets, 1998).

US regulatory rules prohibited BT from forming an alliance with another partner in the United States until WorldCom's acquisition of MCI had been completed. As indicated, this formal completion took place on 14 September 1998. By that time the official announcement of BT's new alliance partner had been made already. After some months of speculation, on 26 July AT&T and BT made public their intentions to form a global telecommunication alliance, through a 50/50 joint venture. The joint venture's objective would be the provision of services to TNCs worldwide as well as to international calling needs of both businesses and individuals. Within this definition of these services the main focus would be on corporate services and network services, particularly the following three areas: Voice and data services including private line, frame relay and value added IP network services to corporations; tailor-made network services to corporations in specific industries (including financial, information technology and petroleum); carriers' carrier service, i.e. supplying wholesale international pipelines to other carriers.

Under the joint venture agreement no swapping of equity between the parents was included. The companies' first five year plan was to combine and integrate their international networks and upgrade it to internet protocol (IP) networks as soon as possible. In order to achieve this, both companies were to invest $1 billion in US-based high-tech start-up companies to develop their own expertise in IP networks. Constructing a global IP network that would connect 100 of the world's major cities via an 200 gigabits per second infrastructure would enable the joint venture to compete with new entrants as Equant, Global Crossing and MCI WorldCom that included BT's previous Concert partner (Computer Business Review, 1998). Additionally, the two companies would realise some costs savings due to economies of scale and by-passing call settlement charges. The new joint venture, initially valued at $10 billion (later adjusted to $7 billion), adopted the name of BT's previous SBA, Concert (but dropped the Communications Services part of the old brand name), which, in order to avoid confusion, we will refer to as Concert II in this thesis.

Geographically, BT would bolster the joint venture's European operations and provide AT&T access through its European alliances. Similarly, BT would gain its much-desired access to the US market with AT&T, that country's largest long-distance operator as partner and not a competitor. AT&T's new CEO had made two important US acquisitions (TCI and TCG, see below) that gave the company a stronger foothold in US local telephone markets. Those recent acquisitions were considered extra added value to BT because – unlike the case of their intended merger with MCI – on this occasion BT's partner possessed tested and successful local telephony assets and thereby access to the local loop. Outside the two partners' home markets, Japan, the world second largest market, would be an important target area. Since May 1998, following liberalisation of the Japanese telecommunication market, BT had established a joint venture, BT Communications Services, with local conglomerate Marubeni's Telecom and Information division. Furthermore, following BT's successful joint venture with NTT in Singapore it had a loose agreement with its Singapore partner to co-operate on a project-by-project basis in Japan whilst maintaining (fierce) competitors (Sasamoto, 1998). However, on 25 April 1999 BT and AT&T announced their intentions to purchase each a 15% stake in Japan's telecommunication company Japan Telecom for ¥220 billion (Asia Times, 1999). Japan Telecom was the country's 2nd largest telecommunication carrier by revenue but 4th largest by customer base. BT and AT&T linked hereby their Japanese future to one of NTT's main competitors. An alteration of the planned 15-15 per cent stakes in which BT bought 20% and AT&T 10% into Japan Telecom was completed on 2 September, two months ahead of schedule. Operations of both foreign companies on the Japanese market date back to the mid-1980. In 1984 AT&T had set up a venture named Jens with 25 other Japanese companies and BT had first entered the Japanese market in 1985. The two Concert partners would fold all their existing ventures into their Japanese partnership.

In spite of strong opposition from competitors - most notably from Cable and Wireless and BT's erstwhile partner MCI WorldCom (Craig, 1998) - BT and AT&T obtained EC regulatory approval for their joint venture on 29 March

1999.[81] The EC regulatory authorities did attach conditions to their approval, albeit relatively minor ones considering the magnitude of both companies. EC wanted to prevent a possible future merging of BT's operations with those of ACC, a UK operator owned by AT&T and Telewest, one of UK's top three cable operators in which AT&T held a 22% stake as a consequence of its acquisition of Telecommunications Inc. (TCI).[82] Therefore, AT&T had to agree to sell ACC and create a structural and management separation between the company's operations and Telewest (a so-called firewall). Included in this measure would be the prohibition of Telewest board membership by AT&T officials. AT&T was also obliged to withdraw from its unsuccessful partnership with the European alliance Unisource named AT&T Unisource Communications Services or AUCS (see case of Telefónica, below). The EC gave permission to AT&T and BT to realise their plans to form an SBA in spite of the fact that on the US to UK route the parties had half of the traffic flow in either direction. It did so because the two companies had less than 20% of the capacity on this route and the EC foresaw the imminent availability of a vast amount of additional cheap capacity through other providers (European Telecommunications, 1999).

On 16 September of that same year it appeared as if the co-operation frenzy between AT&T and BT was still on a high because the Concert II partners announced another alliance between the two of them. Marketed under the name Advance, BT and AT&T were to jointly offer mobile services in an attempt to develop a seamless global mobile telecommunication footprint. The announcement came at a time when in its home market the performance of BT's mobile business, Cellnet, underwent a strong challenge from the number three Orange. The expansion of the existing partnerships in Concert II, Japan Telecom and a $1.3 billion joint venture in Canada with Advance pointed towards an increasing likelihood that the two companies would ultimately seek to merge their

[81] The last regulatory hurdle, the FCC granted conditional permission on 25 October 1999.

[82] Prior to the announcement of the Concert II SBA, AT&T was in search of new acquisitions in the European telecommunication market in order to create added value from its acquisition of US' second largest cable company TeleCommunications Inc. (TCI) for $45.8 billion. This acquisition was made under the new CEO Michael Armstrong who changed AT&T's course and also oversaw the acquisition of a local US exchange carrier Teleport Communications Group (TCG). Armstrong is said to have called BT's chairman Iain Vallance to suggest an alliance two days after the former's appointment in October 1997. Eventually this contact led to the two companies' SBA less than a year later (Computer Business Review, 1998).

operations.[83] However, Advance did not include any transfer of assets and soon it became apparent that the Advance partnership was a fairly loose one. Besides, the two mobile divisions were highly incompatible due to the adoption of different digital standards.[84] Moreover, many of the foreign operations from either one of the two companies were partially owned and would complicate the structure of a more integrated mobile partnership (Mobile Communications Report, 1999). Nevertheless, the sheer size of the combination that would join AT&T's 140 TDMA networks in 50 countries with the 198 GSM networks in 100 countries of BT would make for a force the world's number one mobile operator, Vodafone/AirTouch - then, itself the outcome of a very recent £34 billion merger deal - had to reckon with.

But Advance, nor Concert II or any of the other partnerships between BT and AT&T formed a threat for any competitor for more than one year. By July 2000, some 18 months after it started, it appeared that Concert II was already on the rebound. To be sure, the entire telecommunication sector was suffering from adverse conditions imposed by developments in the telecommunications and technology sector. The crash of these stocks in spring 2000 after two years of tremendous growth had its toll, first and foremost, on all companies involved in the IT sector. However, telecommunications had benefited from the inflated shares in IT by association and with the free fall of IT shares and companies, telecommunications was dragged down too. In telecommunications, this crash did not only affect the prime beneficiaries of the 1998 – 2000 irrational exuberance, the start-up telecommunication providers, but also established incumbents and telecommunication manufacturers. Incumbents BT and AT&T were no exceptions. AT&T under Armstrong had made a number of pricey acquisitions. In addition to the aforementioned takeovers of TCI and TCG it also purchased cable

[83] Through a newly created joint venture called Wireless Corp, BT and AT&T acquired a 33% stake for C$ 1.4 billion (or US $934 million) in cash in Rogers Cantel Wireless Communications. This move aligned BT to the already existing partnership Rogers AT&T Wireless.

[84] BT, like most European mobile operators, used Global System for Mobile telephones (or GSM) standard for its digital or 2nd generation mobile phones. This standard was developed in Europe and most used worldwide with a notable exception of the US. There the two dominant standards (among small pockets of other standards including GSM) for 2nd generation cell phones are Code Division Multiple Access (CDMA) and Time Division Multiple Access (TDMA), which AT&T used. With regard to 3rd generation, or 3G, mobile phones the incompatibility between the two companies was mainly with regard to the level of development. BT, as was the case with most European mobile operators, was well ahead of its US counterparts and Advance could not establish much more than an intention to bid jointly for upcoming 3G licences in targeted countries.

television provider MediaOne for $62.5 billion, bringing the total price of these three acquisitions to nearly $110 billion (the Economist, 2005). The swift and sudden withdrawal of liquidity from the telecommunication sector first forced AT&T to ration drastically and then to follow a massive expenditure slashing programme. Such priorities took AT&T away from the nascent Concert II SBA. BT found itself under similar pressures. Its expenditure had also been stepped up in the months before the stock market crash, albeit slightly less lavishly than AT&T's. BT's main money pit had been the 3G auctions held in a number of European countries, including its own. Just inside the stock market bubble the earlier auctions created a buzz in the telecommunication sector like never before. The unproven demand of customers for premium services as using the mobile phone to take pictures and send those over the internet, watching movies on mobile devices, record and listen to music and more was convincing enough for many telecommunication companies to engage in lengthy bidding sessions. The bidders included incumbents and start-up, telecommunication operators and conglomerates, local firms and foreign ones, European operators and operators from outside Europe, all got involved.[85] BT acquired 3G licenses in the UK and in Ireland via its mobile division; and through its alliances in France (Cégétel's SFR), Germany (Viag Interkom), and in the Netherlands (Telfort).[86]

Early 2000 before the actual crash, BT's performance (reflected in a sliding share price) was under pressure from competition in its UK home market. A number of other operators, including cable television companies had steadily been eating away market share from BT. Perhaps even more important, competition had driven prices down with plenty available options and capacity (the so-called bandwidth glut) for residential and, even more for corporate customers. Aided by the regulatory environment of low interconnection fees, the competitors had been able to squeeze BT's margins (Cane, 2000). The occurrence of the crash enhanced BT's problems: profits fell for the first time since privatisation, the share price continued to slide (in spite of a fundamental restructuring programme announced in April) and the company issued a profit warning on Concert II. The company's

[85] Particularly, the UK and the German auction generated enormous windfall revenues for their respective governments. In the UK, the Treasury windfall amounted to £22.4773 billion (or 2½% of UK's GNP) and took 150 rounds over 53 days; in Germany the auction took 14 days and 173 rounds and resulted in DM 98.8072 billion (or US$ 45.85 billion) extra revenue to the German federal government.

[86] BT lost these licenses with the later spin-off of Cellnet.

shareholders, after initial satisfaction with the restructuring programme, demanded, a mere three months later, more measures. Nationally, (institutional) shareholders pressed management to float BT's yellow pages business, Yell, and list Cellnet. Regarding international activities they condemned the Concert II alliance and called for terminating it and seizing possible takeover opportunities of other companies.[87]

With both parents having troubles of their own, Concert II suffered from parental neglect.[88] The external conditions caused by the crash of the technology and telecommunication stocks were to a large extent to blame for that and thereby for the failure of the SBA. However, arguably, Concert II contributed to its own fall, too. Considering the type of assets it possessed, its geographical and operational reach and the strategy it was founded on the only way to reconcile all would be through the creation of an international wholesaler of network capacity. Concert II was a looser alliance than BT and AT&T announced it would be at its launch. Failure was further compounded by the fact that success in the European market was dependent on sales channels through subsidiaries of which BT was a partial, and often minority, owner. As a consequence at those European subsidiaries there was no full commitment to prioritise Concert II business with involvement of (BT's) partners that were no part of Concert II.

BT also suffered from its involvement in AT&T Canada where it had bought itself into through a 9% stake. Under the Concert II agreement BT would be obliged towards AT&T, which already owned 24% of the venture, to purchase another 21% (for about $720 million) once the Canadian government would deregulate foreign ownership of its telecommunication companies. However AT&T Canada was performing poorly and BT had a serious cash-flow problem. It had just managed to cut its debt from $27.9 billion at the end of the third quarter of 2000 to $17.5 billion by the end of June so any new investments would be considered carefully (Lazaroff, 2001). Extra expenditure on a failing business as AT&T Canada would not constitute sound investment policy and would further enrage BT shareholders.

[87] More specifically, the names of Sprint, which was denied by regulatory authorities to join MCI WorldCom, Telefónica and NTT were considered. But BT's low share price had made the company a target for a takeover itself, more than a potential acquirer.

[88] In fact, AT&T had turned inwards even more by 2001 after it self-imposed splitting into four separate businesses. With that important re-organisation in flow attention to Concert II was not just placed on ice but firm in the freezer.

More tension between the Concert II partners emerged over operations in Japan. As indicated earlier, Concert II considered the Japanese market pivotal. The explicit alliance with Japan Telecom within the Concert framework reflected that position. In an exclusive distribution arrangement, both BT and AT&T were to use Japan Telecom as the sole distributor of their services, jointly marketed through Concert II. However, when AT&T allowed NTT to purchase 15% of AT&T Japanese unit the arrangement regarding the Japanese market appeared to be under threat (Cairo, 2000). A similar trust-busting move surrounded AT&T's acquisition of IBM's global network business for $5 billion, which was announced on 8 December 1998. Contrary to Concert II's intention, AT&T never folded this acquisition in its alliance with BT but kept it – and its customers - as an alternative plan in case Concert II would fail. Inspired by AT&T's move or not, BT also hedged its bets and developed a corporate services business outside Concert II under the Ignite brand that competed with Concert II business.

On 16 October 2001 BT and AT&T announced the termination of Concert II citing market changes since the announcement of their alliance as the reason for the failure of their venture (Cooper, 2001). Whilst the influence of the biggest turn-around in telecommunication history ostensibly played its part, the fundamental flaws in the alliance we highlighted as well as a number of strategic mishaps are equally responsible for Concert's failure. The implementation of the alliance had always been looser than initially portrayed it would be. Even before the liquidity drought in telecommunication finance as a consequence of the collapse of tech-stocks, Concert II showed traces of its eventual demise. The extensive IP network that was to link 100 major cities worldwide never came. Due to the proliferation of start-up companies and ample availability of funds to finance their roll-out, the number of providers of cheap and readily available fibre optic networks had driven prices down substantially. As the bandwidth glut increased, investing in a worldwide network made less and less sense. With this Concert's most important function was undermined. Although this development can be attributed to general market transition, the failure of the realisation of Advance, the mobile venture, cannot. Geographically, the failure in the Japanese market includes parental neglect, as the Concert II venture does on the whole. In Europe, BT never managed to create much added value for Concert II which frustrated AT&T. Conversely, however, AT&T never was the catapult into the US market that BT had been seeking for over a decade. After the initial 12 months from its start in January 1999 (in which Concert II did manage to reach the – downwards adjusted – $7 billion revenue target but failed to meet the profit projection), shareholders dissent grew as time went by. The final nail in the SBA's coffin was the obligation to invest in AT&T Canada without prospects of receiving any return on that additional investment, let alone on the initial one. By that time, BT management, of the two parties clearly the one that attempted to keep the alliances afloat in their last months, then came under so much pressure that negotiations to unwind Concert II could not be avoided (Burkitt-Gray, 2003).[89]

BT's current international strategy: strategic change in BT's conception of the European market after the demise of Concert

Initially BT's strategy towards Europe concentrated on the EU and was developed because it considered that the imminent liberalisation of the EU markets would place it in a favourable position compared to most other member-states. Unlike those countries, by the time of the liberalisation date of 1 January 1998, BT already had been operating in a liberalised market for 14 years. Therefore the company had more experience in functioning in a competitive environment than those to whom liberalisation and competition would be a new phenomenon. To exploit such competitive advantage BT placed a number of partnerships in countries it deemed of tactical or strategic importance in order to gain from liberalisation. In general BT's strategy was to use a variety of partnerships with at least one local partner. That partner should be an owner of infrastructure, possessor of a large national customer base or both but should not have a

[89] In broad terms, the termination agreement, by and large, foresaw in the return of assets to the original contributor. In other words, BT acquired the service network infrastructure of Europe, Africa and the Middle East whilst AT&T obtained the Asia-Pacific network (even though BT contributed the frame relay assets to this region), the Americas and BT's involvement in AT&T Canada. AT&T's overall losses due to Concert II are estimated at $5.3 billion, those of BT at $2 billion (Financial Times 2001). Existing clients were served for another three years during which BT and AT&T would pay each other market prices for integrated services to legacy clients.

telecommunication business. In order to attain its goals, BT considered partial ownership of the partnerships as sufficient.

When Concert II did not generate the success it was expected to generate and more so after the demise of both Concert alliances (which rid BT of a large international partner and, even more importantly, through it access to the US market), BT upgraded the European markets it was involved in. Since the early 1990s Europe had been an important market for BT but only now did it truly become BT's prime foreign area. However, the minority shareholdings it owned in most of those markets did not reflect the increased status upgrade of the European zone and had to be stepped up. As a consequence, in half of its previously partially-owned ventures BT has bought out its partners to fully own and control its operations in Germany, Netherlands, Ireland, and Spain.

More recently, 23 February 2005, BT acquired Infonet, a voice and data network service for corporate customers. Infonet, which at the time of the announcement of the acquisition (8 November 2004) was suffering losses, was acquired after a $2.06 per share offer which valued the business at $965 million. Significantly, rather than setting up an alliance with US-based Infonet, BT purchased the entire business (Total Telecom, 2004).

Before we turn to our other two cases and leave BT until we return to the company in the section in which we will review BT's strategy in the light of our theories we would like to make two general observations. Firstly, returning to our section on the different ways of executing an international strategy in the first part of the thesis, we have witnessed BT moving from alliances to "building and buying overseas operations".[90] Secondly, BT did not appear to have any substantial first mover advantage regarding alliances. Its track record is not better than that of its European peers whose home markets were liberalised much later than BT's (Das, Sen and Sengupta, 1998).

[90] Although BT has not formally sworn off entering into SBAs it has become apparent that the company has left ambitions to become a global player. Instead it is geographically focusing on Europe which it now prefers to capture with wholly-owned subsidiaries wherever possible rather than trough an alliance-based strategy with minority shareholdings.

Deutsche Telekom's international strategy: the quest for stability and flexibility

Introduction

Deutsche Telekom international strategy has a number of similarities with that of BT but also a number of notable differences. It has made use of the formation of a number of smaller partnerships in a large number of countries with a slight geographical bias. During the 1990s, cornerstone of its international strategy was its global SBA that provided a relatively stable partnership for a substantial period.

Deutsche Telekom's tactical partnerships

Like BT, Deutsche Telekom had already established a number of foreign operations before it engaged in a major SBA. In fact, compared to BT, Deutsche Telekom had a larger and more dispersed presence abroad (Sarkar, Cavusgil and Aulakh, 1999). Another difference between the two European operators is that BT, once it established its first Concert alliance, concentrated most of its international operations within the Concert framework and the number of such operations did, therefore, not proliferate outside the Concert SBA. Similarly, although Concert II had an even more explicit aim to expand international operations than its predecessor had had, since such expansion was to be through the Concert II vehicle BT did not expand its international footprint much outside the alliance. In Deutsche Telekom's case this was a different matter. Due to the nature of the alliance agreement Deutsche Telekom had more leash to continue establishing international linkages than BT had and the German company made use of this contractual flexibility that its main SBA offered.[91] In 1993 when SBAs started to become a major feature in Deutsche Telekom's international strategy, the company already had a presence in multiple European and international markets including the UK, the US (New York, Chicago, Los Angeles and Atlanta), France, Japan, Belgium, the Netherlands, Hong Kong, Ukraine, Singapore, Hungary and mainland China. In the following years this list of international operations was augmented with countries as Austria, Switzerland, Hungary, Poland, Czech

[91] BT ultimately suffered when both Concert alliances had faltered: when Concert vanished most of its international presence went with it. The flexibility that Deutsche Telekom had, had the advantage that Deutsche Telekom had more individual control over its own international strategy than BT, but as we will see below there were disadvantages attached to it as well.

Republic, Russia and Italy (although this was with its strategic partner but outside and separate of the alliance)[92] within Europe and in Asia with countries as Indonesia, Malaysia, the Philippines, Thailand, Turkey, Israel and Kazakhstan and Mozambique in Africa. From Deutsche Telekom's involvement in those countries it is apparent that its international strategy since the 1990s has consisted of two components. One, which started first, is based on the screening of international opportunities. Such screening had a bias towards Central and Eastern European countries and non-English speaking countries outside Europe.[93] The other component is the company's engagement in SBAs.

Deutsche Telekom and its SBAs

Similarly to BT, Deutsche Telekom's support for using SBAs seems to have reached its peak during the 1990s when the global telecommunication sector was most buoyant and SBAs appeared to be the preferred option for most telecommunication carriers to execute their international strategy. Again much like BT, Deutsche Telekom's enthusiasm for alliances seems to have tailed off by the end of the 1990 decade, consistent with developments in the rest of the telecommunication sector. As will become evident from a comparison of the case of BT with the following paragraphs on Deutsche Telekom's alliances there are some differences between BT's design (and subsequent developments) of its alliances and that of Deutsche Telekom.

Deutsche Telekom started using SBAs slightly ahead of BT. Deutsche Telekom first discussed the possibility of a joint venture with France Télécom in 1992[94]. The type of developments we assessed in the first chapter of this thesis that have shaped the environment in which SBAs have emerged, played an important role in the initiation of these discussions. The German and French state-owned monopoly telecommunication providers anticipated that the accelerated forces of globalisation of business could provide benefits to their companies. Following the

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[92] See below for the relevance of this.

[93] This can be concluded from adding the list of countries that Deutsche Telekom attempted to gain a presence in but failed to do so. This list includes Bulgaria, Greece, Latvia, Rumania, Slovak Republic, Spain, South Africa, Swaziland, India, Brazil and Colombia (from Deutsche Telekom's strategy material obtained from Mr Stephane Deutscher).

[94] Strictly speaking, this was under Deutsche Telekom's predecessor because Deutsche Telekom AG was officially established on 1 January 1995.

American companies French and German TNCs had expanded beyond their region too, in the following decades. The worldwide presence of these TNCs required a similar global provision of telecommunication services for those companies to run their operations. The infrastructural, technological, financial and personnel challenges that such stepped up provision of services accompanied were considered too extensive for one single company to satisfy even with the magnitude of Europe's bigger telecommunication companies. Additionally, whilst the earlier described waves of privatisation and liberalisation had still left unaffected much of the telecommunication markets, including those of Germany and France, at the very least liberalisation of these companies' home markets was in the long run unavoidable. The Single European Act in combination with an important 1987 EC Green Paper on telecommunications[95] indicated the direction which by 1992 was clear: the cosiness of Europe's protected telecommunication markets would soon come to an end. With the imminent entrance of competition in their lucrative home markets both Deutsche Telekom and France Télécom needed to develop alternative revenue-generating markets to compensate expected losses as a consequence of liberalisation. Much like BT, both companies considered the provision of services to TNCs on a global basis as the primary way to achieve this.

Soon after their initial contact the two companies set up a joint venture under the name of eunetcom in 1992. The novelty of such a partnership and the involvement of two of the European Union's largest telecommunication operators led to a relatively (considering the limited scope of the partnership) detailed assessment of the range of services and the impact of the partnership on competition in the companies' home markets. The European Commission gave its approval in February 1993 and services started at the beginning of 1994. Eunetcom's focus was operating and maintaining large corporate networks including the provision of network solutions as well as facilitating data transmission networks on a worldwide basis. The joint venture had two main offices, one in Paris, where its headquarters were and one in Amsterdam, which was home to its financial holding

[95] The Single European Act had come into force in July 1987. The full title of the Green Paper is: European Commission Green Paper on the development of the common market for telecommunication services and equipment COM (87) 290, June 1987.

company. Additionally, eunetcom's technical and operational centre was based in Frankfurt, in other words, its main seats were dispersed across three cities in three countries.

Even before the official start of eunetcom early 1994, the two companies proceeded in their partnership relation by deepening their ties. In December 1993 the two eunetcom partners signed a Memorandum of Understanding (MoU) to advance into a new phase of their alliance. In the MoU the parties announced the creation of a $1 billion SBA under the name Atlas. In addition to the tasks articulated in the eunetcom partnership, Atlas would expand the co-operation in a number of ways. More use would be made of the facilities of the individual parties. Operationally, this meant the use of Deutsche Telekom's Datex-P subsidiary and France Télécom's Transpac as well as its France Câbles et Radio. The structure of the alliance was altered too. Eunetcom became a wholly-owned subsidiary within a newly-formed holding company called Atlas Telecom SA which was jointly owned by Deutsche Telekom and France Télécom on a 50-50 basis. Atlas consisted of two wholly-owned major operating subsidiaries: Atlas France and Atlas Germany. With these subsidiaries came a substantial amount of flexibility for the individual telecommunication incumbents. Either would be free to supply services to corporate clients in their home market. Although by the time Deutsche Telekom and France Télécom filed for regulatory approval of their Atlas alliance other European SBAs had been established, regulatory permission granted to the Franco-German partnership was delayed once again. In December 1994 the parties finished negotiations on Atlas, signed the agreement and notified the EC. The Commission scrutinised the deal to its maximum authority because it was apprehensive with regard to impediments of competition in the EU. Permission was eventually granted in two steps. First a positive preliminary ruling was delivered in October 1995. The final ruling took till July 1996. Just like with the transition from eunetcom to Atlas, when regulatory approval was finally granted, the partners had moved onto a more encompassing alliance once again.

Beyond a European partnership: Global One

In this new SBA, the parties initially acted under the codename Phoenix until the alliance became operational. When that had taken place the new three-way partnership was changed to its marketing name Global One. This time Deutsche Telekom and France Télécom expanded their evolving partnership not only in depth but also broadened it through the inclusion of a third party. Similarly to BT's motivations, the US market was considered to be of crucial importance for the execution of a global strategy largely aimed at capturing the largest possible market share through the provision of services to international corporations. With the largest number of TNCs coming from the US and many foreign TNCs having affiliations in the US it was apparent that presence in the US market was not merely optional but of crucial importance. To catapult their presence into the US market the Atlas partners identified Sprint Corporation, US third long-distance carrier. The initiative to set up Global One (or then, Phoenix) was launched in 1994 and the three parties signed the MoU to form the SBA in June. Deutsche Telekom and France Télécom were to invest approximately $4.2 billion in Sprint and receive a 20% equity share in return, divided up in 10% each (Bonardi, 2004). Deutsche Telekom and France Télécom also swapped 2% of their own shares and attached some obligations to this cross-share holding. The services that Global One would offer included those of Atlas but had some significant extensions. Compared to Atlas, more attention would be paid to medium-size companies with international communication needs. Also travelling individual customers were included in the new alliance. Global One would also profile itself more as a carriers' carrier.

With the inclusion of a US company to the alliance and a more explicit intention to target the US market, essential approval from regulatory powers was augmented with two US bodies. The Department of Justice as well as the Federal Communications Commission (FCC) would now also have to grant fiat for Global One to become legitimate. Since the rumours on talks about a possible three-way tie-up had surfaced the North American regulatory bodies expressed concern about the fact that the German and France markets had not been liberalised yet and about the fact that both Deutsche Telekom and France Télécom were state-controlled companies (Bonardi, 2004). The first concern related to competition worries. Deutsche Telekom and France Télécom would be able to compete in US markets through Global One and their stake in Sprint, yet US companies would not have to same freedom to serve the German and French markets. The concern about the not fully-privatised status of the companies related to the fact that through ownership of Sprint shares, the two respective European governments would obtain stocks of the third largest US long distance telecommunication operator. As we indicated in our section on liberalisation, certain sectors, which includes telecommunications, have for long been considered important to national interest and foreign governments obtaining ownership within such sectors was bound to meet regulatory suspicion.

Compared to its peer alliance Concert, Global One (as indeed was the case with Atlas) seemed to be delayed more by the regulatory process. Such delays impacted on the alliance's success. Although Deutsche Telekom and France Télécom proceeded as much as they could during the consultation phase ahead of the preliminary or final decision, they were still hampered by restricting rules.[96] Also, without the seal of approval of regulators, customers would not be fully assured of the continued provision of the services and this lack of certainty influenced customer numbers while competitors could lure potential clients away. It is likely that these factors have had adverse consequences for Global One. But the main difference with BT is that neither Deutsche Telekom nor France Télécom operated in a liberalised home market and that neither of them was fully privatised. As a consequence, both, competitors (particularly those from the US) and regulatory authorities were provided with ample ammunition to raise legitimate concerns and scrutinise the alliance plans, respectively. Whilst we concluded the section on BT that there had been no obvious first mover advantage for the British operator, this provides an example how BT may have had an advantage, albeit regulatory rather than operational. Eventually Global One obtained regulatory approval in 1996 for a restricted period of seven years and with a number of strict conditions. Due to a changed market structure, the EC relaxed some of those conditions by the end of July 1999. By then it had already granted approval to BT's Concert II alliance with AT&T without imposing similar tough conditions. Also, since Global One had first applied for regulatory approval, a host of new entrants had appeared

[96] In fact, in April 1997 the EC found Global One in breach of European competition rules. It stated that Global One had commenced trading ahead of meeting all conditions and criteria imposed by the EC. This ruling by the Commission was made after a court action evoked by BT and its German partner VIAG (see case of BT) and referred to Deutsche Telekom acting in the capacity as a distributor of Global One services in Germany.

which eliminated some of the Commission's fear of monopolistic tendencies. However, by the time the Commission made the final ruling public once again changes had occurred in the Franco-German partnership but this time changes were of a less amicable nature.

Deutsche Telekom, France Télécom and the Italian job

Deutsche Telekom's first controversial move vis-à-vis its alliance partner France Télécom came as early as June 1997. It was then that Deutsche Telekom's mobile division, T-Mobile, set up a joint venture with the Italian state-owned national electricity company l'Energia Elettrica SpA (Enel). The immediate aim was to bid for the upcoming DCS-1800 mobile license (2nd generation) through this joint venture in which T-mobile owned 49% and Enel the other 51%, thereby competing with BT's Albacom consortium (see case on BT). A likely longer term intention of the joint venture was the creation of a fixed line business. Besides the confusion regarding the mobile license due to a conflict of interests at the Italian Treasury[97], Deutsche Telekom's position in the joint venture could make it a direct competitor to its SBA partner France Télécom in the Italian fixed-line market. This was because France Télécom was at the time already in an advanced stage of obtaining a fixed license through its stake in Infostrada, which it had formed jointly with Olivetti and US RBOC Bell Atlantic. However, Infostrada's performance slid while the Italian government opposed liberalisation of its market ahead of the EC deadline. As a consequence its members reconsidered their involvement. Bell Atlantic withdrew from Infostrada in 1997 after it was reorganised to include Germany's Mannesmann. France Télécom withdrew soon afterwards to join Deutsche Telekom and Enel in what would become the Wind Telecomunicazioni SpA joint venture with 24.5% of the shares for Deutsche Telekom and an equal number of shares for France Télécom (Monlouis, 1998). Enel held the remaining 51% of the shares. Wind obtained a fixed-line license and a 2nd generation mobile phone license both in 1998 and a 3rd generation licence in January 2001.

[97] Stet owned a 62.9% stake in TIM, the mobile division of Italy's incumbent telephone operator Telecom Italia. Deutsche Telekom's partner Enel was for 100% controlled by the Treasury. But the same Treasury also had a 64.3% stake in Enel's competitor Stet (Mobile Communications, 1997).

Whilst the 1997 possible stand-off sizzled out without denting relations between the two European partners two years later another, and fatal, clash occurred. Like before the set was the Italian market. But on this occasion Deutsche Telekom's scoffing was much more openly as we will discuss shortly.

In 1999, seven years since their initial contact in 1992, the evolved partnership between Deutsche Telekom and France Télécom appeared to be remarkably stable. Certainly compared to its peer SBAs the two European partners, later joined by US firm Sprint seemed to be able to steer their alliance in the turbulent field of global telecommunications without clashing. BT and MCI's Concert had come and gone and BT was into its second version of Concert. Other alliances such as Unisource and WorldPartners had undergone similar turbulence as the original Concert.[98] From the inception of their partnering Deutsche Telekom and France Télécom maintained individual flexibility through relative independence. The SBA was structured in a complicated manner. Atlas Telecom, the holding company of which Deutsche Telekom and France Télécom both owned 50% controlled the three separate businesses: eunetcom, Atlas data communications and Global One, which included Sprint and in most areas superseded the previous alliances. Behind this structure was, however, the possibility, especially for the European members to follow their own strategy besides Global One. Regarding Deutsche Telekom we already mentioned that they continued to increase their foreign presence outside the Global One framework. Another example of the relative independence of the members was Deutsche Telekom's partnership with Enel which almost brought it head-to-head with France Télécom. It appeared that the flexibility in this partnership could be the decisive ingredient responsible for its stability within Global One compared to similar alliances.

Mid-1999 the limits to flexibility became apparent, however. In the preceding months, the three partners had been negotiating with the aim of deepening their relationship. Particularly Sprint was in favour of replacing the SBA agreement with a merger and had taken the initiative to facilitate the talks. But negotiations

[98] See the case of Telefónica for a discussion of these SBAs.

went slow and there was no sign of a swift transition to a merger. At that time dramatic developments in the Italian telecommunication market would influence the Global One partnership more drastically than the merger talks had been able to do so far. Olivetti, a company one-seventh the size of Telecom Italia, launched a hostile takeover bid for the Italian incumbent telecommunication operator on 20 February 1999. The offer of approximately $12 per share in cash and shares and culminating to a total of €53 billion would, if successful, place a 51% majority of Telecom Italia, including a lucrative and highly successful mobile division TIM, in the hands of Olivetti. Earlier, caught by the global waves of privatisation, Telecom Italia had been privatised in 1997, making it the largest state assets sell-off in Italy. But the intended efficiency benefits of this privatisation loomed large. Furthermore, Telecom Italia's international strategy was characterised by a number of moves in Austria, Spain and Latin America that had destroyed shareholders' value. Attempted plans to enter into alliances with AT&T and later with C&W both failed leaving the group without an effective international strategy while pressure from competitors in its home market grew. Olivetti's promise to cut costs, reduce personnel and dispose the company of unprofitable businesses was expected to find approval with a majority of the shareholders. Telecom Italia first attempted to fight off the bid by suggesting merging Telecom Italia with the highly successful TIM but this plan was rejected. Olivetti raised its bid with 15% to €60 billion. On 16 April 1999 in a desperate attempt to fend off Olivetti's attack, Telecom Italia turned to Deutsche Telekom, with whom it had been in merger talks before. Deutsche Telekom agreed to play the role of white knight. Announced on 22 April as an $81.4 billion (the world's largest at the time) merger but which in actual fact was an acquisition by Deutsche Telekom the plan was presented to Telecom Italia's shareholders (Privatisation International, 1999). The merger agreement included board members swaps: five Deutsche Telekom members would be seated on the Telecom Italia board and vice versa. However, they were not the only entity to rule on the plans. Deutsche Telekom was still – direct and indirect - for 65% owned by the government (Newsweek International, 1999; Creswell, 2000). The Italian government did not condone the prospects of German authorities ending up with ownership of its former telecommunication crown jewels and blocked the merger plans. Telecom Italia shareholders were also not convinced that a fellow incumbent would present the company with the best scenario for survival and sided with Olivetti on 21 May 1999 with a 52% majority (Parkes, 2000).[99] The upshot of the Deutsche Telekom's Italian sidestep was that the company remained empty handed and with egg on its face.

In fact that is not all that was lost to Deutsche Telekom. As indicated, Global One can be characterised by a high degree of flexibility for the individual members to take their own course with regard to its international strategy. However, such flexibility is subjected to boundaries and need to be in compliance with the alliance's articles of agreement. We also indicated that relations between Global One's members appeared to be harmonious and that this was reflected in the alliance's relative longevity. A final observation we made before describing the Telecom Italia sidestep was that negotiations to transcend the partnership into a full merger had been stalled at best and possibly broken down altogether.

Consequences of the Telecom Italia merger failure

To begin with the issue of harmony within the alliance, over time frustration had been building with Deutsche Telekom in particular. In its view, French management referred too much of the decision-making process to the governmental authorities. Whilst both companies still had sizeable government ownership, Deutsche Telekom considered that the French interpretation of the role of the government in the alliance was too prominent and that it had a paralysing influence on Global One's progress. Global One had been under fire because the alliance was still solidly losing money with no imminent prospects of breaking even (Cane 1999). Whilst this appeared to be a feature of all major telecommunication alliances at the time, bar Concert I which, ironically, was at the brink of breaking even before it broke down, Global One's extended running displayed little progress in this respect. Furthermore, from the operational side, projects consistently overran their deadlines thereby contributing to the SBA's financial burden. The cited flexibility compounded Global One's poor performance. Global One had its own management and staff that were supposed to bring added value to the parents of the joint venture. But the joint venture did not

[99] The deal's organiser, Roberto Colaninno lost control of its acquisition when Italian tyre and cable maker Pirelli and the Benetton family took control of Olivetti in July 2001 (Kapner and Ratner, 2001). In 2003 Telecom Italia counter-acquired Olivetti thereby eradicating the controversial move of 1999 (Hawkins, 2003).

get its parents unequivocal support with them having the possibility to set out a deviating or at least an additional international course. More importantly, the built-in flexibility resulted in Global One being largely based on network-to-network interconnections between Deutsche Telekom, France Télécom and, to a lesser extent, Sprint. What the alliance really needed was a more unified switching network. Providing Global One with a separate joint venture status and separately dedicated staff was beneficial in principal and could have facilitated the construction of such a network but the primacy of flexibility trough relative independence hampered its creation.

Sprint was already frustrated about the lack of headway on the merger initiative. The Italian affaire did not affect it as directly as in the case of France Télécom (see below). But the result of Deutsche Telekom's move would unlikely improve the chances for a merger. Whilst in the immediate aftermath both other partners pledged their continued support for Global One, they also indicated that a resumption of the merger negotiations was out of the question. Meanwhile, MCI WorldCom, which had barely digested its massive merger (see case of BT) was holding talks with Nextel Communications in the US on the purchase of the mobile company. With little hope of reviving the Global One alliance, Sprint's CEO contacted his counterpart at MCI WorldCom to offer his company. Arguably superior to its long distance network was Sprint's PCS mobile business. When talks with Nextel soon afterwards collapsed, MCI WorldCom bid for Sprint. This bid came at a time when Deutsche Telekom had shown interest in merging with Sprint without displaying too much determination, though. US RBOC BellSouth also entered the bidding fray and was backed by Deutsche Telekom but to no avail. On 6 October 1999 Sprint accepted MCI WorldCom's \$129 billion bid of which \$115 billion would have been in common stock and \$14 billion in debt and preferred shares. At the time this was the highest offered takeover price ever in corporate history.[100] Sprint sold its Global One share to its former European partners (for \$1.13 billion in cash and a repayment of \$276 million in debt). With

[100] The takeover never took place, though. It was blocked by authorities on both sides of the Atlantic. A later revision by the European Court of First Instance in Luxembourg concluded on 29 September 2004, however, that the European Commission's grounds to block the merger had been illegal and that it should have approved the merger. By the time of this ruling WorldCom had already come under criminal investigation making the outcome largely academic.

Sprint leaving Global One, the European partners were offered compensatory payments for their 20% combined shareholding in the US firm. At the purchase they had spent $2.1 billion each on the aggregate stock and therefore, when they each received approximately $11.5 billion for the sale of their Sprint shares they created almost $9.5 billion of profits to the shareholders in one sweep (Mobile Communications, 1999). As in the case of BT after MCI was acquired away by WorldCom, in Deutsche Telekom's (and France Télécom's) case the loss of their US partner brought immediate shareholders' wealth. Difference is that in the case of BT the shareholders played a more direct role in the departure of the partner and the breakdown of the alliance.

Whatever France Télécom's perception on the progress of its partnership was prior to the Telecom Italia case, after Deutsche Telekom's surprise move the alliance was on the rocks. Deutsche Telekom maintained that it had not acted in breach of contract by not informing France Télécom about launching a plan to merge with Telecom Italia. France Télécom disagreed and took Deutsche Telekom to court. It based its argumentation on the fact that the cross-share holding the two parties had agreed upon with the formation of Global One included the condition of provision of information on matters as an acquisition. On 12 July a court in Rome agreed with this vision when it ruled that Deutsche Telekom had violated its agreements with Wind partners France Télécom and Enel when it tried to align itself with Telecom Italia. Wind as well as France Télécom and Enel had brought the case to the court (Financial Times, 1999). That was not the only court case. France Télécom also filed a case in Belgian courts and a €19 billion arbitration claim (which Deutsche Telekom answered with a €12 billion counter claim). Furthermore, three side disputes were raised in Geneva courts. Those two locations were specified in the alliance contracts and elected for their independence from the parties involved (Goldhaber, 2001).

After the ruling of the court in Rome, France Télécom together with Wind partner Enel, succeeded in ousting Deutsche Telekom from Wind in a particularly bad-tempered confrontation. Curiously, the eventual separation within the Wind partnership was more hostile than the settling of the future of the partners' largest asset, the Global One SBA. To be sure, due to a number of developments in the

Italian market, Wind had an enormous importance to both European parties since they both intended to remain on the Italian market (Cairo, 2000a). Nevertheless, Global One, for all its misfortune was still a much larger asset. But comparably, deciding the split for Global One was less hostile, which is not to say that proceedings occurred in an amicable fashion.

As stated, the initial reactions of both parties were statements that Global One was separate and that the dispute referred to the parents and not to their child. But with the atmosphere between Deutsche Telekom and France Télécom turning more and more sour over Wind it was difficult to see how this would not end Global One. The eventual loss of Sprint to MCI WorldCom only speeded up the termination of the longest running SBA in international telecommunications.

With both partners owning half of the holding company Atlas Telecom that controlled the Global One business, the question was which of the two owners would end up with the Global One network. In spite of Global One's overall poor performance and its unsuitability in exploiting ever-increasingly important IP services both parties appeared to be interested in obtaining the Global One business and network. This is consistent with one of our earlier observations. An important reason for the failure of the Global One business was the absence of integrated network architecture. This absence could be overcome by placing the network under one single owner. Also, and this was a legacy of Atlas where there had been three main quarters spread over three cities and three countries (see above), Global One had essentially three headquarters. One in Brussels, another one in Reston, Virginia and a third in Hong Kong. This bred inefficiencies and hampered synergies. Bringing Global One under single ownership would eliminate the inefficiencies and promote synergetic outcomes. Initially, Deutsche Telekom manifested itself as the clear favourite to obtain Global One through buying out its partner France Télécom which indicated to be willing to sell but for the "right" price. Determining this right price proved to be a challenge, though. After negotiations about the settlement price appeared to stall, likely ownership turned around and in favour of France Télécom. Eventually the two parent companies agreed and France Télécom obtained Global One after buying out its erstwhile partner for approximately $3.88 billion, which consisted of $2.76 billion in cash and $1.88 million in debt (Cambridge Telecom Report, 2000).

Deutsche Telekom's international strategy after Global One

Deutsche Telekom did not ponder on the changed situation for long. In fact, it did not wait till the Global One issue was settled before it made its first move in the European telecommunication markets. Seeing off its short listed competitors (which included Germany's Mannesmann, TIM and Vivendi) and ending with a victory in a final stand-off with France Télécom, Deutsche Telekom obtained the UK's fourth and smallest mobile phone business called One2One. In August 1999 it purchased this mobile operator for £8.4 billion. One2One, originally marketed as Mercury Personal Communications and launched in 1993 by C&W and RBOC US West, was sold off by C&W, its remaining original owner after US West had sold its share to MediaOne.[101] C&W sold One2One because it re-organised its business and shed its cable and mobile interests as a consequence (Shearlock, 1999). With the $11 billion proceeds from the sale of cable television networks and the sale of its Sprint shares, Deutsche Telekom had the financial means to fund acquisitions that would build up foreign assets again after the sudden loss of two important international projects. With the global telecommunication markets still in full transition and Deutsche Telekom having access to a large cash fund, shareholders pressured management to make purchases in order to bring them wealth. Although Deutsche Telekom's management stated it would continue to increase its international footprint with major purchases – particularly in the mobile sector – in the short term, it was not until after the telecommunication stock crash that it had any success following up on the One2One purchase. By that time, however, the perception on paying high sums for telecommunication businesses had changed dramatically.

Meanwhile erstwhile partner France Télécom did not waste much time either. Mid-October 1999, before the Global One sale had been settled, France Télécom aggressively bid and won the share in Germany's number three mobile operator E-Plus, which was one of the European mobile stakes that had become available

[101] MediaOne's sold One2One because it had just been acquired itself by AT&T Corp for $62.5 billion.

after the Vodafone – Mannesmann hostile takeover. With this move France Télécom had turned quickly from ally to competitor of Deutsche Telekom.

As indicated above, Deutsche Telekom chose once more, successfully, against forming an alliance and opting for an acquisition instead after it had secured the One-2-One business. Before this success it hit another failure, though. In spring 2000 it was in extended talks with Telefónica for a possible merger with the Spanish incumbent. Although most of the business-related maters were agreed, the companies could not agree on the site of the merged company's headquarters. Neither party would consider the other's capital and Deutsche Telekom's compromise city Amsterdam was also rejected by Telefónica (Denis Staunton, 2000). Shortly after this attempt, Deutsche Telekom did manage to make a big deal in the telecommunication market. In July 2000, VoiceStream, a US mobile phone operator, officially announced it had entered into a definitive merger agreement with Deutsche Telekom. In effect it concerned an acquisition by Deutsche Telekom and its value was approximately $50.7 billion. In the post-telecommunication boom that amount was generally considered to be on the high side. Reason why Deutsche Telekom was willing to pay a premium for its acquisition was primarily because of the US mobile phone operators VoiceStream was the only one with a sizeable GSM network. The bigger mobile phone operators in the US typically used TDMA or CDMA technology (see case on BT). It was, in fact, a double deal because Deutsche Telekom also took over Powertel at the same time. Both mobile operators have since become wholly-owned subsidiaries of Deutsche Telekom's T-Mobile division.

Besides the high price, this acquisition raised controversy for another reason. Since the concerns of the US regulators with regard Deutsche Telekom's share purchase in Sprint the German government's hold on the former monopolist had hardly decreased. By the time of the VoiceStream acquisition, the government still owned a total of 60% of Deutsche Telekom: 43% directly and indirectly 17% through Kreditanstalt für Wiederaufbau (KfW). But by the time of its bid the international telecommunication landscape had changed drastically due to its stock market crash. As a consequence, Deutsche Telekom's attempt to fully purchase VoiceStream raised less concern than the purchase of 20% of Sprint together with

France Télécom had some years before. In the aftermath of big financial deals in the telecommunication industry it was considered an opportunity to have one of the biggest telecommunication companies in the world making a substantial investment in what was only the sixth or seventh largest mobile operator in the market. This does not mean that there was no opposition, however, quite the opposite. But in the period before the cash crunch in the telecommunication sector it would have been unthinkable for the US regulators to have the deal passed without the German government decreasing its stake in Deutsche Telekom. The FCC, which cleared the deal on 24 April 2001, did secure a commitment that the government's share would be reduced. But due to the adverse market conditions the sale was postponed and currently appears to be off the agenda.

Deutsche Telekom's current international strategy

More explicitly than BT, Deutsche Telekom considers the likelihood of re-entering into an international strategy that is primarily based on one big alliance as unrealistic. The company's CEO during the most volatile period of in the history of telecommunications was changed for the company's former CFO which has adopted a more cautious approach. That is, however, a feature across the board and may not necessarily be a reflection of the individual case. Similarly to BT, Deutsche Telekom's international strategy is otherwise unclear. Geographically, although having scaled back some of its international operations, it still has a presence in Central and Easter Europe and in Western Europe, in addition to the US. Furthermore, it is still committed to becoming one of the world's dominant telecommunication operators and targets most specifically world leadership in mobile communication (which is wider than mobile telephony). Contrary to BT, Deutsche Telekom has not completely surrendered aspirations to operate on a largest global scale as possible. However, in actuality such grandeur plans are far from being materialised.

Since summer 2004 it is a member of a mobile phone "alliance" called Freemove. Although marketed as an alliance it is not substantially more than a roaming agreement between the operators for travellers, be those business or otherwise. As an alliance it is closer to contractual arrangements than any hierarchy and not likely to move from contract to status. Besides Deutsche Telekom's international mobile business, T-Mobile, this partnership includes the international mobile businesses of operators TIM, Telefónica Moviles (from Spain) and, interestingly, Orange of former long term partner France Télécom.

Telefónica de España and its SBAs

Introduction

Within the purpose of our current research we distinguish three of the partnerships Telefónica engaged itself in as SBAs.[102] However, as we will show, in none of cases did the alliance pass the stage of starting blocs fully, let alone contribute in any relevant way to Telefónica's operations. Of the three companies that form the cases in our research, Telefónica is arguably the one company that has had the least practical experience with functioning alliances. As we saw earlier both, BT and Deutsche Telekom were involved in SBAs with their respective partners MCI and France Télécom for a considerate number of years. In contrast, Telefónica has been linked to more alliances than its British and German counterpart, both in actuality and in preliminary negotiation talks with the intention of joining alliances. Telefónica has officially been a partner in three separate SBAs, BT in two and Deutsche Telekom in one.[103]

Telefónica's international strategy

Telefónica's international strategy differs from the ones of BT and Deutsche Telekom with regard to its entry level. Certainly Deutsche Telekom, before entering into its eunetcom / Atlas alliance with France Télécom, had marginal international operations. Atlas was Deutsche Telekom's main vehicle to establish footholds in foreign markets through, first a pan-European alliance, later followed by a global one. Similarly, BT's foreign operations were modest too before it entered in partnership with MCI. BT's international strategy differed from Deutsche Telekom's with regard to approaching the European market. Where Deutsche Telekom allocated a substantial role to the partnership to conquer the European market, BT largely established its European footprint without the primary use of the Concert alliance. As we indicated in part on BT's case, its

[102] Telefónica has many other types of inter-corporate linkages such as buyer – supplier relationships, licensing agreements etc. The partnerships we include here are truly SBAs in the way we considered them in previous sections.

[103] The fact that Deutsche Telekom's original alliance with France Télécom, Atlas, led to Global One after the inclusion of Sprint should in this context be considered as an extension of a existing alliance rather than a formation of an entirely new one. Similarly, in BT's case, the inclusion of Telefónica in its Concert alliance with MCI should also be seen as an extension and not as setting up an entirely new alliance.

dominant strategy was forging partnerships with local companies, which were often the first or second challenger to the incumbent European operator. This way BT, itself an incumbent in the UK market (albeit one already privatised) became a challenger of a number of European incumbent operators. Liberalisation, which we described in our first chapter, played an important role as a facilitator of this strategy chosen by BT.

Telefónica's international strategies also drew heavily upon one of the forces we described in chapter 1. However in this case it was the worldwide wave of privatisation that most enabled it to execute its international strategy. Particularly, privatisation programs in Latin America were to the company's interest. As we saw, BT's international strategy was primarily through its Concert alliance and included a second and regional tier in its investments in European firms that often owned substantial infrastructure in the targeted country. Telefónica's strategy has one similarity with BT but two important differences. It is similar in not leaving the development of its anchor region to a partnership (unlike Deutsche Telekom). But, as we just indicated, one difference is that Telefónica's main facilitators were the privatisation opportunities that arose worldwide. Unlike BT's strategy of establishing partnerships with domestic companies to challenge an incumbent, Telefónica's dominant strategy was to acquire assets from privatised incumbent operators. In the countries where the company was successful in executing this strategy it became the incumbent operator, rather than challenging the incumbent operator. Perhaps an even more important difference between BT's strategy and the one of Telefónica is the region targeted to develop its extra-alliance international strategy. As we indicated, Deutsche Telekom did not adopt a dual strategy of establishing a regional anchor when it embarked upon international expansion. In contrast, BT did and targeted those European Union markets it considered of strategic importance to prepare itself for competition across a liberalised European Union. Telefónica also adopted a dual strategy but its target was not its home region like in the case of BT. Telefónica focused on Latin America. It can be argued that amongst the three companies that form our cases Telefónica benefited most from the opportunities provided by the privatisation wave we described above. Deutsche Telekom also developed an extensive program to acquire assets, mainly from Central and Eastern European countries.

However, that program did not exceed Telefónica's levels and Deutsche Telekom's program stagnated when the technology and telecommunications markets crashed. Even more salient is that Telefónica's exploitation of privatisation opportunities started before the Spanish company integrated SBAs as a strategic tool into its international strategy. The importance of this difference will be explained below when we analyse Telefónica's attractiveness to potential partners.

Telefónica's first stage: Building a Latin American presence

Throughout the 1990s Telefónica transformed itself from a stale and inefficient incumbent operator in Spain to the dominant and successful telecommunication company in both Spain and Latin America, operating in competitive, liberalised markets. It is widely believed that compared with many of its European peers the company's current position is substantially better (Datamonitor, 2004). This favourable position today is largely due to its strong position in Latin America, which in turn was achieved by the successful execution of the first stage of its international strategy and the subsequent continuation of that trajectory during and after it operated in its second – and less successful – stage of executing its international strategy.

Telefónica was the first European company to internationalise and it did so by committing almost $800 million to that end in 1988 (Sarkar, Cavusgil and Aulakh, 1999). In the first stage Telefónica entered a number of Latin American markets with the initial aim of providing traditional communication services (Noam, 1998). In order to provide such services, Telefónica constructed telecommunication networks that would be of its benefit beyond the aim of this first stage. Whilst both, Telefónica's first and second phase were performed by making use of partnerships, only the type of partnerships to attain its goals in the second phase are considered SBAs within the definition of this thesis. The partnerships of the first phase resemble more the traditional joint ventures between foreign parent company and local subsidiary, we described earlier in this thesis.

As indicated then, that type of partnerships is not the focus of our research.[104] Through these partnerships Telefónica – via its international division TISA - set up an asset portfolio by purchasing privatised state-owned firms or by entering public auctions for telecommunication concessions (i.e. licenses to provide telecommunication services). For this type of partnerships with local actors Telefónica usually chose one of the following three actors:

a) local firms that through their contribution could provide Telefónica with essential expertise on local customs and that could generate political support;
b) foreign (i.e. non-local) firms that often were telecommunication companies too (particularly US-based ones like AT&T and GTE);[105]
c) financial allies that assisted Telefónica in the financing of constructing its foreign operations in Latin America, which decreased Telefónica exposure to financial risk in its expansion strategy (Garcia-Canal et. al, 2002).

Telefónica's second stage: Adopting an SBA-strategy

Telefónica and Unisource

The first stage served to build up Telefónica's Latin American portfolio (see footnote 104) that provided Telefónica with useful bargaining power vis-à-vis

[104] The first of these partnerships, thereby starting off Telefónica's international expansion strategy, appeared in 1989 when Telefónica, through TISA, entered the bidding contest for Entel Chile, in one of the first countries outside the developed world to have a privatisation program. In April 1990 it acquired a 43.6% share in Compañía de Telecomunicaciones de Chile (CTC) for approximately US$ 308.8 million. Subsequently, Telefónica/TISA made use of similar partnerships to enter other Latin American countries as Argentina (Telefónica de Argentina, SA or TASA) in November 1990, which later became a vehicle for the development of a wide range of assets in the Argentine market including long distance telephony, mobile telephony and paging services, yellow pages, and cable television; Colombia, where TISA owned a 31% share in the Cocelco partnership that bid and obtained the country's second mobile telephone license in January 1994; later in 1994 TISA bought 31.5% share in the result of a merger between telecommunication operators CPT and ENTEL Perú, Telefónica del Perú. TISA paid approximately US$ 1,801.7 million for this share in Peru's national telecommunication operator. Like in the case of Argentine's TASA, Telefónica del Perú became TISA's vehicle for the same range of assets as it acquired in Argentina. In the remaining years of the 1990s, after Telefónica had evolved from stage 1 to stage 2 in its international strategy TISA entered a further number of countries Puerto Rico (TLD); Venezuela (CANTV); Mexico and Brazil. (Telefónica, SA Annual Reports).

[105] The partnerships with other telecommunication operators referred to here differ from SBAs in their scale and scope. These partnerships were established for a very specific single purpose and did not require much fine-tuning of operations between the Telefónica and its partners. Typically the partnerships were to bid jointly for a license made available at an auction and should not be considered of similar impact as further-reaching and deeper-seeded alliances in which Telefónica got involved in phase two of its international strategy.

interested alliance partners in the company's second stage of their international strategy. In that second stage, when Telefónica intended to use SBAs for the execution of its international strategy, the central aim was extended with providing global services as well as integrated solutions to corporate clients, reflecting a process already set in motion in the first stage. While Telefónica constructed its portfolio the globalisation of the telecommunication industry accelerated. Most notably, this led to the formation of three SBAs wherein the partners to the alliance displayed their international aspirations. As we addressed in our section on the case of Deutsche Telekom, its first partnership with France Télécom, although only cleared by the regulators in 1994, started operations in 1993 and was in the making since 1992. This alliance, eunetcom, consisting of Deutsche Telekom and France Télécom was extended with a US partner, Sprint to form Global One. Our other case, BT, established its SBA, (the initial) Concert with a different US firm, MCI. Before this Concert alliance was formed another alliance was initiated in Europe. In 1992 the national telecommunication operators of Sweden (Telia, currently part of the merged entity TeliaSonera) and the Netherlands (Koninklijke PTT Nederland NV, currently KPN) joined forces to set up the Amsterdam-based alliance Unisource. Like in the cases of Concert and Global One, the Unisource members deemed it necessary to add a US-partner to their alliance. AT&T, the US number one long distance operator, became an ally to the Unisource alliance (see below). As a consequence, when Concert was established, US' number one to three long distance telecommunication operators were all involved in SBAs initiated by European incumbent operators. That the European companies took such a leading role in the introduction of alliances in the global telecommunication industry can be explained by referring to the pro-active role Jacques Delors and his team took in European Union policies with reference to a number of industries including telecommunications. Particularly, the imminent liberalisation of European telecommunication markets, as a consequence of the European Commission's Competition Policy, prompted a search for partners to form such SBAs. Besides liberalisation, the technological forces (push and pull), played an important role as well (see chapter 1). The European Union's incumbent operators realised that co-operation with other firms, be those telecommunication operators or providers of networks, provided the optimal strategy to deal with expected consequences of the dynamics that were about to shake up their industry.

Like its European counterparts, Telefónica decided to align itself with strategic partners. After Switzerland's Swiss Telecom PTT had joined Telia and KPN's Unisource in 1993, Telefónica did the same. Besides contributing a number of assets to the Amsterdam-based alliance (of which its data transmission division TTD was the most notable), Telefónica was required to pay a $25 million cash joining fee for obtaining a 25% stake in the alliances which was equally divided amongst its members (European Telecommunications, 1997b). The aim of Unisource was the creation of a pan-European telecommunication network that would be able to provide a range of services to large corporate clients (i.e. TNCs). In order to satisfy demand for Unisource services beyond Europe, the geographical scope of Unisource was expanded with the conclusion of a partnership with AT&T in 1994. It is important to stress that AT&T did not become a member of the alliance but an associated partner. AT&T, by then, had already been setting up an alliance on its own. Through a multiple number of associations with telecommunication operators across the globe Kokusai Denshin Denwa or KDD (Japan), Singapore Telecommunications or Singtel (Singapore), Hong Kong Telecom, Telstra (Australia), Korea Telecom, Unitel (Canada), Philippines Long Distance Telephone or PLDT, Telekom South Africa and Telecom New Zealand it had created WorldPartners. The Unisource alliance became a WorldPartners associate and its AT&T-led network entered into a distribution agreement. This agreement regulated the offering of Worldsource services between AT&T and Unisource. In sum, by 1994, Telefónica, after having joined Unisource one year prior, was part of the world's largest telecommunication alliance through Unisource's association with AT&T WorldPartners.

However, the size of this partnership did not automatically guarantee its success. The four years from its inception and the three years from the linkage with WorldPartners did not bring the expected corporate successes. One reason for the alliance's inability to make headway can be found in its slow development in policy focus and, consequently in operational development. The separate arrival of

Unisource members Swisscom and Telefónica led twice to renegotiations and redefinitions of the alliance's aims and policies. When Unisource was aligned with WorldPartners more negotiations and shifting of policy followed. The effect of these changes on Unisource's operational inertia was negative and bears the responsibility for the lack of momentum at Unisource in the starting years.

In 1996, Telefónica changed its chief executive officer and Villalonga became in charge of the Groups[106]. With this change the company redefined the role of SBAs in its international strategy. It announced its intention to leave Unisource and started negotiations with rival alliance Concert (Monlouis, 1998). The installation of the new CEO and his team was important because with them Telefónica's outlook and approach regarding its international aspirations shifted. The new team intended a bolder and more aggressive international strategy than its predecessor (European Telecommunications, 1997d). Moreover, with almost the entire top-management team being outsiders to Telefónica, no prior links or personal commitments to management of the other Unisource members were in place, which eased breaking away from the alliance (García-Canal; López Duarte; Rialp Criado, and Valdés Llaneza, 2002). In spite of its expansionary objectives, Unisource had developed more into a defensive alliance to protect the partners' home turf than a partnership that continuously increased its scale and size in the global telecommunications market. Even the explicitly stated capturing of substantial market share in the European market did not materialise. For Telefónica, more than the other Unisource members, the failure to expand internationally was frustrating its goals to fortify its position in Latin America (Chan-Olmsted and Jamison, 2001). It had intentions to build up a strong presence in Mexico, construct a fiber-optic network across the whole of Latin America and serve the Spanish-speaking population in the United States[107]. Membership of the Unisource alliance did not aid in the attainment of any of these goals.

[106] On 7 June 1996 Cándido Velázquez-Gaztelu had been replaced by Juan Villalonga Navarro. Villalonga was an outsider to Telefónica and its operations and childhood friend of the then newly elected Prime Minister José María Aznar, who installed Villalonga at the top seat of Spain's largest company.
Soon after he had come in, he replaced much of Telefónica's senior management with younger managers the majority of which, like him, had a background in the consulting industry.

[107] The Hispanic population of the United States was considered an untapped and potentially lucrative market. Untapped because firstly, the English-speaking telecommunication operators were not as well placed to offer the Hispanics content services in Spanish – hence its purchase in May 2000 of US-based

Telefónica's exit from Unisource came with a price. The three other partners could not count on the Spanish government to force Telefónica to remain within the partnership through exercising its golden share because the Spanish government chose not to interfere in Telefónica's decision-making process. The three threatened Telefónica with litigation in case it would join another alliance. Eventually, the break-up was more amicable than originally appeared (Burns, 1997). Telefónica did have to indemnify the remaining Unisource members in cash payment of approximately US$120 million (but it regained its TTD operations). However the penalty payment freed Telefónica from its adverse involvement in the alliance. Unisource had not only failed to deliver strategic and operational benefit to Telefónica but it had also presented a loss to the company. By illustration, 1996 was the first year Telefónica had consolidated its Unisource membership. That year its contribution to profits derived from its associations with foreign companies decreased with 10.8% compared to 1995. This decrease was the consequence of Telefónica's involvement in Unisource. The losses it suffered from its Unisource membership were booked at 7 billion pesetas (then, approximately US$ 50 million). In contrast, Telefónica's Latin American operations did contribute to the group's profit. Compared to 1995 there was a 43.1% rise to 15 billion pesetas in 1996 (European Telecommunications, 1997b).

We already highlighted a number of problems Unisource suffered from that prevented the alliance from turning into a success. Unisource never transcended its initial phase due to the constant resetting of its policy, which was due the admittance of two new partners at different times and the affiliation with AT&T afterwards. The association with AT&T's WorldPartners was not solidified and, like with the other affiliations AT&T had, can be characterised better as a looser distribution agreement than as a strong SBA. But even within Unisource ties

internet portal Lycos for $12.5 billion in stock as well as the purchase of the Dutch company Endemol for €5.5 billion - as Telefónica or Latin American operators were and secondly, none of the Latin American operators had yet embarked upon offering such services widely in the US. Telefónica's new management team saw a competitive advantage over the US operators and was further attractive by the size of this market segment, its nascent state and the population's yearly growth. For instance in March 1994 the number of Hispanics in the US was 26,646 million; by March 1997 when Villalonga was installed the population had grown to 29,703 million. Latest available figures for the number of Hispanics in the US (37,438 million in March 2002) indicate that the population continues to grow strongly (US Census Bureau, 1998 and 2003).

amongst the members were not solid, certainly if compared to ties between the rival SBAs Concert and Global One. At that time, those alliances had more stable membership than Unisource and did not suffer from the necessary alterations of policy and operational fine-tuning due to new entrants and affiliations. Especially in the case of Atlas / Global One the core of the alliance, formed by the European partners, had been in place for many years and the admission of Sprint did not shake up the established practices as much as when Unisource first doubled its membership and then affiliated itself to AT&T, the US largest telecommunication company by a large margin, with a vast amount of resources but a different network. Similarly, compared to Concert, Unisource had an additional problem. Both Telia and Swisscom were state-owned telecommunication companies at the time and they were both in the process of being privatised. As a consequence, the companies were still in transition. This reflected on the approach of the alliance which ended up being more defensively (for example articulating a need to protect employment) than offensively oriented. In order to facilitate a smoother exit, Telefónica sought a replacement operator and found this in the Italian operator Stet (which also was in the process of preparing for privatisation), later re-branded as Telecom Italia.[108]

Telefónica's search for a better alliance: Concert

Telefónica had started negotiations with BT and MCI early 1997 when the new management team re-defined its international strategy. In March 1997 these three telecommunication operators signed a cooperative agreement. Within this agreement the short and long term operations of the alliance that Concert would be after the adjustment were articulated. In the short term, the companies would focus on the development of operations in Latin America. Particularly Telefónica pressed for the swift exploitation of the potential these markets could offer the alliance. Together with MCI, which already had Latin American operations, it convinced BT that time was of the essence because a number of US telecommunication companies as well as France Télécom and Telecom Italia were

[108] Soon after Telefónica's exit Unisource suffered another blow when AT&T severed its ties with the alliance. Telia, PTT Telecom and Swisscom then decided to unwind Unisource and sell off its assets; Stet / Telecom Italia never got the time and chance to settle into Unisource, it was over before another round of re-negotiations followed by re-adjustments and reconfiguring of the network had taken place. In 1999, after the fulfilment of ongoing contractual obligations to its customers, Unisource officially ceased to exist.

interested in expanding in Latin America, too. The cooperative agreement also contained a number of optional activities which mainly referred to the European market. Until then, Telefónica's presence in the European market was restricted to Portugal and Rumania. A third set of accords between the partners-in-making, labeled complementary activities referred more to intensions than concrete policies. In this part of the cooperative agreement the three companies pledged to develop operations consistent with the materialisation of success on the immediate and optional activities and consistent with the desired direction of the partners in the future.

The three firms could reach a cooperative agreement relatively quick because all had much to gain from Telefónica's additional membership:

a) BT would benefit from an instant link with an entire region (Latin America) through that region's largest telecommunications operator. Also, folding its own operations in the Spanish market[109] with that country's main provider, Telefónica would boost its success in the Spanish market. It was not only the Spanish part of the Iberian Peninsula that would come into play from BT's point of view. Whilst still within Unisource, Telefónica had started negotiations with Portugal Telecom about a partnership between these two Southern European former monopolist telecommunication companies. The upshot of this was that Portugal Telecom became included in the deal with Concert and signed a separate strategic alliance deal with Concert on 15 April 1997. At the same time, in fact one day later, Telefónica and Portugal Telecom agreed upon an equity swap deal: Telefónica took a 3.5% stake in Portugal Telecom whilst Portugal Telecom acquired 1% in the Spanish firm (European Telecommunications, 1997b). Therefore, in addition to gaining access to the Latin American telecommunication markets, BT co-opted competition in the Spanish market and gained access to the Portuguese market through an affiliated partner to its Concert alliance.

[109] BT owned a data transmission company since 1993 and had a 15.8% stake in Spain's mobile phone company Airtel. Under the agreement, BT would dispose of both assets that competed with companies within Telefónica's Group (Burns, 1997).

b) For MCI the extension of its alliance with BT was beneficial in more than one way, too. Firstly, it obtained a partner that would be valuable in the development of its Latin American interests. Secondly and moreover, with this partner being Telefónica it did away with its fiercest competitor in the Latin American parts of MCI's business (co-opting its biggest competitor in the region). Thirdly, it obtained further access to European markets through Telefónica and Portugal Telecom.

c) The inclusion of Telefónica in the Concert alliance only became a realistic possibility after Telefónica's management decided to change from its Unisource involvement. Additionally, Telefónica enjoyed attention from other (US-based) telecommunication operators for the exploration of possibilities to forge an alliance, most notably AT&T and WorldCom. Since Telefónica initiated the move for a chance and chose its partner it is hardly surprising that it too had much to gain from entering Concert. The most important benefit for Telefónica was that it would obtain the possibility to use the alliance as a vehicle to exploit its already established operations and ambitions in Latin America. Unisource was not an effective vehicle in that respect but Concert met Telefónica's aspirations in that region (Rivera, 1997). Additionally, MCI, unlike Telefónica's Unisource partners, already possessed assets and operations in that region, most notably in Mexico (a market Telefónica was eager to capture) and Brazil. Therefore, entering Concert would exchange one competitor for an ally in Telefónica's most important foreign markets. A second benefit for Telefónica to join Concert was access to the US market through MCI's network and customers. The connection with AT&T in Unisource had not provided Telefónica with the opportunity to include the Spanish-speaking population of the US in its customer base. The perceived prospects of exploiting the potential that this content-based part of the telecommunication business had, was enough for Telefónica to consider it a priority. But the nature of the partnership with AT&T and the Worldsource services were not particularly catered for the operations Telefónica sought in the US market. Concert would be better placed to exploit the possibilities and develop such services. A third and final benefit for Telefónica was the possibility to increase its European footprint. Whilst its membership in Unisource also provided it with access to European markets, the relative small size of the Dutch, Swedish and Swiss markets and the modest ambition of the Unisource-members beyond protecting their home countries made such access insignificant. Concert provided better prospects of capturing a large European market share.

In addition to the cooperative agreement, Telefónica and BT also agreed equity swaps estimated at 65 billion pesetas in April 1997. In this agreement Telefónica would acquire 1% of BT whilst BT would take a 2% interest in Telefónica.

Telefónica's search for a better alliance: MCI WorldCom

The good intensions of the companies involved in the extension of Concert with Telefónica were not taken to a test. Above, in the section on BT we described the collapse of BT's alliance with MCI just before these two companies' merger plans were realised (El País, 1997). WorldCom's intervention in November 1997 had consequences for Telefónica because the SBA it had signed to join disintegrated. However, similar to when Telefónica made its intentions known to abandon Unisource, the company's Latin American assets made it an attractive prospective partner. Both, BT and the merged entity in progress MCI WorldCom were vying for Telefónica's partnership[110]. The initial strategic intention of Telefónica's management was to split its international operations in two strategic partnerships: one with BT for Telefónica's operations in the European market and another one with MCI WorldCom which would focus on operations in North America and Latin America. That way all of Telefónica's aspired markets would be served through partnerships with relative expert companies. However, a split of the company's international operations (through TISA) to form two big alliances was not considered a realistic option and Telefónica chose for one of the two intended partners. A reference to the important strategic considerations that prompted Telefónica to switch from Unisource reveals that - once concluded that a split to form two alliances was not an option - this choice ultimately was straightforward. Of those strategic considerations, Telefónica's Latin American business was the pinnacle. MCI WorldCom with Latin American legacy assets from MCI's business, the merger's closer proximity to the Latin American markets and the

[110] Telefónica was completely free to choose between the two break-up entities that had formed Concert. In the contractual agreement Telefónica had been granted the right to detach itself from the agreement in case a third party would acquire MCI's business.

larger size of the merged entity provided better prospects than BT to serve Telefónica's needs in those markets. Telefónica's intentions to capture the Spanish-speaking part of the US market clearly had better chance of succeeding in the event of a partnership with MCI WorldCom than with BT, too. However, for the third strategic intention, increasing Telefónica's market share in Europe, BT seemed better placed than MCI WorldCom was, even though MCI did have a European presence, mainly in France, Germany and Britain. Also, severing ties with BT would almost certainly lead to a return of BT as a competitor in the Spanish market. But these disadvantages, in case of choosing MCI WorldCom, did not weight up to the advantages of doing so. Firstly, WorldCom had been building a European presence through the construction of a fiber-optics network with the long term aim of linking all major European cities. Whilst not as settled as BT, due to WorldCom's nascent infrastructure MCI WorldCom was not completely absent from Europe and, as has just been indicated, MCI also had a modest presence in Europe. Furthermore, WorldCom had a strong objective to increase its European operations and could point to a successful expansionary track record in the US. With regard to the threat of having BT as a renewed competitor in its home market, Telefónica had three reasons not to fear too much. Firstly, BT had been a competitor before and Telefónica had survived attacks from the British operator over the years. Secondly, Telefónica would still dominate its own market for the foreseeable future, with or without the return of BT. Thirdly, the end of the Concert alliance would leave BT in a bad state, one from which it would need considerable time to recover. At least during this recovery period it would be unlikely for BT to appear as an organised and fearsome competitor to Telefónica in the Spanish market. With these strategic notions in consideration a choice for MCI WorldCom was consistent with Telefónica's international strategy. In March 1998 Telefónica and MCI WorldCom signed the final agreement to form an alliance. Importantly to Telefónica was that all intended commitments referring to Latin America that had been agreed in the April 1997 agreement between Telefónica, BT and MCI were left in place. These agreements were extended to include the European and the US telecommunication markets.

In spite of the ostensible advantages of an alliance with MCI WorldCom and notwithstanding the careful weighting of the variety of partnering options available to Telefónica, the choice has turned out to be a wrong one. This is not to say that had Telefónica opted for following BT instead of MCI a more favourable outcome would have been secured. Firstly, and foremost, it is not possible to determine with any certainty what the outcome would have been had Telefónica pursed the formation of an alliance with BT. Secondly, considering the development of BT following the loss of MCI as a partner (see BT's case) it is questionable whether an alliance with Telefónica would have led to a substantially different outcome for BT. As we saw in the case, the British operator was forced to adopt a more "inward-looking" strategy which included decreasing its involvement in international operations. Thirdly, as we will indicate shortly, at that stage there was a structural component that prevented Telefónica from being a successful partner to any company. BT, itself not subjected to that structural component, could have compensated to some extent for Telefónica's failure in this respect. However it would still mean that an alliance between BT and Telefónica would have met with some of the adverse conditions the Telefónica – MCI WorldCom alliance suffered from.

It would have made for a straightforward explanation had not the bursting of the technology and telecommunication bubble in April 2000[111] placed a damper on the Telefónica – MCI WorldCom alliance. The bursting of this "Nasdaq Bubble" marked the disappearance of stock market financiers that had since 1998 played an important role in providing the telecommunication industry with liquidity to fund its expansion. Particularly in the case of WorldCom, the transition from excess stock market liquidity to a drought in liquidity and a substantially more cautious approach by investors would have been a determining factor. WorldCom, more than any major telecommunication player, had benefited from the rise in the telecommunication sector during the technology and telecommunication boom in the late 1990s. From a start-up WorldCom developed into US fourth largest long-distance telecommunications operator at the time the company offered MCI shareholders the acquisition deal. WorldCom was able to grow rapidly through the financing of a number of acquisitions through the stock markets. Therefore, the collapse of the stock market growth could not but influence WorldCom's

[111] In April 2000 Wall Street investors saw as much as $2 trillion evaporate from their portfolios in one single week's time.

operations[112]. However, in the two years prior to the Nasdaq Bubble burst the alliance between Telefónica and MCI WorldCom never got off the ground. In other words, this major external factor is not to be blamed for the failure of the alliance: internal factors have prevented the MCI WorldCom SBA from becoming a success. None of the strategic policy objectives of the agreement between MCI WorldCom and Telefónica was met, in fact, in actuality sparse attention was paid to the alliance. The most ambitious plan was the construction of a fiber-optic network all around the South American peninsula that, in turn, would be connected to fiber-optic networks in the United States and Europe. WorldCom, before its takeover of MCI had been building aggressively such networks in the US and Europe and obtained experience with the various facets of that business. Telefónica had considered the construction of such a network as a major feature of its Latin American operations but could not accomplish this within Unisource. The combination of WorldCom (extended with MCI with its Latin American presence) and Telefónica should have led to a synergic outcome and form a recipe for success. However, MCI WorldCom and Telefónica failed to agree on working out the actual building of the network across South America and each party went their separate way, initiating different projects[113].

That was not the only area in which the two companies acted more as rivals and competitors than as allies in a major SBA. Fierce battles between the two allies were fought in the Brazilian long distance telephone market. Telefónica, leading a consortium that had paid $5 billion for a local operator Telesp in Sao Paulo, encountered MCI WorldCom controlled Embratel as its first competitor in the long distance market after the market was liberalised (Katz, 1999). In Brazilian courts Telefónica and MCI WorldCom fought out their dispute over what services the two competing operators could offer. Other areas where the two operators had pledged to cooperate did not materialise either. Telefónica never distributed MCI's services in Spain as was agreed and did not exercise the option to buy the

[112] Different from many other start-up companies in the dot.com era WorldCom did have an asset portfolio. The services it provided were backed-up by a fibre optics network the company had constructed. However, with the collapse of the technology and telecommunications boom the value of such assets declined rapidly. The presence of assets also marks a difference with a company as Enron with regard to the issues of fraud that hit both companies shortly after the tech stock crash.
[113] Telefónica set up a partnership with US company Tyco and another one with IDT, also from the US, to attain its goal of creating a fibre-optic network around South America.

available 10% share of MCI WorldCom's European business. Nor did it acquire the 46% share of MCI WorldCom's activities in Italy but set up its own unit to enter the Italian market[114]. Furthermore, the planned formation of a joint subsidiary targeting the Eastern and Southern European market did not come into existence either (Rocks, 1999).

MCI WorldCom attempted to continue the acquisition spree that had brought the company substantial growth in a short timeframe. After the successful acquisition of the US number two long distance operator MCI, it bid for the acquisition of the number three operator Sprint. Whilst the bid was barred by both European and US regulators, it provided a major distraction from nourishing its relations with alliance partner Telefónica[115]. Arguably even more distracting was a host of allegations of illegal practices, including accounting fraud, committed by the WorldCom unit of the merged entity that eventually culminated in actual prosecution of WorldCom executives. MCI WorldCom, by that time already re-branded to WorldCom, was forced to file for the biggest bankruptcy in US history in July 2002 because the fraudulent practices displayed a substantial financial discrepancy on the company's balance sheet which eventually grew to $11 billion and left the company with debts of $41 billion[116]. The alliance between Telefónica and MCI WorldCom was even before the fraud allegations and the distraction caused by the Sprint merger plans already an empty shell. It was terminated without having reached any of the intended aims.

Telefónica's current international strategy

In the years succeeding Telefónica was involved in two concrete attempts to form a merger / alliance with another European telecommunication operator. End 1999, BT and Telefónica were in negotiations for a number of weeks to merge their

[114] Telefónica prioritised the Italian market in order to prepare for the adoption of retaliating practises against a consortium, Grupo Auna, led by Telecom Italia (and Spanish partners Endesa and Unión Fenosa) that competed directly via operator Retevisión with Telefónica in the Spanish market.

[115] European regulators banned the planned takeover of Sprint by MCI WorldCom but on 28 September 2004 the European Court ruled that the regulator's decision had been unlawful and that the merger entity of WorldCom should have been allowed to merge with Sprint because fear for excess market power in the internet segment of the new entity's business were deemed to be unfounded. However, the plans to merge had been dropped four years prior to the Court's ruling.

[116] The company filed for Chapter 11 protection under the US Bankruptcy Code. In April 2004 it emerged from bankruptcy after restructuring and re-re-branded itself to MCI in an attempt to sever associations with WorldCom's negative association.

companies and create a telecommunications group with a value of £140 billion (Lorenz, 1999). On the one hand this attempt indicates that Telefónica had chosen the wrong of the most persistent options when BT and MCI's Concert was split by WorldCom's merger bid. On the other hand, the fact that Telefónica and BT could not come to an agreement is an indication that, in spite of some synergy, not all elements for the two companies to align themselves were present.

The second attempt in the aftermath of the failure to develop its alliance with MCI WorldCom was with Dutch telecommunication operator KPN and followed the failed attempt with BT five months earlier. In this case the Dutch and the Spanish companies would have created a telecommunications operator with a market cap of $138 billion through a merger (L'Expansion, 2000a). But this attempt failed, too. The interesting aspect of this failure is the role the Spanish government played. As we indicated in our discussion of Nalebuff and Brandenburger's theory, governments are a special actor because they often adopt multiple and different roles in the Value Net. Often they are a regulating authority but they could be any of the four actors we identified. Relevant in this case is that the Spanish government had taken position as a shareholder. Since the full privatisation of Telefónica in 1997 had the Spanish government kept a golden share in the company. That enabled the government to block merger plans and it exercised that right early May when Telefónica's management and KPN had agreed to merge their companies. The Spanish government took this unusual step because KPN was for approximately 43-44% still under control of the Dutch government (Parkes, 2000). Even though Spanish shareholder would control the merger entity with 62% ownership, the fact that the Dutch government would control 15% was not acceptable to Minister of Economic Affairs Rodrigo Rato and he instructed the Spanish government to block the merger plans (L'Expansion 2000b).

After the failure of three complete attempts (i.e. that ended with the signing of partnership contracts and therefore, not including the 1999 BT and the KPN attempts) it appears that the SBA-route has been all but abandoned from Telefónica's international strategy for the foreseeable future. Partly due to the lack of success this strategy has delivered to the Spanish operator, partly due to an overall meltdown by telecommunication operators in general towards SBAs. Telefónica's current international strategy is to a large extent a return to its original position: a strong concentration on Latin America through a go-it-alone approach[117]. As evidence of its continued ambitions, in January 2005, with the purchase of the Argentine operator Movicom for $988 million Telefónica completed the purchase of all ten of Bellsouth's Latin American mobile operators for a total amount of $5.85 billion (ABC, 2005). This has made Telefónica the single largest mobile phone company in Latin America and the second largest mobile phone company in the world, after UK's Vodafone. Some of the grand plans of Villalonga were abandoned after his departure[118] but Latin America has remained the center of Telefónica's international strategy, notwithstanding the fact that the company recently completed a major takeover outside that traditional heartland. On 16 June 2005 Telefónica purchased a 51.1% majority share in former state-controlled incumbent Cesky Telecom of the Czech Republic for €2.7 billion (Sánchez, 2005). Furthermore, two weeks later it purchased 2.99% of China Netcom for €240 million (Polop, 2005).

[117] Portugal Telecom has remained Telefónica partner and ties have even intensified over time but remain restricted in scope and are predominantly for activities in the Brazilian market.
[118] After Villalonga's forced departure due to insider trading allegations in July 2000, the more conservative César Alierta took control of the company and brought Telefónica back to core telecommunication operations. As a consequence a stake in Internet portal Lycos was disposed of as well as interests in Spain's TV station Antena 3 and satellite broadcaster Via Digital and Audiovisual Sport. More recently, Telefónica has made the long-awaited statement that part of content division Endemol will be floated by early 2006 at the latest (El Mundo, 2005).

Chapter 4

Cases and theory

Introduction

In this section we will attempt to interpret our cases within the Nalebuff and Brandenburger's Co-opetition framework. It is not our intention to provide an exhaustive analysis of all possible angles that display connections of the theory and our three cases. Rather we hope to present our interpretation of the cases within the theory in order to serve two purposes. Firstly, our interpretation will put us in a position to answer the question whether Nalebuff and Brandenburger's framework has any relevance to SBAs. In case the first question is answered affirmatively, secondly, what lessons there can be learned from the Co-opetition framework for alliances as the ones we presented as our cases. These two purposes are derived from the hypotheses we presented earlier:

- Schematically, the Value Net provides a clear overview of how a range of other Players relate to the featured company.

- Although constructed for conducting business in general, Nalebuff and Brandenburger's Co-opetition framework has both analytical theoretical and practical relevance for the more specific phenomenon of SBAs.

Our methodology for this section is as follows: for all three cases individually we will first provide an exhibit of the alliance's Value Net. Because the alliances largely operate in the same market there will be a fair amount of overlap between them. Similar to Nalebuff and Brandenburger's Value Nets we do not attempt to display the entire Value Net but merely present an overview of one interpretation of the Value Net. Following this we will assess, case by case Nalebuff and Brandenburger's PARTS framework. The analysis of that section will serve to provide the lessons that can be learned from these alliances by using the Co-opetition framework.

PARTS' contribution: an interpretation of PARTS applied to the telecommunication industry

Above we identified the potential contribution of Nalebuff and Brandenburger's Co-opetition theory to our thesis. What we articulated there concerns in fact, the central question whether Co-opetition can be shifted from a macro-focus to a micro-focus and still maintain its relevance as an analytical framework. An affirmative answer to that question will provide a justification to a contributory claim of this thesis. To summarise the rationale behind Nalebuff and Brandenburger's theory (for a more elaborate account see chapter two), Nalebuff and Brandenburger present their Co-opetition theory and PARTS framework therein as a valuable tool that applies to business in general. Moreover, Nalebuff and Brandenburger arrive at their theory and the creation of their PARTS framework after they have signalled important features in the current structure of the economy and particularly in the state of international business. Such features resulted in their conclusion that firms that operate in contemporary business are subjected to conditions that have altered the traditional business environment (see our first chapter). Nalebuff and Brandenburger consider that the best way for firms to tackle the challenges that the changed outlook of business poses, is to adopt a mixture of co-operation and competition (or the peace and war mindset). Nalebuff and Brandenburger also provide the guideline on when to use which of those two approaches. This guideline is to co-operate when the pie is being created and compete when it comes to dividing the pie.

The important element to subtract from that account is – and Nalebuff and Brandenburger's rendition of their own theory underlines that – the observation that their theory refers to the macro-level. The theory is about developments and changes in (international) business. It is our aim to test whether Nalebuff and Brandenburger's theory also applies to the micro-level. In order to run such a test we link Co-opetition to SBAs. As we analysed in the first chapter of this thesis, SBAs are one of the alternative ways open to firms to execute an international business strategy. In other words, an SBA is a micro-level phenomenon. The specific appropriateness of SBAs as a case to test Nalebuff and Brandenburger's framework for micro-level suitability lies in central characteristics of this phenomenon. In accordance with Nalebuff and Brandenburger's analysis on the justification of their theory, SBAs aim to create value and are vehicles to divide up the value that has been created. Through SBAs companies attempt to enlarge their existing market share or, alternatively, try to enter in or create a new market for the partners' benefit. When market shares have increased or revenue has been generated from entering or creating a new market, the SBA functions as a vehicle to distribute the proceeds of the alliance amongst its beneficiaries. Linking these central characteristics of SBAs to Nalebuff and Brandenburger's theory shows that SBAs possess the duality of the peace and war mindset. It is this observation that has prompted us to consider whether Nalebuff and Brandenburger's theory allows itself for micro-level analysis. Following a positive answer to that question we would then be in a position to consider whether Co-opetition could be a useful framework for analysts (for example in academia) and or companies engaged in SBAs. In this respect, usefulness will appear if it turns out that applying Co-opetition can be beneficial to either of those actors (or both). Using the empirical part presented in the previous chapter we will endeavour to address this while taking the telecommunication industry as the focus of our SBAs.

Two types of contribution

We distinguish two different types of contributions that the PARTS framework can make. The difference between these two types is not made in order to rank them one way or another: both have equal value for our purpose. But the two types refer to different orders and are, therefore, separable in terms of assessment. Whilst it is not our aim to expand on the differences between these two types of contributions in this thesis, generally it can be argued that one of the types refers more to a theoretical contribution of PARTS and the other type, arguably, more to a practical contribution. However, the intertwined nature of the two types may limit a perfect and strict separation between the two types of contribution.

The first possible contribution of PARTS to our research is of a more analytical theoretical nature. This contribution manifests itself when PARTS serves a purpose as a provider of a useful tool in rightly analysing developments as we found in the empirical section. To be sure, it is unlikely that PARTS' contribution in this respect will be exclusive. Conceivably, one could signal other theoretical frameworks that can provide equal or similar value in their analysis of the previous chapter's developments. But at this occasion, a potential lack of exclusivity should not lead to a gagging order: if it appears that Nalebuff and Brandenburger's theory can be stretched validly to include micro analyses its theoretical contribution has already been enlarged beyond its authors' intended reach. Moreover, considering the relative novelty of SBAs and the hiatus in science's understanding of the phenomenon, a further analytical tool with applicable value makes for a welcome addition.

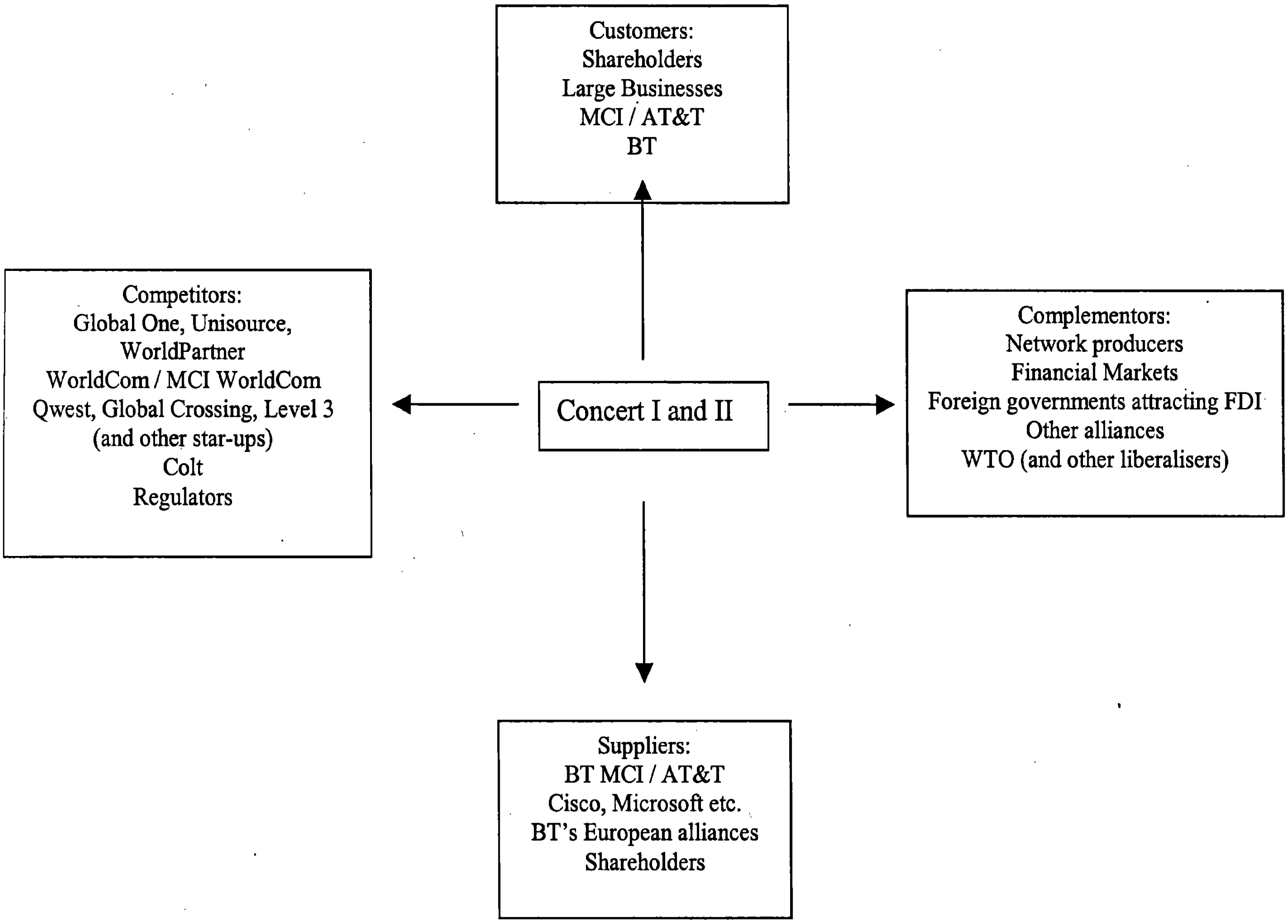
We consider PARTS' second potential contribution of a more practical nature. Central question in this respect is: would or could the outcome of events have been different had the actors taken PARTS into consideration? Compared to the first contribution, the suggestion of the presence of this second one is somewhat more speculative. This is due to two reasons. Firstly, we, obviously, can not know for certain whether the various actors (players) in our three cases have or have not consulted Nalebuff and Brandenburger's theory. All that we can attempt to do is use logical argumentation to prove as much as possible whether it is likely that they have (not) considered Co-opetition's PARTS.[119] Secondly, in social science projecting a different scenario outcome due to occurrences that did not materialise in actuality is an easy target for those seeking to criticise. However, it is our conviction that - if supported by deductive logic - such scenario building could provide a valuable contribution to a "non-laboratory" science as this and enable for a wider academic analysis than the borders of the actual occurrence allow. In other words, we have included this second contributory role that PARTS can play in spite of its less grounded basis than is the case with the other potential contribution because we perceive it of great relevance and because adherence to the laws of logic should offer an acceptable level of justification to do this. In those cases where this second type of contribution can be distinguished, PARTS

[119] Or at the very least, if they have considered PARTS than they did not apply it correctly in our opinion: for our assessment there is no relevant difference between a failure to consider PARTS and a failed consideration of it.

provide – albeit it retrospectively with regard to the cases – direct advice to players of the game.

Co-opetition and BT

Value Net (Concert I and II)



BT and PARTS' contribution

With regard to BT we provide an interpretation of PARTS for the Players, Added Value, Tactics and Scope. As will be clear from comparing BT with the other two cases this application domain is wider than that of the other two cases. The reason why BT's case has a wider coverage in this respect than the two other cases is because BT is the only one of the three to have been involved in two full SBAs and there is therefore more material to draw from.[120] As Nalebuff and Brandenburger indicate there is some overlap between the different elements of PARTS and some of the important developments within the cases have implications that reach across PARTS elements.

Players

<u>BT and MCI Concert alliance and the coming to a merger</u>

Nalebuff and Brandenburger describe the impact of new players entering a game. They use examples to indicate how a new entrant into an existing game can change the outcome of the game. We distinguish similar developments in the case of BT. The company's shareholders overlooked the positive contribution new players entering the bidding game for MCI could bring to the attainment of their intentions.[121] One could suggest that the shareholders did not overlook this possibility and that, conversely, the ultimately sought after outcome was a consequence of the shareholders' successful introduction of a new player into the game. However, nothing suggest that the shareholders adopted such a strategy to cause this outcome - which would have had to be through prompting BT's management to invite a new player into the game rather than the shareholders doing so independently. It would not have been a simple matter of opening up the purchase for MCI shares to random bidders. In order for the shareholders to be successful in their intentions it would have needed to be a player that BT management would find acceptable as an entrant in the game and one that would

[120] Deutsche Telekom's involvement was limited to one extended SBA with France Télécom and, although Telefónica was associated with three alliances it never reached the longitude BT achieved with its SBAs and, consequently, Telefónica offers less determining developments than BT due to the shorter operational periods.

[121] We chose to analyse the Bringing in Players from the shareholders viewpoint but we can do it in a similar way centred on BT management. However, that will lead to much duplication of the arguments. Between the two, we chose the shareholders because they potentially had more to loose and also because their analysis is more complicated since they succeeded in their goal by creating wealth in the short term. From BT management's point of view, the failure to adopt Nalebuff and Brandenburger's bringing in other players in an earlier stage than when they brought in GTE has been more straightforward because it is clear that they only lost from failing to act on Nalebuff and Brandenburger's normative concept on bringing in new players unlike the shareholders that in the strict sense of creating value on their investment were successful.

cause a lowering of BT's offer for MCI shares. Without BT management's seal of approval for the new entrant the dispute between shareholders and management would only intensify. This is because we know from the case that in spite of the profit warning BT management did not intend to abandon plans to fully acquire MCI. Because BT management had major strategic - as well as a number of personal – interests to safeguard to completion of the merger it intended to stick to the acquisition deal. The profit warning had confirmed the shareholders initial scepticism regarding the terms of the merger and strengthened their intensions to lower the price they were willing to pay MCI. Considering all of that, BT shareholders would have increased the likelihood of a successful outcome had they engaged in actions that would have led to the introduction of a player that BT management would consider an acceptable investor (for example a third telecommunication partner with an interest in an established US long-distance network or a private equity firm).[122] A study of Nalebuff and Brandenburger's theory could have made them aware of the benefits of such an approach. As it happened, BT shareholders did find that developments went their way. But this was not due to their exertions and they were in fact fortunate that things developed the way they did because a couple of unique circumstances ultimately played out in their favour. Firstly, the fact that any company would attempt to disrupt a merger deal in such an advanced stage was unique in the telecommunication industry at that time.[123] Secondly, BT's shareholders were in luck that the challenger was WorldCom. Without a doubt, WorldCom has been the most aggressive acquirer in telecommunication history and at that time it had particularly and uniquely large (albeit paper) funds at its disposal due to the telecommunication bubble. As a consequence, it was in a position to make the attractive offer to MCI (although, retrospectively, it has emerged that their strong financial position at that time was rigged). Mainly due to those circumstances did

[122] Although the latter group often demands managerial changes which might be met with resistance from BT management.
[123] Since then it has occurred more often most notably once to Global Crossing in June 1999. Qwest Communications challenged Global Crossing's double bid for US West and Frontier Communications. However, compared to the first big challenge in international telecommunications by WorldCom from our case, Qwest's move was far less bold because Global Crossing's relationship with either US West or Frontier was in a far less advanced and intertwined stage than that of Concert alliance partners BT and MCI. More recently, in Spring 2005, MCI was the object of another challenged bid – the longest running since the June 1999 one - when for a three-month duration Qwest (which had merged with US West since the Global Crossing challenge), unsuccessfully, challenged Verizon's bid for MCI.

BT shareholders end up creating wealth through the sale of their shares. The failure to implement Nalebuff and Brandenburger's strategic advice on the use of bringing in players deprived the shareholders of an opportunity to steer the process of the game to purchase MCI shares. This could have led to BT still purchasing the remaining MCI shares at the originally agreed price or even at a premium there over (due to a bidding contest with a new entrant less endowed than WorldCom appeared to be at the time) since in the situation as it happened there was no guarantee that the new bidder would secure a deal with MCI.[124] The shareholders could, therefore, have ended up with a destruction of their value as a consequence of their insistence to cut price on BT's offering because their insistence was not backed by a safety net which bringing in the right player would have provided.

The assessment of Players, in this respect to BT, provides advice to those in similar games as the BT shareholders found themselves. But in this case the lesson to be learned is not a simple and straightforward case in which an application of Co-opetition makes the difference between failure and success. That is because (in the short run) BT's shareholders succeeded in attaining their goal of value creation in spite of their neglect of Co-opetition's advice with regard to PARTS' Players. However, this success came upon the shareholders mainly due to the unique circumstances in which they and their co-Players found themselves. The shareholders did not *play* the game by bringing in WorldCom but *were played* and ended up with a premium price for their shares. Instead of leaving such an outcome to the element of luck or good fortune, they could have increased the likelihood of such outcomes had they referred to and applied Co-opetition's PARTS, thereby taking a more active approach towards safeguarding their wealth. In fact, we will carry the argument one step further. A correct application of Nalebuff and Brandenburger's suggestions on bringing in Players could have led to early suggestions of bringing in a Player that could bridge the financial gap between the agreed share price for the merger and the price the shareholders were willing to pay after the profit warning. The advantage of such an introduction compared to the actual outcome should not be underestimated. Firstly, shareholder

[124] That is exactly what happened May 2005 in the case of Verizon's bid for MCI. Qwest's challenging bid was unsuccessful but Verizon ended up having to pay approximately 25% more for MCI's shares (US $8.54 billion) than what Verizon originally had agreed to pay for MCI.

– management relations would not have turned as sour as they did. Secondly, BT and MCI would not have had to give up their merger intentions, which, to reiterate, was generally considered to make strategic and operational sense even after the profit warning. Years of co-operation and operational fine-tuning was destroyed by an emphasis of the shareholders on the price of MCI's additional shares. Bringing in an appropriate Player that would work with the merger plans and that could bridge the financial gap between the initially agreed price and shareholders' new value could have prevented the total annihilation of BT's international strategy. In fact, an initiative to bring in such a Player emerged late in the process when GTE switched from BT's challenger to co-operator but the timing was off. WorldCom had already entered the game by that time and created enough momentum to see the deal through.[125]

On this last point, when a new player was finally brought into the bidding game for MCI by BT's management another contributory element of Nalebuff and Brandenburger's theory emerged. Once BT got caught up in the bidding fray with WorldCom and realised that WorldCom's offer was financially superior and its financial clout could not be matched it used a tactical move to reverse its trailing position. By combining with a company that, like WorldCom, initially had entered the bidding process for MCI thereby opposing BT, BT management acted according to Nalebuff and Brandenburger's advice of bringing in complementors because this works to the introducer's advantage. Joining its bid with GTE can be considered as such. Not only did this add some pure financial muscle to BT's bid but it also added value to the operational value of the proposed merger because

[125] Nalebuff and Brandenburger's section on hidden costs of bidding are indicative in this respect. Once WorldCom had entered the BT / MCI game - and it only came into action with a bid almost three months after the profit warning, meaning BT and MCI had had sufficient time to mend the cracks in their relation – a number of hidden costs had been made. Those included costs on financial and legal advisers to prepare the bid but also less tangible costs as its reputation as a company that had shot up the telecommunication ranks through a large number of successful acquisitions. Mainly due to the company's founder Bernard Ebbers WorldCom's image was that of a US maverick cowboy challenging incumbent telecommunication operators across the world. Once engaged in a highly profiled shoot-out with European incumbent BT more than the naked intrinsic value of MCI was at stake for WorldCom. In other words, the introduction of GTE as a player in a BT – MCI merger deal made game theoretical sense but would have had more success had it occurred in an early phase before WorldCom had made (hidden) costs.

that meant the inclusion of a US local loop network to the deal (see BT and Tactics).[126]

BT and AT&T Concert alliance

In our introduction of this chapter we distinguished two possible types of contributions: one of a more theoretical and one of a practical nature. The contribution of PARTS with regard to BT and Players so far has been of the practical nature: had the actors taken PARTS into consideration the outcome would have been more favourable to them than what happened in actuality. For a contribution that is of an analytical theoretical nature we assess the Concert II alliance. In this alliance an attempt was made by the partners to enlarge the pie by bringing in a new player. The two Concert II partners BT and AT&T brought Japan Telecom into their Concert alliance – although with a more limited role than the two founding partners played. With the introduction of Japan Telecom as a Concert II member BT and AT&T would gain access to the lucrative Japanese market through an established Player with local knowledge, an infrastructure and an existing customer base. These factors would increase the probability of success in providing Concert II services to the world's second largest telecommunications market. More success would mean to BT and AT&T more revenues from their operations in the Japanese market. The increase in revenue would mean an increase of the pie for Concert members BT and AT&T (as well as for new entrant Japan Telecom). In other words, the link-up with Japan Telecom is consistent with and can be understood through Nalebuff and Brandenburger's theory.

Added value

BT and MCI Concert alliance and the coming to a merger (I)

After the profit warning, BT's shareholders pressed BT management to lower the company's bid for the remaining 80% of MCI's shares. This pressure led to re-

[126] Likewise to Nalebuff and Brandenburger's observation, we note that the integrated character of PARTS leads to multi-applicability (dual or more) of certain elements. In this case, instead of treating the joint bid with GTE as evidence within the Players section, we could have analysed it from the Added Value perspective. There is even a third dimension of PARTS to this move as we will analyse in the Tactics section. Similar multi-applicability may appear in other issues from the cases.

negotiations between BT management and its MCI counterpart over the originally agreed price for the takeover. The subsequent lowering of the price provided an opportunity for WorldCom to make a superior bid to MCI shareholders and this, eventually, culminated to BT losing out to WorldCom. In fact, BT not only lost its long term and destined merger partner, the course of events from then until the present so far warrant the conclusion that BT lost its, perhaps one-time, opportunity to align successfully with a US partner. The failure to achieve this focal element in BT's international strategy until now is symptomatic for its failed international strategy. In other words, BT shareholders carry, at the very least, a substantial part of the blame attached to that failure: after all BT had centred its entire strategy and business plans on the imminent further integration of the two partners. To be sure, as indicated earlier, shareholders with stock that WorldCom purchased received excellent return on their investment.[127] However, all shareholders (i.e. including those that had released the shares to WorldCom) that continued to hold BT stock after the severing of ties with MCI, experienced wealth destruction in the long run as a consequence of a decrease in BT valuation when the company was left without an international partner and strategy. A more precise financial analysis of BT's share price development due to the occurrences surrounding the failed merger plans is outside the scope of this thesis. However, this is set out in a general manner because the single matter of the collapse of Concert due to the loss of MCI was responsible for some long term wealth destruction of shareholders. Therefore, BT's shareholders, by pressing for a reduction of the price for MCI underestimated the true (long term) Added Value of MCI.

We consider that Nalebuff and Brandenburger's treatment of Added Value makes a strong contribution in a practical sense on this issue. Not surprisingly (and perhaps very typically for shareholders in general) BT shareholders operated on a definition of MCI's added value that is too limited for Nalebuff and

[127] At this point it can be argued that the failure of BT's shareholders to foresee WorldCom entering the bidding game has been at no detriment to them. WorldCom's entrance and subsequent victory in the bidding fray was to their financial benefit. However, as was mentioned in the Players part and as will be shown below, by linking the Players part with other parts of the PART framework, their victory has been a Pyrrhic one. Had they fully interpreted Nalebuff and Brandenburger's framework (or had had the benefit of hindsight) they may not have pressed BT management as ferociously for a price reduction on MCI's shares in spite of the short-term gains it generated.

Brandenburger's definition of Added Value. The shareholders assessed MCI's recent and expected short-term future performance - neither of which were considered positive pictures to them due to the increased losses MCI had suffered while attempting to break into local US telephone markets – and equated this to the price of the remaining shares to be bought by their company. This led to their conclusion that MCI's Added Value was lower than the US $24 billion value that MCI would represent had the acquisition of those remaining shares taken place according to the reached agreement. Retrospectively, many would agree that MCI's $24 billion value was somewhat inflated.[128] But those that do would do so for different reasons than BT's shareholders did at the time. The then estimated value of MCI (as with that of all telecommunication companies at the time) was influenced by the initial signs of inflated prices for telecommunication assets, later culminating to the bubble and its subsequent demise. However, BT shareholders did not consider the price (and value) of MCI too high for such reasons. Their motivation for considering MCI over-priced was independent of any telecommunication "bubble developments" and such industry-wide downward corrections on value of telecommunication assets came much later. The shareholders considered MCI's value too high because the profit warning indicated that the company's attempts in attacking the RBOC would be less successful than portrayed earlier. Ultimately they were content with a $5 billion reduction of MCI's price. In other words, they considered MCI's Added Value $5 billion less than the agreed value. It is here where the value of Nalebuff and Brandenburger's analysis emerges. They prescribe a wider definition of Added Value than BT shareholders proved to have adopted based on their actions. In order to assess the true Added Value of MCI to BT and its shareholders one should have considered the full value purchasing the remaining shares represented. The total losses BT would suffer from not acquiring MCI were a better indicator in the Nalebuff and Brandenburger definition of Added Value than the estimations

[128] We fully realise that a comparison of those telecommunication assets with those of 2005 is not a matter of straightforward arithmetic. However, there is some justification to compare prices in order to show the inflatedness of telecommunication assets in the late 1990s. Comparing the combined price of $24 billion BT bid for MCI (not to mention the $37 billion WorldCom eventually paid for the company) with the price two other competing bidders placed on the same company in 2005 is indicative against any measure. Early May, after their 3-month bidding battle for MCI, Verizon and Qwest topped their bids with $8.4 billion and $9.9 billion, respectively. Irrespective of any arguments that can be brought up against comparing MCI's 1997 value with that of 2005 the differences are too great to ignore the influence of the emergence of the technology and telecommunication bubble.

or calculations BT shareholders made. As subsequently has been proved, the value of losing MCI as a partner – in alliance and acquisition – should have been considered as many times the negotiated discount of $5 billion. As we indicated in the first chapter of this thesis, companies operating in globalised industries as telecommunications had been forced to develop a successful international strategy to offset losses suffered from globalisation's dynamics and in order to seize opportunities globalisation posed to such companies. To this effect, BT had based its international strategy on the Concert alliance and made large investments in terms of finances, time, manpower, operational fine-tuning and reputation in that partnership. MCI, its only partner in the alliance played a pivotal role. Without MCI Concert's Added Value would be reduced substantially. In other words, MCI's Added Value to BT was enormous since it represented much of the company's international strategic orientation and because it had a high level of asset specificity which would not be easy to regain from another company, particularly not at a short notice. It is difficult to quantify the total value of the loss of MCI, the collapse of Concert and subsequently the disappearance of BT's entire international strategy but $5 billion certainly is too modest a price to reflect that loss. Nalebuff and Brandenburger's definition of Added Value of a player can be distilled from the equation:

the size of the pie when that player is in the game
minus
the size of the pie when that player is out of the game

If BT's shareholders had applied this definition of MCI's Added Value, the requested reduction of MCI's price, which snowballed into WorldCom's entrance, the loss of MCI and BT's failure to cement its international strategic plans would have made less sense. As such, Nalebuff and Brandenburger's PARTS could have provided the shareholders with important advice.

<u>BT and MCI Concert alliance and the coming to a merger (II)</u>

Also in the BT's alliance with MCI, a further indication of Nalebuff and Brandenburger's notion of Added Value appears in WorldCom's position. In essence this contribution is of more analytical theoretical nature than practical advice. But Nalebuff and Brandenburger's method in this respect can be made useful for practical purposes. Before WorldCom (and GTE) entered the bidding process for MCI the company was valued at approximately $24 billion by the intended purchaser, BT, who offered $19 billion for the remaining 80% MCI shares. When WorldCom eventually won the stand-off with its revised bid for MCI those shareholders had witnessed their company rise in price to $37 billion. In other words, at that time, to MCI shareholders WorldCom had an Added Value of approximately $15 per share because their size of the pie before WorldCom entered the game was approximately $36 per share (BT's initial offer). After WorldCom had entered the game and won, MCI shareholders had seen their pie increase to $51 per share so WorldCom represented a substantial Added Value to them. In this case, the contribution of this assessment is theoretical: it casts light on how to analyse the position of WorldCom vis-à-vis MCI's shareholders. Nalebuff and Brandenburger use that analysis to provide practical advice to Players in the game. Because it is outside the scope of our research, we will merely touch upon these points and not expand into greater detail.[129] Building on the assessment of WorldCom's potential Added Value to MCI shareholders, Nalebuff and Brandenburger would have advised those shareholders to bring in WorldCom at the time when they assessed that the company could provide it with higher Added Value than BT would. Such additional Added Value could have been brought to MCI shareholders by other companies as well and it would be up to the shareholders (ideally with MCI management on their side) to consider the best prospects to increase their value.[130] An assessment of PARTS would, in turn, lead to WorldCom using the analytical assessment to demand a "Pay-me-to-play" contract from MCI to hedge itself against the hidden costs of bidding against BT.

[129] It concerns two Players, MCI shareholders and WorldCom that feature in our thesis by association without being the subject of one of our three cases BT, Deutsche Telekom and Telefónica.

[130] To consider the full Added Value of a company brought into the game this way, the shareholders should include in their assessment the loss of BT as an international partner and receive compensation for this in either financial form (and then handsomely) or operationally (i.e. elect a company that can offset the strategic and operational loss of MCI's withdrawal from what was the most promising alliance at that time).

BT and AT&T Concert alliance

When the plans were presented it appeared that this alliance would dwarf all existing and past ones with its original figure of $10 billion (compared to $1 billion for Global One). But as has turned out, this amount had little relation with the alliance's Added Value. Still the combination of the two companies in an SBA would represent massive Added Value especially to large TNCs, it was thought. The Added Value would partly be due to the sheer size of the SBA but also to the fact that particularly these two companies were combined and the synergetic extras as a consequence. Although this alliance was between the second and fifth largest telecommunication company in the world, there was little overlap in their operations. Both parties had gained experience through previous involvement in large SBAs and they were linguistically, culturally and strategically close (Fransman, 2002). But a combination of factors destroyed all this potential (or virtual) value within two years, in spite of setting up further opportunities for Added Value creation (i.e. the mobile joint venture Advance, the partnership with Japan Telecom and AT&T Canada, see chapter three for a discussion on these three Added Value inducing partnerships). Firstly, it turned out that the Added Value had been overestimated and the $10 billion revenue figure was adjusted downwards to $7 billion. Then, and more importantly, the alliance suffered from parental neglect due to a number of problems the companies had and that distracted them from providing Concert II with the necessary input. AT&T was re-organising itself and BT was re-constructing its rising debt levels. With the technology and telecommunication sectors crashing in 2000 due to the tumbling values of the associated shares, prominent companies like AT&T and BT did not remain unaffected. Neither did their nascent SBA: turmoil in the industry led to little remaining of Concert II's projected Added Value. However, this is not to state that parties could have prevented the demise of their alliance had they studied Co-opetition's Added Value section. The failure was not due to a lack of Added Value (although the initially expected levels turned out to be inflated) but to an unfortunate wrong timing of the alliance – just when the market changed drastically – in addition to the emergence of other priorities for the parent companies. As such here PARTS' contribution should be considered as analytical theoretical and not so much from a practical contribution's side.[131]

Finally, on this issue, a separate analytical theoretical point on Concert II is that its network should have been an example of what Nalebuff and Brandenburger call a "trade on". The creation of the IP network that the partners announced they would construct, would deliver superior quality compared to most existing networks. The initial cost of constructing the network would be high (and included a fund for US start-ups that could provide assistance to the two incumbents in the network's creation) but once the network would be up and running it would be cheaper than the existing fibre-optic networks, yet of premium quality. An increase of customer uptake would lower the marginal cost and increase the average revenue per user (ARPU) which enables further investments to upgrade the network and attract more customers. In other words, the trade-on vicious cycle Nalebuff and Brandenburger mention would appear. But the network was never created, the trade-on never realised and this part of the Added Value did not end up sinking with the rest because it never materialised in the first place.

Tactics

BT and MCI Concert alliance and the coming to a merger

There are multiple manifestations of tactics and tactical moves in the discussion of our cases. An important one related to the BT - MCI affair is the attempt by BT to neutralise WorldCom's superior bid for MCI (see also the section on Players above). However, this tactic failed. BT and GTE joined forces after WorldCom had made its first offer of $30 billion ($41.50 per share) and after GTE had placed a $28 billion ($40 per share) bid on its own. In other words, the decision by BT

[131] For a possible practical contribution of PARTS to this alliance an assessment of Scope would probably be best suited. Such an analysis would focus on how interactions of the bigger game affected the (lack of) success of Concert II. It would pre-suppose a substantial amount of managerial foresight. The inflation of the bubble was accompanied with expectations that it would not last and that some form of correction within the industry would follow. However, the exact timing of the correction and its actual size were unclear until their appearance. Therefore, attempts to use Co-opetition as a beacon to provide strategic advice to the Concert II partners should be approached with caution. Such is the magnitude and the complexity of industry-wide crashes that few theories may be able to make valuable anticipatory contributions.

and GTE to align came late in the game. MCI's profit warning was in July 1997. BT's reaction can be split in two: one from its management and one from the company's shareholders. As indicated in the discussion of the case, BT management's reaction was one of infuriation, i.e. a negative response. BT's shareholders also responded negatively by demanding the price discount on MCI's outstanding shares. As we further mentioned in the Added Value section, those reactions of BT's shareholders bear considerable blame for the subsequent adverse conditions of BT's international strategy. However, the shareholders should not be singled out in passing the blame. For one, BT's management was the responsible actor for the company's international strategy. Understandably, it had placed its progress with MCI at the summit of its strategy. After a successful period as partners in an SBA, further integration would lead to cutting cost, more streamlined provision of services and speedier response to the constantly changing market conditions that had characterised the telecommunication industry since the early 1990s. It is, therefore, remarkable that BT's management did not adopt a more appeasing stance at an earlier stage in the emerging dispute with MCI. After all, it would be its international strategy that was at threat of collapsing were the dispute to escalate and management, better than the shareholders, knew what the operational consequences of failing to maintain MCI as a partner would be.[132] Yet, from MCI's profit warning in July it took until October when BT finally used tactics in their joint bid with GTE to use a more positive approach to the adverse situation. BT knew all along of dissatisfaction amongst its shareholders with regard to the originally agreed price for the outstanding MCI shares.[133] So when the disappointing results of MCI's achievements in the US' local telecommunications markets were revealed a positive pro-active approach could have kept the atmosphere with MCI positive, pleased BT's shareholders, strengthened the merger's prospects in the local telephone markets and, most importantly, very likely pre-empt WorldCom's involvement in the game. Nalebuff and Brandenburger would argue that had BT, through quiet diplomacy, introduced a Regional Bell Operating Company (RBOC, see section on the case of BT) as a

[132] It is even no exaggeration to state that the BT's top management had strongly identified its position with a successful course of the merger with MCI, which made for another reason for them to be more prudent in their handling of the matter.
[133] As we indicated in the discussion of the case, in spite of the eventual large support for the suggested deal, shareholders had displayed disquiet with the premium that was offered to MCI shareholders. Also, institutional shareholders had been sceptic about the merged identity projected achievements.

third party in the merger it would have been able to turn the adverse situation of the profit warning into an advantageous scenario. It tried to do this eventually but at that time the important negative consequences that an earlier introduction of a RBOC could have prevented had already taken place. We see here an important practical contribution of PARTS to BT's strategy vis-à-vis MCI. Adopting PARTS recommendations could have contributed substantially to the saviour of BT's intended merger with MCI.

MCI and the withholding of information on its performance

In their section on Tactics Nalebuff and Brandenburger devote ample attention to what they refer to as "fog". They discuss three types of fog. Particularly the one they call "preserving the fog" applies to MCI's reaction vis-à-vis BT. In preserving the fog, a player that has managed to create a favourable impression with others (customers but also suppliers, complementors or even competitors) seeks to maintain that impression. That gives the player an incentive to hide information that may violate that impression: given the chance the player will hide such information. MCI had built up a favourable impression with BT over the period the two companies formed an SBA. MCI's positive impression was to the extent that BT offered to merge (by acquisition) with the company through a purchase of the remaining shares at a premium. One important area of business in the alliance was the recently liberalised local telecommunications market in the US. BT, itself serving UK's local market for almost a century, assumed great prospects to use its experience in tandem with a US partner. MCI's, although not a local telephone operator, would have Added Value in its familiarity with the US telecommunication market (for example the regulatory framework including the issues relating to licensing, marketing strategy and the like). As a new entrant to the local market, it was expected and accepted that MCI would make a loss over 1997, estimated at $400 million, maximum. However, when it appeared that the losses would more likely be double that estimate, MCI hid the information to preserve its reputation. There are, however, two curious points to this in our opinion. Firstly, as we stressed before, with three BT members on MCI's board of governors, MCI should not have been able to hide such strategic information for such an extended period. A second point to raise on this strategy adopted by MCI relates to the conditions that Nalebuff and Brandenburger distinguish with respect to preserving the fog through hiding information. According to them this should only be done if the hidden information can be buried and prevented from ever seeing daylight. This is where MCI appears to have failed: eventually BT (and the financial markets) found out that MCI had hidden the information on the worse than expected performance of its local telephony operations. It is difficult to see how MCI could have kept this type of information hidden and how this would not have come out. Whatever motivations lie beneath this wrong application of Nalebuff and Brandenburger's preserving the fog, as we have shown, they triggered a host of reactions by a number of Players and culminated in the cancellation of what until then appeared to be a certain merger-in-the-making. We consider Co-opetition's contribution in two ways with regard to hiding information. The part relating to the reason why MCI chose to hide information from its partner is of analytical value. The second point, referring to Nalebuff and Brandenburger's application to the reason why MCI's approach failed, is a practical contribution. Had MCI taken to heart that preservation of fog necessitates the inability of such information to ever come out it would have understood that a different approach was needed than the chosen tactic. It can be considered a big mistake of MCI not to act accordingly since we assume that the completion of the merger was the company's goal at that time.

Scope

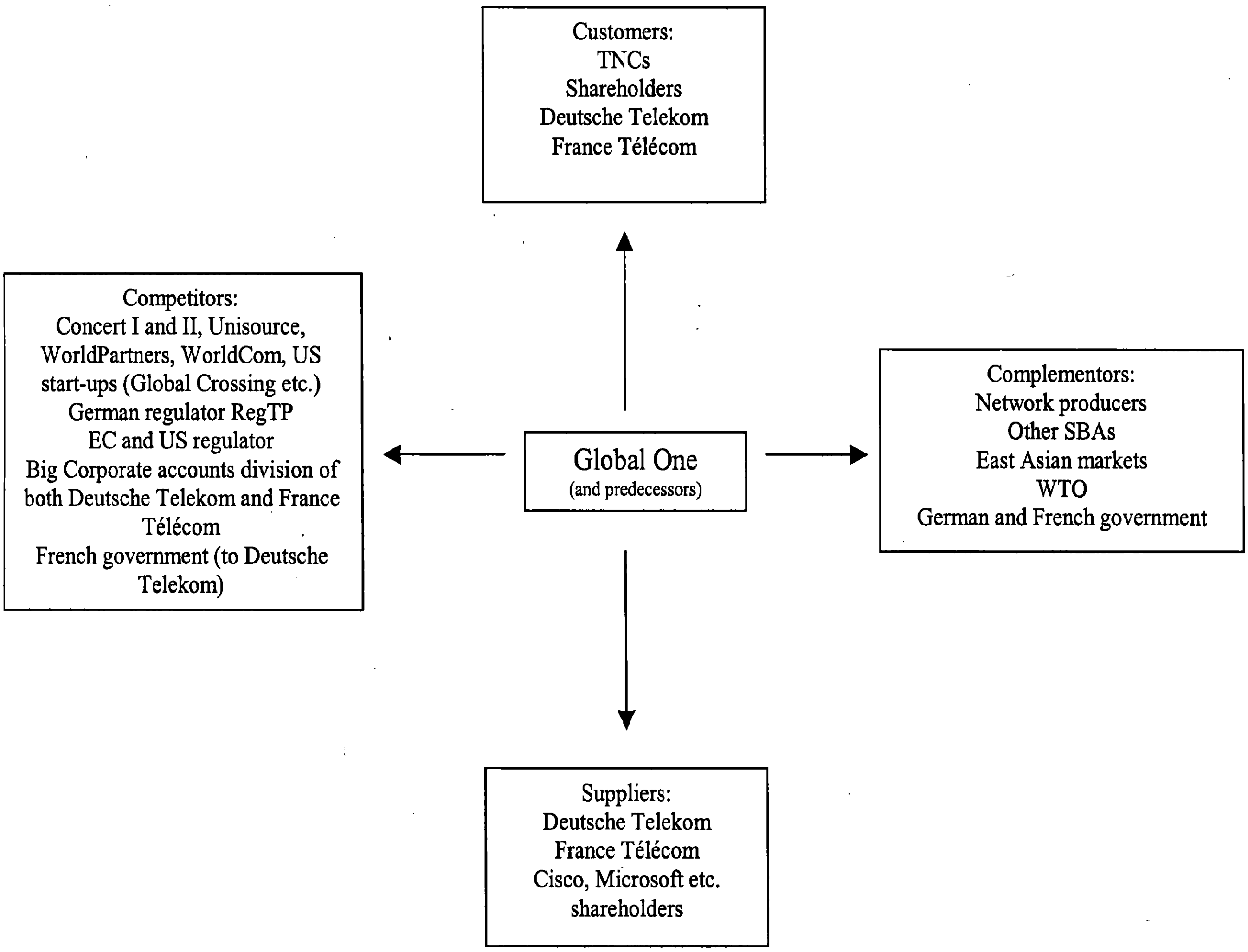
BT and MCI Concert alliance and the coming to a merger

BT's shareholders underestimated MCI's true value to BT and failed to see the wider consequences of their insistence on lowering the offer price. BT's long term prospects, including financial, had a higher value than the price cuts negotiated with MCI. BT management underestimated the element of trust - after MCI had made the same mistake by hiding the true value of the losses suffered on local telephony operations. Whether it concerned an actual demanding of resignations of two MCI executive officers, a threat to do so or the failure to publicly deny that either one of those (demanding or threatening to demand) was at stake, at that moment both parties had violated carefully built-up trust levels. Arguably, the icy crust that had developed after cold water had been poured over the relationship between two management teams that should have been on the brink of fully integrating and tightening their relatively long-established co-operation had made MCI's management more susceptible to WorldCom's offer than it otherwise may have been notwithstanding its higher value. In fact, whilst WorldCom's offer was higher in value, since it concerned an all-share offer it carried some risk. Furthermore, MCI had an established and successful track record with BT whilst WorldCom was still an unknown factor. It can not be proven that a less belligerent reaction of BT would surely have led to a more favourable outcome for BT. But a better assessment of the Scope of the game and an assessment of the possible consequences of a clouded relationship between the two management teams might have been in BT's advantage. Particularly since the outcome of lowering the offer-price ultimately placed MCI in a stronger position than any of the players: it could pick its partner. In fact, BT was forewarned. In 1993 it had experienced a comparable situation when it also intended to increase a 20% stake, then in McCaw mobile communications. At that occasion AT&T stepped in and thwarted BT's plans. Furthermore, a careful analysis of WorldCom's development would have revealed that the next target in its acquisition spree could very likely be another US long distance operator. WorldCom had just acquired local operator MFS Communications and Internet access provider UUNET. Adding a long distance operator to its already prolific portfolio of acquisitions made strategic sense because it would provide WorldCom with the opportunity to link it to its local network from MFS and use UUNET to create Added Value from providing Internet-based services. WorldCom, at the time the number four US long-distance operator would not be able to acquire AT&T due to its enormous market cap but MCI and Sprint, the numbers two and three, respectively, lay within it reach.

Both BT's management and its shareholders did not place their "gut-reactions" to MCI's profit warning in a wider context. A wider Scope included elements as the non-materialisation of the merger due to their actions, the Added Value of a proven partnership versus the need to build a new one and the creation of more favourable circumstances for WorldCom to enter the game. Those elements were not given the due weight that, retrospectively, both management and shareholders would have given to them considering the terrible state of BT's international strategy after the loss of MCI. Nalebuff and Brandenburger's warnings on failing to consider the wider game or Scope of the game are loud manifestations of practical advice but were not heard by these two actors of BT.

Co-opetition and Deutsche Telekom

Value Net (Global One and predecessors)



Deutsche Telekom and PARTS' contribution

When we placed BT in the context of PARTS' contribution we explained the reasons why that case allowed for a wider application of PARTS than the applications of Deutsche Telekom and Telefónica. Whilst Deutsche Telekom's case provides less room for application than the BT's case (for one, Deutsche Telekom was only involved in one SBA, albeit an extended one) we nevertheless have been able to produce evidence of PARTS' contribution to the case of Deutsche Telekom. For that purpose we present an application of the Players and the Tactics sections of the PARTS framework. Equal to the case of BT, Co-opetition's contributions can be of analytical theoretical or of practical nature.

Players

Sprint's position in the wake of the dispute within Global One

Much to the detriment of Deutsche Telekom and its original partner France Télécom, an example of a successful introduction of a new player is provided by Global One's third member, US long-distance operator Sprint. We classify this as an analytical theoretical contribution of Nalebuff and Brandenburger.[134] By 1999 Sprint had been trying to arrange the establishment of a three-way merger with its Global One partners Deutsche Telekom and France Télécom, however talks had stalled. Subsequently, Deutsche Telekom's white knight attempt to merge with Telecom Italia failed and, as a consequence of that surprising move, its relation with France Télécom deteriorated substantially. This drastically reduced whatever small chance existed for the emergence of the three-way merger of Global One partners. Sprint's CEO Esrey realised this. He was also aware of merger talks between the newly created MCI WorldCom and Nextel Communications, a US mobile phone company. Picking up the signal that MCI WorldCom must, therefore, be interested in wireless assets – until then WorldCom did not have any

[134] One could argue that it should be stretched to a practical issue. In such an extension one would take the position that Deutsche Telekom and France Télécom, by studying Nalebuff and Brandenburger's PARTS, would have been alerted on the possibility of the entrance of a new player like MCI WorldCom that could snap up Sprint and, with Nalebuff and Brandenburger's advice, could have prevented this from occurring. However, firstly, at that time France Télécom did not appear too interested in maintaining a partnership with Sprint (in nor outside Global One). Secondly, although Deutsche Telekom was more interested in continuing such links it too was not very adamant in its actions and it is doubtful whether either of those two felt a strong urge to do whatever it would take (including flipping through Nalebuff and Brandenburger's manual) to keep Sprint as a partner. Deutsche Telekom marginally stepped up its efforts by siding with BellSouth but by then MCI WorldCom had already shown serious interest and the determination WorldCom had displayed in earlier takeover battles once it had entered those, including the one for MCI, was enough indication to expect that Deutsche Telekom had to show real commitment to keep an independent Sprint as a partner. As we pointed out Deutsche Telekom's actions did not reflect such required commitment. In sum, we do not consider Nalebuff and Brandenburger's contribution anything other than of an analytical theoretical nature on this issue because the relevant Players did not appear to be in need or in search of any practical advice, thereby making a practical dimension non-applicable.

mobile telephone business assets and had indicated not to be interested in such assets – Esrey brought in a Player. By personally contacted his counterpart, Bernhard Ebbers at MCI WorldCom and suggesting a mobile license deal between the two companies, a customer was brought into the game. After MCI WorldCom's negotiations with Nextel collapsed, at least partly, due to a high level of debt the company would have had to assume, Sprint and WorldCom negotiated and reached an agreement on the largest acquisition offer in corporate history. Rather than taking a passive position and wait how developments between Deutsche Telekom and France Télécom would affect his company, Esrey took an active approach instead. He reacted to the uncertainty that had befallen Global One and changed any possible direction the game of the alliance's future could have taken had he not acted. By bringing in a customer for its business to compete with the existing two (Deutsche Telekom and France Télécom) Esrey sealed his company's fate and took it into a direction he deemed preferable over potential scenarios that would have followed his inactivity. Nalebuff and Brandenburger describe potential benefits players can derive from bringing in other players. It provides an adequate analysis of Sprint's position and its reaction thereto (as well as guidance to those that find themselves in similar situations).

Tactics

Determining ownership of the Global One business after its demise

After it had become clear that Deutsche Telekom and France Télécom were to separate as partners the future of Global One needed to be determined. As indicated in the discourse of the case, first the German partner appeared to become the new owner but when no agreement could be reached, efforts were concentrated on transferring Global One to French ownership, which happened eventually. The settlement of this issue provided the perfect scenario for Nalebuff and Brandenburger's Texas Shoot-Out (chapter two of this thesis, the section on Perceptions, provides an analysis of this aspect of the theory). All necessary elements were present. Firstly, in agreement with Nalebuff and Brandenburger the joint venture business was set up by the two partners.[135] Secondly, although both parties wanted to discontinue the SBA, France Télécom had taken the more resolute role in terminating the partnership and was the initiator. This too is consistent with the conditions set in Nalebuff and Brandenburger's treatment of the issue of ownership after the break-up of a joint business. Thirdly, even with Deutsche Telekom as the keenest partner to take Global One, it was to be expected that negotiations about the takeover conditions would make for a difficult process. That is because both partners valued the Global One business positively in spite of its loss-making status. Also, an objective assessment of Global One's value was not available: there was no separate share price to consider. Besides, it remains to be seen to what extent a share price would have provided an appropriate and helpful tool in the negotiations. Amongst other disadvantages, such as – and this was particularly troublesome in Global One's case which was characterised by operational inefficiencies - the total absence of a reliable measure to evaluate its true and potential value, the share price can, in such situations, conceal information to outsiders (Fransman, 2002).[136] In any case, it should also have been expected that the negotiation process would be a difficult one because relations between the two parties were not amicable in the aftermath of Deutsche Telekom's moves in the Italian market and the court cases that had followed those moves (see previous chapter). In spite of the presence of these three elements that provided the perfect conditions for a classic Texas Shoot-Out, it does not appear to be the case that a Texas Shoot-Out was applied, in any case not from the inception of a need to find a way to solve the ownership issue after separation. Although we would have had to have been imbedded in the process to be hundred percent certain, there are two reasons why we are confident in arguing that it is extremely unlikely that the parties followed Nalebuff and Brandenburger's advice. Firstly, the process would have been much swifter had France Télécom, who would have had to play the role of "shooter", shot.[137] Perhaps more convincingly, had the

[135] Of course, Sprint had contributed to Global One, too but had already been bought out and made no claim on Global One or parts of the business after its departure.

[136] A potential counter argument to the importance of the issue of share price in relation to Global One is that both potential buyers were insiders that would not lead their valuation of Global One on a share price if that had been available.

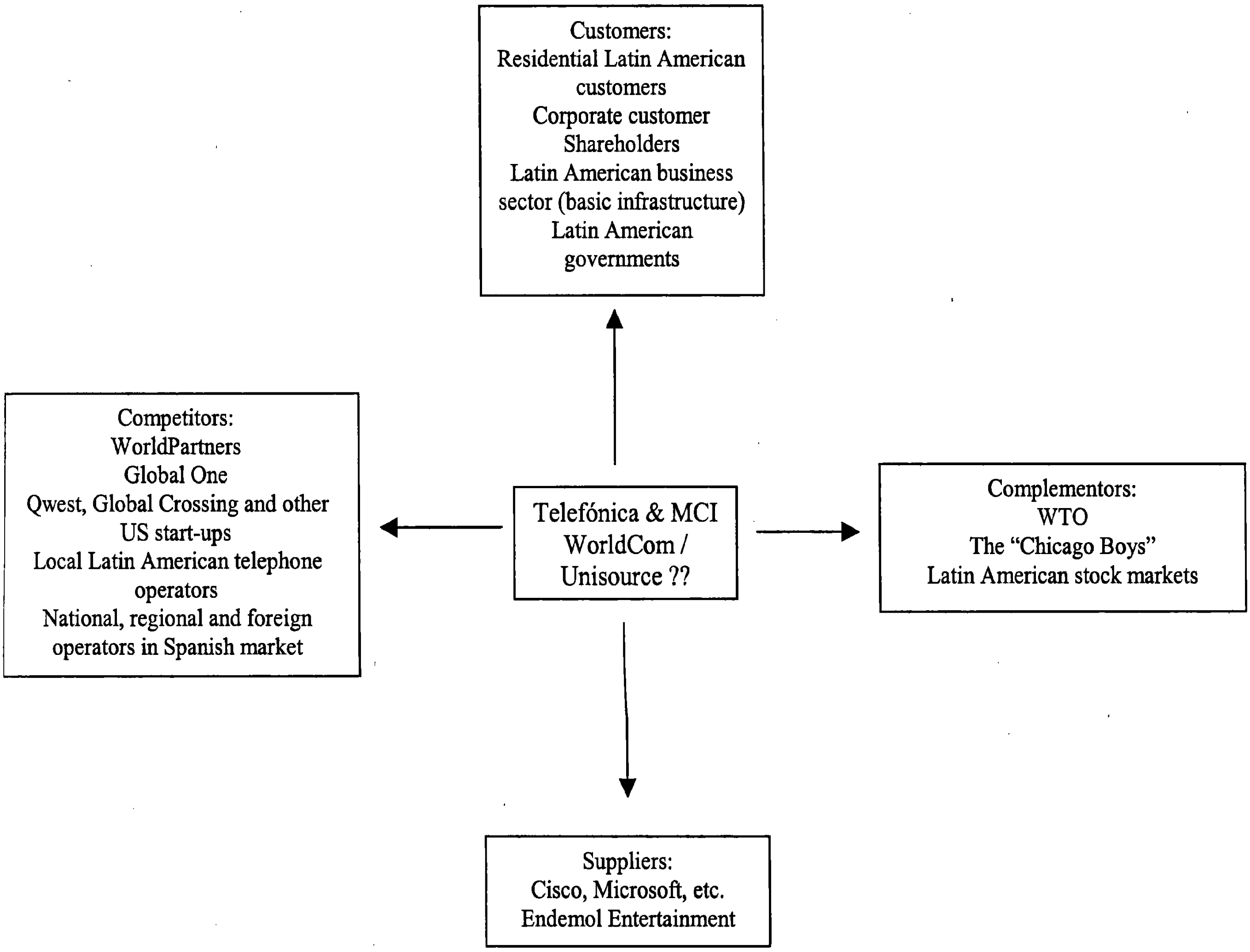
[137] Notwithstanding our criticism towards Nalebuff and Brandenburger's treatment of the potential dilemma with the Texas Shoot-Out, this case may not have been subjected to the difficulty of assessing how one's partner values the business. Based on the individual strategic accents of their international units outside Global One, it could be derived what elements of Global One the counterpart would value

partners opted for a settlement through a Texas Shoot-Out then there would not have been a reversal of front-runner position. After having established the rudiments of the bid, Deutsche Telekom would have either accepted or rejected France Télécom's proposal and there would not have been negotiations anew. The essence, and merit, of the Texas Shoot-Out is exactly that: there is one shot followed by one decision. The fact that France Télécom became the focus of negotiations indicates that when Deutsche Telekom was the focus the Texas Shoot-Out strategy was not used. Consequently, it is highly unlikely that afterwards a role reversal took place in order to apply the Texas Shoot-Out only at that stage and the time the negotiations took in that second phase is consistent with that assumption. In conclusion, the aspect of Texas Shoot-Out from Nalebuff and Brandenburger's theory – where they link this Rule to perceptions or Tactics – provides a practical contribution. Not entirely in the sense that the outcome of the settlement of the ownership issue would have been different (an application of the Texas Shoot-Out could have led to France Télécom buying out Deutsche Telekom's involvement in Global One and perhaps even for the same price). But it would have made for a swifter outcome of the settlement dispute to the full satisfaction of both parties.

more and, which ones, less (even if expressing the exact value in money would remain to be a challenge).

Co-opetition and Telefónica

Value Net (Telefónica and Unisource / Telefónica and MCI WorldCom)



Telefónica and PARTS' contribution
In numbers, Telefónica pips BT and Deutsche Telekom when it comes to involvement in SBAs. But in terms of longevity it trails the other two rather hopelessly. There are, nevertheless, some instances where we can link PARTS to Telefónica's involvement in alliances and determine the framework's contribution. We, thereto, start with presenting an analysis of PARTS' contribution through Players in relation to Unisource. Furthermore, we draw attention to Added Value in two ways to indicate PARTS' usefulness: one in relation to Telefónica's decision to leave Unisource, the other one regarding Telefónica and its

involvement in alliances in general. Finally, we present a contribution of PARTS' Rules in relation to Telefónica's (decision to form an) alliance with WorldCom.

Players

Telefónica as a Player in the Unisource game

Telefónica entered Unisource in 1993 and left the alliance in 1997. The company had Added Value to Unisource and almost all of that was formed by the Spanish company's Latin American assets. However, during Telefónica's presence in Unisource this Added Value was never seized upon. Essentially, Telefónica had joined Unisource because it expected the alliance to bring Added Value to TISA, its international division. But with the geographical concentration of Unisource never even reaching Latin America let alone providing Added Value to operations in that region, Telefónica did not make the expected gains from its Unisource involvement, much less any substantial ones. The upshot of this was that when the new management team entered Telefónica's ranks, it did not want to be in the Unisource game any longer. Nalebuff and Brandenburger prescribe when a player should enter or stay in a game and use Added Value as the indicator steering this decision-making process. According to their framework Telefónica was right to enter the game and Unisource was right to grant it access. But as time passed it became apparent that Unisource was not tapping into the dormant Added Value reservoirs (i.e. Latin American markets, operations and assets). As we highlighted in the discussion of the case of Telefónica, Unisource in its entirety never generated much Added Value and viewing Telefónica's membership from the alliance's angle in isolation from the other members is nonsensical: a retrospective assessment based on the actual development of Unisource (as opposed to the one partners pledged themselves to) reaches the conclusion that none of the partners should have been in the alliance because none provided it with or derived much Added Value from it. Shifting the viewpoint from the alliance as a whole to individual member Telefónica, it can be concluded that the company should have acted earlier than it did. The SPts 7 billion loss it incurred in 1996 from its involvement in Unisource may have acted as the justification to leave Unisource but an earlier assessment to what extent Unisource provided Added Value to

Telefónica could have prevented the occurrence of that loss. Remaining within the Nalebuff and Brandenburger framework, two options had been open to Telefónica in that case: leave Unisource or use its influence to change the Rules in such a way that the strategic focus would include Latin America. However, with hindsight, considering the setup of Unisource, a mere geographical shift may not have been enough to capture Added Value from Telefónica's Latin American presence at the time. Telefónica's Latin American assets that could provide services to TNCs – Unisource's only target – were in its first stages of development and not yet robust enough to add substantial revenue to Unisource's narrow focus. In other words, for Telefónica to derive Added Value from its alignment with Unisource it needed to do more than changing the Rules to include Latin America: it also needed to include the provision of services to residential customers in that region. Such a shift would resemble a landslide and, considering Unisource's increasing defensive outlook it seems unlikely that Telefónica would have been able to achieve such an offensive shift, leaving departure as the only sensible strategic option. The exact moment when Telefónica should have done this may be difficult to determine but certain is that it continued as a Player in Unisource much longer than made strategic (and financial) sense. Clear is, however, that Co-opetition has a practical contribution to this element of Telefónica's case. In PARTS, current and potential Players are advised to assess their situation continuously in order to conclude whether they should be in a certain game or not. They need to measure the Added Value they possess in relation to the game and let that be their lead. Had Telefónica applied this rigorously then they would have drawn the conclusion to leave Unisource at a much earlier stage. That would have saved them from much of the loss they made from their extended involvement.

Added value

<u>Telefónica's decision to leave Unisource</u>

We just made the observation regarding determining at what time it was evident that Unisource was not the right game for Telefónica to be in for supporting its plans in Latin America. We mentioned the difficulty in deciding the optimal moment when it was certain that none of the pledged plans on that region would ever be materialised through Unisource.[138] Eventually this problem was "solved" when Villalonga became Telefónica's CEO. He, very clearly, assessed Telefónica's involvement on basis of the principals of Added Value and concluded that the company should leave the flagging alliance immediately to join an SBA that would be serving the Spanish company's international strategic goals. The company's Latin American operations had been the linchpin in its international strategy and were set to become even more important in future plans. Contrary to agreements made when Telefónica joined, Unisource did not appear to have any strategic direction towards Latin America. In other words, Unisource did not have any Added Value to Telefónica in the Latin American game because such a game did not exist from Unisource's perspective, hence Villalonga's termination of the alliance's membership. On the face of it that was an unprecedented and rather bold move even taking into account that Villalonga came into Telefónica as an outsider without prior links to the CEOs of the other Unisource members.[139] Yet, a correct application of Co-opetition would have resulted in more CEOs having taking such drastic steps because Telefónica's involvement in Unisource was by no means the only case in which an SBA did not generate the desired result to individual members. The fact that Villalonga sought to exchange an alliance based on a defensive strategy for more offensive options was consistent – and therefore not surprising – with a change towards a more overall aggressive approach towards the company's international strategy under that new management. Co-opetition's notions of Added Value provide us with the (analytical theoretical) explanation why Villalonga's Telefónica took such an unprecedented and brash move when most others in the industry in comparable situations did not.[140]

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[138] We refer to the optimal moment in this context to the timing after Telefónica's entrance - when initially it appeared that there was Added Value to be accrued to both Telefónica's operations and those of Unisource - but before Telefónica suffered SPts 7 billion in losses. At some point in time it became clear that Telefónica should not be in the Unisource game because, due to Unisource's course of direction, no Added Value was being unlocked or made of it.

[139] The only other time when this occurred in the case of major telecommunication SBAs was when AT&T's Armstrong, then also a new entrant in and outsider to his company, pulled his company from WorldPartners / Unisource and entered Concert II.

[140] From Nalebuff and Brandenburger's examples we conclude that Players are considered to be at the level of companies and governments, not individuals. However, the influence of Villalonga on the course of Telefónica and consequently on the company's current position has been so determining that his status borders that of a separate Player. Comparably (and perhaps an even stronger example), WorldCom was personified by its CEO Bernard Ebbers and he may merit a Player status too since it is impossible to consider WorldCom's dynamics separate from Ebbers. Telefónica's strategy in the period between June 1996 and July 2000 is also inseparable from Villalonga (and his team, which he had hand-picked). Whilst a discussion on whether individuals should be considered as Players is an

Added Value and Telefónica's involvement in alliances

Earlier we pointed out that the separate elements that form PARTS function in a highly integrative manner. Because of that we have already made a number of important observations on Added Value in the Player section on Telefónica because particularly these two elements are closely related in the Co-opetition framework. Here we would like to add an observation on Telefónica and Added Value in a more general sense. This links to an analytical theoretical contribution of Nalebuff and Brandenburger's theory and it sheds an important light on Telefónica's performance in alliances and to what extent such alliances have contributed to Telefónica's international strategy. Telefónica's Added Value started from the time its Latin American assets became robust and ever since the company has had substantial Added Value in many respects. In Nalebuff and Brandenburger's terms, during the 1990s Telefónica was a welcome Player to join the game of many others. Not only could the company choose which of the break-up fractions it wanted to join with after the intended link-up to Concert perished due to the demise of that alliance. In addition to invitations from BT and MCI WorldCom, Telefónica had offers to join Deutsche Telekom, AT&T and KNP to name but the most overt and concrete ones. In all cases the interested parties mostly valued Telefónica's position in Latin America. However, in spite of the industry-wide considered Added Value in this region Telefónica has never been able to realise it in an SBA. That Added Value has been formed via a number of Latin American tactical partnerships as opposed to through a major alliance. We already discussed the failure to unlock more of Telefónica's Latin American Added Value through its involvement in Unisource. Similarly, Concert did not succeed in doing this either because the projected entity broke up before Telefónica's membership was operational. Even in the alliance with MCI WorldCom that it chose out of a host of possibilities, its (Latin American) Added Value was never unlocked through alliance participation. We observe, therefore, that whilst Telefónica continues to have much Added Value in the telecommunication industry in general, it is largely due to purchased assets and from some tactical moves and it has not been possible to augment this Added Value through involvement in SBAs.

interesting one, it is outside the scope of this thesis, which – relating to that question – limits itself to assessing whether Co-opetition has validity at the micro level.

Rules

Telefónica and its alliance with MCI WorldCom

We would like to demonstrate one more example of Co-opetition's contribution to telecommunication alliances. It concerns an example of the applicability of Rules to our case of Telefónica. When WorldCom had lured MCI away from the merger with BT, Telefónica could choose which of the games it wanted to enter as a Player: the new to-be-created MCI WorldCom game or the broken-pieces of BT's Concert game. As discussed Telefónica realised that its initial preference to play in both games at the same time was not realistic and it chose the MCI WorldCom game, eventually. However, consulting Co-opetition's framework, and the section on Rules in particular, would have provided Telefónica with the strategic knowledge that entering the MCI WorldCom game through forming an alliance with that company was not a good choice. To be sure, Telefónica had Added Value as a Player in the game with WorldCom because WorldCom had few Latin American assets and could in one sweep establish a strong presence in Spain through association. In turn WorldCom, or then MCI WorldCom had plenty of Added Value to Telefónica who was still looking for a US partner. Also, Telefónica's modest exposure in Europe would receive a positive boost through a linkage with WorldCom. Through synergies the two together would create a larger pie which, provided shared fairly, could benefit both. But an alliance between the two would also require the changing of Rules that had been embedded and proved to be successful. As Nalebuff and Brandenburger indicate – although they primary concentrate on laws but they mention customs and what we refer to had become customs – when it comes to changing the Rules one should not attempt to change those that are ingrained. Telefónica's move to follow MCI to WorldCom would need the changing of such ingrained Rules. Until then WorldCom's strategy had been a successful one but it had not featured SBAs. It success and creation of Added Value was one hundred percent due to acquisitions and mergers. Similarly, Telefónica, in spite of its membership in the Unisource alliance, had built all its Added Value by going-it-alone, i.e. through the parts of its strategy that had not featured working with a partner. For the two to function in an alliance they would both have had to change their tested and successful strategy that rested on a mixture of building and buying operations (see first chapter of the thesis in the section on "Ways to execute an international strategy") and replace it with an alliance-based strategy. The downfall of MCI WorldCom firmly ended all possibilities for success of the alliance and the integration of the two US companies into one merged entity may have distracted that new entity too much to work on building its alliance with Telefónica. But in the time before WorldCom was under legal scrutiny and its officials became subject to indictments the alliance never took off either. Yet at this time, MCI WorldCom did work on at least two acquisition bids (Nextel and Sprint) of which one, the latter, was an absolute mega-deal. In other words, if the digestion of MCI by WorldCom was a distracting factor to the merged company then it was subjectively so: it distracted MCI WorldCom from its alliance obligations vis-à-vis Telefónica but substantially less so from preparing further mergers. This further proves that MCI WorldCom was more interested in acquisitions than building an alliance. Telefónica, itself not a company with a convincing alliance record either, would, with Nalebuff and Brandenburger's theory have realised this and understood that its alliance with MCI WorldCom would only have a chance to succeed if both parties would drastically break their ingrained customs, something Co-opetition discourages as a road to take. The practical contribution provided by the Rules section of PARTS spelled out to Telefónica that the formation of an SBA with MCI WorldCom was not a strategically sound move and one that should have been avoided.

Conclusion of PARTS' contribution

Our starting point with regard to Co-opetition was to discover whether the theory could be stretched from its intended macro-level analysis to a micro-level. An affirmative answer could be of great potential benefit since the application of that theory can contribute positively to the phenomenon we place at the centre of our thesis: Strategic Business Alliances. In order to determine this we split Co-opetition's potential contribution in an analytical theoretical and a practical one. We then assessed the presence of such contributions by applying Nalebuff and Brandenburger's interpretation of their PARTS framework to our three telecommunication cases. Below follows a schematic overview of that application.

<table>
<tr><th></th><th>Players</th><th>Added Value</th><th>Rules</th><th>Tactics</th><th>Scope</th></tr>
<tr><td>Analytical theoretical contribution</td><td>BT and AT&T Concert alliance
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Sprint's position in the wake of the dispute within Global One</td><td>BT and MCI Concert alliance and the coming to a merger II

BT and AT&T Concert alliance

Telefonica's decision to leave Unisource

Added Value and Telefónica's involvement in alliances</td><td></td><td>MCI and the withholding of information on its performance</td><td></td></tr>
<tr><td>Practical contribution</td><td>BT and MCI Concert alliance and the coming to a merger
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Telefónica as a Player in the Unisource game</td><td>BT and MCI Concert alliance and the coming to a merger I

BT and MCI Concert alliance and the coming to a merger II</td><td>Telefónica and its alliance with MCI WorldCom</td><td>BT and MCI Concert alliance and the coming to a merger
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MCI and the withholding of information on its performance

Determining ownership of the Global One business after its demise</td><td>BT and MCI Concert alliance and the coming to a merger</td></tr>
</table>

We can now conclude this chapter with the observation that Co-opetition can apply to micro-level situations. As the table shows, in our cases Co-opetition contributes both in an analytical theoretical and a practical sense. The analytical theoretical contributions facilitate the understanding of important developments as described in our chapter on the cases. Because there is still much unknown about the SBA phenomenon, this function of Co-opetition is a welcome one to those interested in alliances from a scientific angle. Nalebuff and Brandenburger's theory allows itself to be an additional analytical tool in a scientific assessment of

SBAs. We also distinguished Co-opetition's practical contributions. Here the contribution lies in the provision of advice to those engaged in or contemplating entering into strategic alliances. Compared to other more traditional ways described in our first chapter, the relative novelty of this way of "doing business" calls out for useful paradigms and by featuring SBAs in the telecommunication industry we found that the structured and coherent format of Co-opetition's PARTS can perform that role. In sum, the PARTS framework helps with the theoretical analysis of SBA dynamics and it provides a beacon in the challenging terrain practitioners need to steer their alliance through.

War versus Peace: assessing our expansions of Nalebuff and Brandenburger's mindset against our cases

Assessing Hamel's theory against our cases

As we indicated above, the reason why we selected Hamel's theory on inter-partner learning is twofold. Firstly, with our base theory (Nalebuff and Brandenburger's Co-opetition) addressing business in general, we could not be certain that enough linkage would be present in their theory to relate to our cases. Our cases feature one specific and fairly specialised aspect of business, strategic alliances, and there was therefore a possibility that the levels of abstraction of the theory would be to high to match with our practical analysis of the cases. We believe that the previous section has shown that Nalebuff and Brandenburger's theory does allow for an assessment. In spite of this "self-sufficiency" of Nalebuff and Brandenburger's theory within the parameters of this thesis, Hamel's theory has not been rendered redundant from an analytical level vis-à-vis our cases. That is because we had established a second reason for choosing Hamel. As we observed, the basic notion of Co-opetition rests on the two notions "war" and "peace". Those contrasting notions that form one mindset make individually an attractive proposition to be tested against each other. In other words, in order to observe which of those two elements of the Co-opetition mindset would apply best to our particular cases we had to lift the notions and magnify them. In the case of the war mindset, Hamel's theory was elected due to the fact that it takes a fairly radical, almost Machiavellian aggressive, position on alliances. It is our belief that this was just as close as a theory on alliances can resemble war. Therefore, in this section we will assess to what, if any, extent Hamel is a suitable theory to interpret the developments we have witnessed in our three SBA cases in the telecommunication industry. We will use the hypotheses we distinguished at the end of our discussion of Hamel's theory.

Hypothesis 1:

SBAs are not an alternative to markets or hierarchies but an independent mode of organisation. In other words, SBAs are a static mode with no relation to the markets and hierarchy continuum rather than a dynamic mode that can take any position between market and hierarchy.

One of the first observations we made with regard to Hamel's theory is that SBAs should not be considered as a "half-way house" on route from market to hierarchy. In other words, contrary to Williamson's TCE take on SBAs, Hamel rejects this dynamic character of alliances[141]. Hamel maintains that alliances are not an alternative to either market transactions or the hierarchy of full ownership. Applied to our cases this would mean that alliances would not be treated as a transitional vehicle to arrive at a hierarchy but would be considered as an mode of organisation with a different purpose (in a moment we will observe what this purpose is, according to Hamel).
Assessing some of the developments in our cases, we conclude that Hamel's perception is at odds. Most explicitly in the Concert alliance between BT and MCI, the partnership evolved from an SBA and it was the full intention of both parties to transcend their co-operation into a merger, i.e. a hierarchy. In the case of Concert II, the partners did not reach this advanced level but it is highly likely that, had the alliance performed better BT and AT&T could have worked towards a hierarchy. The increase of the scale of co-operation after the conclusion of the SBA (i.e. the subsequent conclusion of their partnerships in Canada, Japan and in the mobile phone segment) allows for an interpretation that the two were moving towards more hierarchical relations. In any case, there is little evidence that they treated the alliance as a static station to satisfy their internalisation goals as Hamel proclaims alliances should.

Hypothesis 2:
Central aim of SBAs is the internalisation of skills not assets.

Following from the previous assessment, Hamel does grant alliances with a dynamic dimension, albeit not the organisational mode we just made reference to. As stated, to Hamel alliances are a temporary membrane which partners use to

[141] As we will see shortly, he does accept a different type of dynamics with regard to alliances.

fulfil their most important short term goal: the acquisition of skills. The intention to acquire skills differs substantially from the intention to acquire assets. Hamel does not consider alliances appropriate to acquire assets; those should be acquired through other organisational modes. Alliances are, however, highly suitable for the acquisition of skills. The dynamic dimension is embedded in the rule that a partner should only use the alliance for as long as the sought-after skills have not been acquired sufficiently. Once that has occurred the alliance should be left and independence from the alliance and the, then, soon to be former partner should be sought.

Whilst we witnessed a fair amount of departures from our alliances and we observed a high level of dynamics in relation to alliance membership[142], in no instance were such departures the consequence of the departing member having satisfied its internalisation objective. In the case of Telefónica leaving Unisource it was in fact almost the opposite: the Spanish company left the alliance because it considered that it did not derive any value from it rather than because it had deducted all it intended to gain from the partnership. Similarly, other departures were not due to Hamel's prediction either.

<u>Hypothesis 3:</u>

Intangible assets are the primary rationale behind the formation of SBAs.

In Hamel's theory, the ultimate purpose for alliances is to internalise intangible assets. These assets are virtually invisible and difficult to imitate. They can be of great value and imperative to possess for a company. Using an alliance as a temporary vehicle to obtain such assets through close observation of a successful partner may be the only way to succeed. Assuming that what Hamel considers the most appropriate use of alliances is copied in the SBAs in telecommunications we reviewed, one would expect that such intangible assets would be at the centre of the rationale behind most of the alliances or behind the most important ones.

[142] We have concentrated our discussion primarily on actual alliances and a very small number of confirmed negotiations between potential partners that did not materialise. Had we include only 10% of the speculations in our discourse this dynamics character would have bordered chaos.

In any case concerning the latter group, the evidence from the cases does not appear to bear this out. Whilst it is more than conceivable that obtaining intangible assets has played a fringe role in some, perhaps most of the alliances, intangible assets were never the main reason for the alliances. The alliances were about gaining access to markets, customer bases, infrastructure and similar tangible assets. Considering the amounts involved in the alliances we reviewed it is difficult to see how shareholders would allow them to be primarily about "invisibles".[143]

Hypothesis 4:

Inter-partner learning is an endogenous tool parties use to increase their bargaining power. There is a constant process in which parties use their (increased) bargaining power in order to change the alliance so they can appropriate more value from it.

Contrary to Nalebuff and Brandenburger who provide us with a well-balanced mix of the two, Hamel does not devote much attention to the part about value creation. His theory and the normative elements in his treatment of alliances in the article are almost exclusively about value appropriation. That may not be a big problem for our analysis since the subjects of our cases had little to contribute on the matter of value creation: all alliances shrank their owners' pies because none of the alliances we surveyed made a profit. Concentrating on the value appropriation

[143] Having said that, in the pharmaceutical industry it is less exotic to fork out high amounts for intangible assets, in fact some of the most important deals in that sector are about invisible assets. An important reason for this is that the rationale behind alliances in pharmaceuticals is often different from that in telecommunications. It became apparent in a number of acquisitions of small, successful and efficient drug developers by larger hierarchies that the acquired small unit's performance dropped almost immediately after the takeover. After analysis it was concluded that an important reason behind the turnaround was the changed situation within the erstwhile small company. Then, productivity flourished because of the company's informal atmosphere, short lines of command, etc. With the inclusion of the company in the hierarchy after the acquisition, more funds and other tangible assets were available to personnel of the small company but the intangible assets that were imbedded in its smaller size had all been gulped by the larger hierarchy. In order to maintain the positive elements from the small but add the benefits of the large company, alliances were used as a more appropriate mode. The difference with the telecommunication industry is that in telecommunications a contribution of a small company is far less often as ground-breaking and important to a large telecommunication operator because the type of markets are completely different. With this in mind it is important to note that conclusions drawn with regard to Hamel's theory – or the other theories – relate strictly to the telecommunication industry.

another problem may emerge. Hamel discusses value appropriation in terms of bargaining power between the partners. The changes in the difference in bargaining power between the partners are reflected in changes in the alliance. When one party increases its position vis-à-vis its alliance partner, it will look to increase its proceeds from the partnership or, in Nalebuff and Brandenburger terminology, increase its size of the pie. Hamel admits that many of the changes derive from exogenous factors but he distinguishes inter-partner learning as an important endogenous factor (one that parties can influence).

Considering the type and the nature of our research, it appears that an assessment of this element of Hamel's theory is outside our scope. However, if Hamel is correct and this notion of sifting bargaining power due to endogenous learning (or any of the exogenous factors) had occurred in our cases, we would have witnessed formal changes in the alliance structure. Changes did occur but clearly for different reasons than the ones Hamel predicts. At the same time, it can even be argued that in the case of Deutsche Telekom the stable 50 – 50 relationships over three interpretations proves the opposite: it is unlikely that the relative positioning of the two operators was constant and completely equal over a period of seven years. Within Hamel's assessment we would have had to observe at least some use of bargaining power by the partners during that extended time with the aim of increasing their size of the pie.

<u>Hypothesis 5:</u>

With the ultimate aim of seeking independence of one's alliance partner, internalisation by both partners will lead to a race to learn.

Finally, normatively, Hamel describes alliances in terms of partners that attempt to achieve independence from the alliance and their partner as soon as possible. In order to become independent a firm needs to have internalised what it set out to internalise. However, since the alliance partner will do the same, a race to fulfil its internalisation objective before its counterpart does, will emerge. This race to learn will characterise Hamel's alliances and termination of the alliance will follow once, at least, one partner has completed its internalisation programme.

Once again, there is no evidence to suggest that our cases were driven by Hamel's race to learn on the road to independence, neither during their existence nor in the reasoning behind their termination. Still, independence was sought eventually in all our cases, but not due to partners racing each other in endeavours to learn from their partner before they would succeed in doing so. One possible explanation why the race to learn was not observed in our cases is offered by Hamel's own theory. One of the preconditions, the intent to learn, will be low when alliance partners consider the alliance as an alternative to competition rather than as a temporary vehicle for improving competitiveness versus the partner.

Based on Hamel how appropriate is the "war" element in our alliances? Considering the break-ups and the healthy dose of contention we witnessed in our cases, the conclusion that Hamel, as representative of Nalebuff and Brandenburger's war mindset, would be a suitable theory for our cases seemed plausible. However, based on our assessment of the central notions of Hamel's theory in relation to developments from our cases, it proves that this is not the case, after all. Little, if any, of his theory is reflected in the important developments we witnessed in the telecommunication alliances we assessed. We will now turn to the theory that represents the peace mindset and assess how well that one relates to our cases. That assessment is later followed by a conclusion on the appropriateness of the war and peace mindset to SBAs in telecommunications.

Assessing Madhok's theory against our cases

As was the case with the choice for Hamel's theory, Madhok's theory was chosen for two reasons. We already mentioned in the part that assessed Hamel's theory that the first reason, our hedge-strategy in case Nalebuff and Brandenburger's framework would prove to be too general to apply to a topic within business as specific as SBAs, has proved to be too pessimistic. In the section above we trust that we have shown that Co-opetition does allow for the assessment of our cases without the need for supplementing the theoretical framework with more specialised theories on alliances. However, also similar to Hamel's case, Madhok's theory was elected for a second reason. Co-opetition's central element, the new mindset in business consists of two pillars: war and peace. We selected two articles that we consider strong representatives of those two contrasting pillars and discussed them both in the theory section of this thesis. Now, as we have just done for the war dimension of the mindset, we will assess the applicability of the peace dimension against our cases. Here too, we will try to establish whether the central notions of the theory presented are in accordance with developments we experienced in our telecommunication cases. We will use the hypotheses we distinguished and mentioned at the end of our discussion of Madhok's theory.

Hypothesis 1:

Madhok's central theme is that the presence of a sufficient amount of trust will decrease dissatisfaction with alliances. Given this, we will be able to attribute possible dissatisfaction in our case alliances to a lack of trust.

In order to assess this hypothesis we will first need to establish which of the alliances of our case studies featured dissatisfaction. It is important to indicate that Madhok, presumably consciously, uses the term dissatisfaction in his article and not termination or dissolution. In other words, our pool of possible qualifiers is somewhat larger than had his concern be alliance break-ups. Furthermore, Madhok does not explicitly define dissatisfaction but we interpret it as a feeling by at least one of the partners that the actual execution, the results or the development – current or expected in future – of the alliance are less than hoped or expected.[144] Based on the review of the cases we consider that there was dissatisfaction in Concert I and Concert II; in Global One; in Unisource and in Telefónica's alliance with MCI WorldCom. In other words, of our reviewed cases, we exclude the eunetcom and Atlas alliances.[145]

Concert I

As indicated, of all major alliances in the telecommunication industry this is arguably the one alliance that came closest to a desired level of performance. From an objective point of view there is the fact that this is the only SBA that

[144] We will have to restrict the interpretation to those situations in which such feelings came to the surface through actions, statements or other forms of expression. Dissatisfaction that remained internal, whether on the level of the individual manager (which is in fact Madhok's orientation) or, less likely, on the firm's level will fall outside our radar and assessment.

[145] Telefónica's planned alliance with BT and MCI never passed beyond the stage of agreement and will not be considered for that reason.

approached its break-even point and would almost certainly have reached it had its members not sought to fortify their relation through a merger. Thereby, we do not suggest that BT and MCI should not have decided to merge their operations because that intention was a sound one considering the parameters of the industry and the situation in which the alliance was. It is merely to indicate that there was little amiss with Concert I and, but for one, admittedly crucial, development this alliance would have been struck off the dissatisfaction list. But starting with MCI's profit warning and all subsequent developments till WorldCom's successful acquisition of MCI, dissatisfaction did manage to creep into Concert I. It will not need further elaboration that BT's reaction to the profit warning, MCI's refusal to accept a discount on the sale of their shares and, possibly even MCI's management readily acceptance of WorldCom's acquisition offer are all indications of dissatisfaction. It is our task to assess whether, in any way, trust or the breach of it, played a (substantial) role. If we analyse MCI's behaviour then there is little doubt that the release of a profit warning that would be considered as a crucial development was not pre-briefed to its long term alliance partner soon to be merger spouse. Whatever the relationship between the two partners was before – and that relationship appeared to be trustful considering the plans to merge - that move made for a severe breach of trust. If we turn to BT, however, their reaction to the profit warning, perhaps to some extent understandable, can also not be qualified as trustful. We will return to this when we discuss the second hypothesis.

Concert II

It could be argued that this alliance lacked trust almost from its inception. AT&T's acquired IBM's global network business on 8 December, less than half a year since the announcement of the formation of Concert II on 26 July 1998. Irregardless of whether there was a legalistic loophole in the Concert II contract not to include that business in the SBA, keeping it outside its partnership with BT was a violation of trust between partners. Furthermore, BT establishing its own extra-Concert II corporate business division was equally trust-busting. Further evidence of trusts violations in the Concert II alliance comes from AT&T's acceptance of NTT's investment in the company while AT&T and BT had an exclusive agreement through Concert to use Japan Telecom for their operations in Japan.

Global One

Perhaps the most obvious violation of inter-partner trust within our cases occurred in Global One. Much like MCI, Deutsche Telekom failed to inform its long-standing partner on an imminent development that carried importance. But in this case the silent treatment concerned a matter right at the centre of the partnership: an acquisition of a third party. The reaction of France Télécom, in word and deed, shows overtly that the partner had considered this self-interested behaviour on Deutsche Telekom's side as unexpected (and unwelcome), hence a breach of trust (see Madhok's definition of trust). The consequent court cases, contentious termination of Deutsche Telekom's membership in Wind and France Télécom acquisition of E-Plus in Germany were immediate indications of retaliatory reactions after trust had been breached.

Unisource

With Villalonga at Telefónica dissatisfaction with Unisource led to a withdrawal from the alliance. This is not to say that without Villalonga Telefónica would not have been dissatisfied with is Unisource membership. Villalonga entered Telefónica in July 1996. The first consolidated figures came at the end of his first year as a CEO and showed big losses strictly due to its involvement in Unisource. It is conceivable that his predecessor or any other CEO would have been dissatisfied with the Pts 7 billion loss. But another matter is whether this dissatisfaction was due to a breach of trust in any way. We do not see an argument for this. A different explanation than breach of trust needs to be sought for Telefónica's dissatisfaction (see below, in our section on Different Agendas and the cases).

Telefónica and MCI WorldCom

Dissatisfaction in the Spanish operator's other qualification for this hypothesis, its SBA with MCI WorldCom, showed itself in complete inaction by either of the partners. Despite the freedom to choose from a pool of interested candidates, Telefónica elected wrongly because the alliance never lifted itself off the paper that contained the signatures. Since both parties signed with free will, we consider their apathy as dissatisfaction. The question is, whether it was also a breach of trust. We believe it was not. Trust in Madhok's definition includes mutual expectations regarding each other's fulfilment of perceived obligations. The agreement both parties signed was a list of actual and perceived obligations, including endeavours to make the partnership a success. By this definition both parties were in breach of trust. However, because both parties did so in equal measure and none of the parties has expressed its dissatisfaction in deeds such as civil court action for compensatory claims or otherwise, Telefónica and MCI WorldCom may be technically in breach of trust but conceptually within the subject of alliances there are no consequences to such a breach. Had either of the parties suffered financially or strategically from the aloofness of its partner it would have been more plausible to consider this a breach of trust. Perhaps the underlying notion is that our initial statement on this matter should be revised: maybe parties were not dissatisfied with the lack of movement of their planned SBA. Certainly, our analysis of this issue in the Rules section of "Nalebuff and Brandenburger and Telefónica" seems to be consistent with that: both Telefónica and MCI WorldCom were in essence not the SBA-type of companies and therefore content not to play the alliance game but instead continue to focus on their successful method of executing their international strategy. That does, however, leave us with the question why they entered into the alliance in the first place.

<u>Hypothesis 2:</u>

In those cases where we can attribute dissatisfaction to a lack of trust we can identify those case where there was an absence of the structural component of trust and those cases where there was an absence of the social component.

To recap in short, the structural component refers to the fact that two parties will both gain when they synergise. They will refrain from self-interested behaviour because doing so will jeopardise their partnership which means that they will destroy their own current or potential value. We derive from this that if parties to an alliance do not have any synergy (left) and their association does not generate added value, the structural component of trust is absent and self-interested behaviour will prevail. The social component of trust is the glue that keeps the

relationship steady in cases of individual or mutual turbulence. Inevitable periods of unbalanced value appropriation will not lead to dissatisfaction of a partner (which may materialise in self-centred behaviour) because the social component provides enough trust for the partner to wait till a turnaround of its fortune.
The assessment of the first hypothesis has left us with the following three alliances to assess against the second hypothesis: Concert I and II as well as Global One.

Concert I

In the case of Concert I the structural component of trust was certainly present. The fact that the partners attempted to deepen their existing relation through moving from an alliance to a merger underlines that. The more contentious question is whether their relationship also had a social component. The initial reaction may be that they did not and that this is why the merger plans eventually, after WorldCom's timely intervention, collapsed. Further evidence for a negation of the social component is the reaction of BT management regarding its MCI counterparts, which we have assessed in the Tactics section on "Nalebuff and Brandenburger and BT". It can also be argued that the pressure from BT's shareholder is predominantly responsible for the loss of MCI. The reason why WorldCom had the opportunity to enter the game was due to the pressure on MCI to accept the discounted bid. This exposes the earlier mentioned weakness in Madhok's theory from the other dimension's side (earlier we asked how the social component enforces the structural one). In order to show this, let's assume that BT management did not want to lose the merger deal with MCI and was, therefore, prepared to show its dissatisfaction with regard to the profit warning situation but would not upset relations between the companies too much. We already established that there was a clearly present structural component. Considering also that this was the best example of a functioning SBA in telecommunications, it means by definition that there was in fact a large structural component. If, as Madhok indicates that the two dimensions reinforce each other, why was it that in this case the social dimension was not reinforced by the very strong structural dimension? There are two ways out of this dilemma. First is that the violation of trust by MCI was so large that, although functioning, no reinforcement mechanism of the structural component could "save" the social one. That is the easiest way out but we believe an unsatisfactory one. Where does this leave other alliances that had a smaller structural component? Second possibility is that the reinforcement mechanism Madhok mentions does in fact not materialise in practice. This possibility is awkward and equally unsatisfactory. Based on the developments we have to conclude that the social component was either absent or not present in the needed quantity. But the larger question is how does the reinforcing interaction of the two components materialise?

Concert II

In the second Concert alliance, the structural component was still present, although arguably less than in Concert I and also to a lesser extent than it seemed at the start. It was less than Concert I because in Concert I both BT and MCI had over time grown towards each other and the mutual hostage position was more prevalent than in the case of BT and AT&T (certainly from AT&T's side). Also, during the short time that the alliance lived, the synergetic value slid due to reasons we discussed earlier. As for the social component, examples of self-interested behaviour were evident and make for an easy conclusion that the social component of trust between the two partners was weak, at best.

Global One

Here it is even more doubtful that there was a structural component. Objectively, the losses that the venture made do not point towards the existence of this component. Also, with both parties having been allowed relative freedom to have an international strategy outside the alliance, doubts can be raised over whether they were really in a mutual hostage situation. We also saw the biggest exposure of self-interested behaviour of our cases with Deutsche Telekom's offer to be Telecom Italia's white knight. None of this indicates that the structural component of trust in this alliance was strong. As for the social component, strangely enough this component must have been present and, arguably, stronger than one may consider at first glance. Until the final blow, there had been one previous potential SBA-buster when Deutsche Telekom teamed up with Enel in 1997. Also, the continued sluggish performance of the alliance and Deutsche Telekom's frustration with the role of the French government appears to be indications of the "thick skin" mentality that is associated with the social component. Alternatively, such tolerance can be explained by considering that Madhok's propagated search for flexibility and ability to co-ordinate operations through trust was met independently in their extra-SBA operations by these partners.

Based on Madhok how appropriate is the “peace” element in our alliances? Contrary to Hamel, in this representative theory of the peace part of Nalebuff and Brandenburger’s mindset we have found a number of situations in our cases where Madhok’s theory proved to be an analytical tool to assess the cases. While some vagueness remains with the theory itself, there is merit in using Madhok’s foundations when one assesses SBAs in telecommunications. In our concluding section we will return to this when we place Hamel versus Madhok.

Conclusions

Building on much of the previous chapter in which we matched the different theories with our cases we will now finish with a concluding section that summarises the main concluding parts found in previous sections of this chapter. Our approach in this chapter will be to start with the more specific concluding elements and migrate towards the more general and central points we conclude from our research on Co-opetition and SBAs.

The issue of Different Agendas on the development of the alliance

We will initiate this concluding section with a brief application of the Different Agendas issue to our SBAs. Of our alliances all but one qualifies for an assessment in this manner. The demise of BT and MCI's Concert I was not due to different agendas on the development of the alliance, at least not before the agendas were dominated by the conflict due to the profit warning. Whilst that could be considered as a divergence of agendas too (in which MCI's agenda reads "merge with another company" and that of BT read "still to merge with MCI but at the newly negotiated price"), we feel that this situation is conceptually different from when Deutsche Telekom and France Télécom's agendas were dominated by their conflict. In that case, the existence of the different agendas was likely to be present for some time at the very least. Furthermore, the issue that dominated the agendas in the Global One case was a reflection of the different or diverged agendas whereas in the case of Concert I the dominating issue was in itself not a reflection of different agendas. Quite the contrary, it could be argued that precisely because MCI realised that agendas were synchronised that it decided to hide the bad news as long as it did because it expected a negative reaction from its partner or perhaps anticipated the call for a reduction in the sale's price. Therefore, with Concert I we have mentioned the only SBA free from this analysis.

Starting with BT's other alliance. Concert II, we consider that the divergence of the agendas occurred over time. Due to its relatively early detection the partners had the option to continue or dissolve the alliance. They choose to dissolve, rather than continue due to the changed market conditions and their own shifted priorities. Although mutual openness was not as high as it could have been, parties dissolved amicably also because the level of commitment, both financially and operationally had still been modest. We therefore attach the following scores on the variables we identified in chapter two to this alliance:

Concert II →	Early detection	Terminate	Harmonious

Considering the course of action in Global One's case with hindsight, the conclusion can be drawn that parties' agendas diverged from the beginning of the alliance. The proof for this can be found in the separate international strategies that the parent companies had. Firstly, had they had synchronised agendas there would not have been a reason for such extra-G1 activities. Moreover, if they had had the same agenda their separate projects would have shown more similarity. In the beginning it was not realised by the parties that they operated on such different agendas. But once Deutsche Telekom showed that it had realised it the consequences were termination of the alliance in a confrontational atmosphere.

Global One →	Late detection	Terminate	Confrontational

Telefónica's involvement in Unisource as well as its planned alliance with MCI WorldCom can be characterised as situations in which the agendas diverged from the beginning of the alliances. In the first case it led to Telefónica leaving the alliance, albeit harmoniously; in the second case Telefónica did not need to leave the alliance because the alliance never actually took place. So although in neither case the alliance actually terminated, it did terminate Telefónica's membership to either alliance.

Telefónica's→ alliances	From the beginning	Terminate	Harmonious

Looking at the outcome of our cases makes for the following interesting conclusion: irrespectively of when the different agendas where detected, the alliances were all terminated.

Conclusions on the war and peace mindset

Nalebuff and Brandenburger's Co-opetition is based upon what they call the new mindset. This new mindset builds on the criticism that Nalebuff and Brandenburger harbour towards the traditional conception of business. In this traditional conception business is exclusively considered in terms of competing. With reference to classical works on competitiveness the authors liken that approach to the mindset of war. They propagate the inclusion of mindset that does not only concentrate on the war dimension of business but also incorporates the peace side. This peace side is reflected in co-operation. As a consequence they prescribe the peace and war mindset which means that in business at some times one needs to adopt the war mentality whilst at other occasions the preferred mentality is that of peace. Whilst realising the message of Nalebuff and Brandenburger that in all aspects of business both elements of the mindset need to be exercised, we have sought out to see whether in the cases we use in this research the alliances are more likely to reflect the war side or the peace side of the mindset. We did this through magnifying the two opposing elements of the mindset with two articles that are positioned at the far side of the spectrum in their respective area of the mindset. In other words, one article represents peace – and we feel convincingly so – whilst the other article is a strong representative of the war dimension in the mindset. We assessed the articles' theories through a number of hypotheses: five in the case of the war side and two in the case of peace side of the mindset.

The war article was a theory from Hamel and features inter-partner learning. We conclude that little of the developments we witnessed in the cases on alliances in telecommunications have to do with Hamel's theory. Contrary to his assertion we found that alliances are used as a intermediate organisational mode between markets and hierarchies. This was evidenced by the fact that companies sought to upgrade their alliance status to a full merger one or by the fact that alliances shifted on the markets and hierarchy curve towards the hierarchy side through a number of further integrative measures. Hamel also proved to be wrong with regard to his prediction that alliances are about the internalisation of skills not assets. In all our cases we found that assets are at the centre of the alliances not skills nor the internalisation thereof. On the subject of assets, Hamel, furthermore, maintained that intangible assets, due to their difficulty of obtaining them will be the focus of alliances. Here too it appeared that another element of Hamel's theory does not relate well with the type of alliances we reviewed. Instead all the alliances were about tangible assets, be that infrastructure, customer bases, access to geographical markets and more. Also on the prediction that inter-partner learning will form the basis for a partner to improve its position within the alliance through the use of continuous rounds of bargaining was Hamel incorrect. Whilst an imbedded approach to firmly accept or reject that hypothesis is beyond our current research, given the absence of the changed positions within the alliances as a consequence of such rounds of bargaining we can safely conclude that there were none. Finally, Hamel distinguishes a race to learn between alliance partners in which the speed of inter-partner learning determines the longevity of the alliance. Also on this final point did we not see a match with our cases. The inter-partner learning dimension in our alliances was modest at best and certainly not a determining factor in the longevity of, or other ways deciding in the course of the alliance. Having demonstrated the elements that led to the conclusion of a rejection of the war dimension of the mindset in our alliances, we now turn to the article that represented peace. The central notion in the magnifying article of this mindset was trust. This article was written by Madhok. We assessed two hypotheses. In the first we had to determine whether possible dissatisfaction at the alliances could be attributed to a lack of trust. In three of the five alliances we were able to do so. In the second hypothesis we needed to identify whether we would be able to distinguish a structural component from a social component in those alliances that we had identified in the first hypothesis as in agreement with Madhok's theory. Not only did this prove to be possible, we were also able to assess alliances on the presence of the structural and / or social component of trust.

In conclusion, we clearly found that the alliances of our cases were more about issues of trust. This is not to say that in our alliances partners operated in a trust-worthy manner with each other. As we saw, there were some clear examples of the opposite. What is means is that in the type of alliances we featured in this thesis, issues of trust, whether present or violated prevailed over issues of war. The meaning of this is that when it comes to the large SBAs of the type that we have assessed, partners are not primarily concerned with the extreme elements of the war mindset. They are closer to the extreme elements of the peace dimension of the mindset. That means that it is more about co-operation than about competing when it comes to inter-partner relations. From what we gathered from the cases, parties in an alliance in the telecommunication industry attempt to eliminate the inter-competitive possibilities as much as regulators allow them. This is by no means a tautological statement. Nor does this mean that this is universal for all alliances in all industries. By comparison, we assessed large global alliances in telecommunications. Does the same conclusion hold for alliances in telecommunications where a small firm, for instance at the cutting edge of mobile technology, enters into an alliance with a large incumbent that is not at the forefront of technology. Will in that scenario, the peace mindset also prevail over the war one? And what is the situation with regard to other industrial sectors? Is an alliance between two major car producers as much about peace or do the competitive war elements enter into the relationship? We will return to this in the paragraph on Suggestions for future research at the end of the thesis.

Conclusion on Co-opetition

Finally, we provide some conclusions on Nalebuff and Brandenburger's Co-opetition. We believe that their theory, in spite of the fact that it makes a general appeal to business, has great merit for the subject of SBAs, both analytical theoretically to those studying this phenomenon and practically to those engaged in alliances. Had all our cases taken the Co-opetition theory to heart some of the heart and headaches could have been prevented. We have already made our observations regarding their peace and war mindset, albeit interpreted through other scholars. Furthermore, Co-opetition's Value Net (especially when extended to include the second or even third tier competitors, complementors, suppliers and customers) provides the firm with a good overview of the different roles the same player could take vis-à-vis the company. It can also help discovering "odd" and unexpected actors in the role of complementor, for example. The theory's greatest "added value", however, is in the PARTS section. Firstly, from an analytical point of view much is to be drawn from the theory. In addition to that, Co-opetition also proved to have practical value.

Admittedly, with the advantage of hindsight, BT management could have known, had it carefully assessed the Scope part, that WorldCom could have been attracted by a lower price for MCI, especially after relations between management of the two companies had turned sour. WorldCom had done nothing but acquisitions in the years prior to then. Also, after its latest acquisitions of MFS and UUNET increasing its long distance appeal was almost a given. Before that, BT could have saved itself the loss of MCI had it earlier resorted to bring GTE into the game as a three-way partnership rather than after WorldCom had already made its bid. BT shareholders would do well to take a few leaves from Nalebuff and Brandenburger's book, too. They underestimated the true Added Value of MCI because since its departure their BT's international strategy has never recovered. Also, they are at least partly responsible for the entrance of a bigger player in the form of WorldCom. MCI merely needed to have glanced over the section on preserving the fog to know that hiding the information on the profit warning would only have made real sense if it would never have come out. Short of an amazing turnaround in the days before the actual warning, that seems implausible. On the other hand, MCI did come out as a winner of the situation (till WorldCom crashed) and they benefited handsomely from the Added Value entering Player WorldCom had to them. BT's lessons from its second Concert alliance could include that Added Value does not operate in a vacuum. When market conditions changed, parents turned inwards and the already exaggerated Added Value of Concert II disappeared. Deutsche Telekom and France Télécom and all companies that end up in a similar situation can learn from Nalebuff and Brandenburger's Texas Shoot-Out. The lengthy negotiations about the sale of Global One to either Deutsche Telekom or France Télécom could have been prevented (especially since the two negotiating companies were perhaps not looking forward to meet each other every day considering the sour course their relation had taken). There is no reason to assume that a Texas Shoot-Out leads to an unsatisfactory outcome, if played properly, which is not hard to do. Sprint CEO Esry could very well have read Nalebuff and Brandenburger's section on Players. Bringing in WorldCom when negotiations with its company's alliance partners had reached a dead end was (almost) a strategic and lucrative pinnacle. Finally, the most important lesson for Telefónica has to be that it linking up for an alliance with a company that has only shown interest in acquisitions is bound to become a challenge. If, in addition to that one's own company has the same characteristic, the project approaches the state of impossibility.

Finally, we consider that Nalebuff and Brandenburger's theory has proven theoretical academic value and provides a number of lessons to the type of alliances we featured. Although, as we indicated in the section on the cases, such alliances in the telecommunication industry were fairly special and have become largely absent since the early 2000s, Players in other sector where alliances are still much in vogue do themselves a favour by going over Co-opetition while they still have an SBA.

Summary of conclusions

We will now summarise the findings of our research. These findings can be categorised in three sections which correspond with the three issues we have addressed in this thesis.

Periphery findings: the issue of Different Agendas

Within the wider subject of alliances, the instability factor receives ample attention. However, such attention is generally of anecdotal nature and attempts to map the perceived inherent instable nature of alliances theoretically are all but total absent. We have taken initial steps on this path by magnifying one possible dimension of the instability: the issue of Different Agendas among partners in an alliance. We provided a scenario-based theoretical construct and applied it to all but one of the SBAs we reviewed in our empirical section.[146] Our construct operated on the following scenarios. The occurrence of Different Agendas could either be detected early on in the alliance's existence or late. The detection could lead to a termination of the alliance or a continuation, probably with altered conditions. A final set of variable outcomes was the nature of the relationship between the partners after the discovery of Different Agendas. In this case scores could be harmonious or confrontational. The application to our cases led to the conclusion that after the detection of Different Agendas the relationship could either be characterised as harmonious or confrontational. But more salient was is the other conclusion we could draw from our cases. It did not make any difference when the occurrence of Different Agendas was detected, in all cases the detection led to termination of the alliance.[147]

Sub-central findings: the War and Peace Mindset

We have sought to operationalise Nalebuff and Brandenburger's Mindset which has a war and a peace dimension. Hamel's inter-partner learning represents the

[146] Concert I was excluded from this analysis; see the discussion of this conclusion for our motivation to do this.

[147] We are aware that the number of our cases is too small and the approach of this part in the research too "peripheral" to present this as hard evidence. The treatment of the Different Agendas issue should be considered as an invitation to further develop this, and subsequently other, aspects of the instability argument and thereby transcend the current anecdotal treatment of the issue. See below, the section on Suggestions for future research.

war side of the mindset and Madhok's trust-based approach represents the peace side. We then assessed our cases against the central notions of both approaches.

Regarding the war dimension in our cases:

- Contrary to Hamel's vision, alliances were considered intermediate organisational modes between markets and hierarchies;
- Also, contrary to Hamel, skills nor the internalisation thereof appeared to be at the centre of our alliances;
- Not, as Hamel suggest, intangible but tangible assets formed the focus and raison d'être of our alliances;
- Partners did not appear to attempt to improve their relative position vis-à-vis each other through inter-partner learning and, subsequently, exploit this in rounds of negotiations;
- The race to learn that, according to Hamel, takes place between partners was completely absent too. Consequently, longevity of our SBAs was not determined by that factor as Hamel predicts.

Regarding the peace dimension in our cases:

- Madhok's assertion that possible dissatisfaction in alliances can be attributed to a lack of trust was proven and consistent with three in five of our cases;
- Following that we needed, in those three cases, to be able to distinguish trust in a structural and social component to prove validity. Not only were we able to do that we actually could also assess the alliances on those components.

We can, therefore, conclude that our type of alliances is more consistent with the peace side of Nalebuff and Brandenburger's Mindset than with the war side. Stated differently, our SBAs were more about co-operation than about competition as far as inter-partner relations concerns. This finding reflects our empirical findings: within the telecommunication alliances we assessed the companies attempted to eliminate the inter-competitive possibilities as much as regulators allowed them.

Central findings: Nalebuff and Brandenburger's Co-opetition

In spite of the fact that Co-opetition is intended to appeal to business strategy in general we consider the theory of great merit to the specialised subject of SBAs, which, as we established at the start of our thesis, is in dire need of applicable theoretical frameworks. Our treatment of empirical casework revealed theoretical and analytical contributory value of Co-opetition. The application of PARTS provided us with a number of examples of this value, some of which we will summarise here.

- Scope: BT management would not have been caught out by WorldCom's bid for MCI had it assessed this element of PARTS;
- Players: An earlier introduction of GTE into the game would have averted the loss of MCI as a merger partner;
- Added Value: BT shareholders would not have underestimated MCI's true value to their company had they assessed it according to the parameters Nalebuff and Brandenburger proclaim;
- Tactics: Had MCI reviewed the section on "Preserving the fog", it would have known that hiding the information that resulted in the profit warning would backfire and jeopardise its merger intension with BT;
- Players: Consistence with Nalebuff and Brandenburger's assessment the introduction of WorldCom changed the game with BT to MCI's benefit;[148]
- Added Value / Scope: BT's expensive lesson on Concert II was that added value is not an absolute measure operating in a vacuum. The changed market conditions completely destroyed the (already overrated) added value of the SBA;
- Tactics: Deutsche Telekom and France Télécom could have prevented lengthy, awkward negotiations on the dissolution of Global One had they followed Nalebuff and Brandenburger's Texas Shoot-Out application;
- Players: In accordance with Nalebuff and Brandenburger's prediction, when Sprint brought in MCI WorldCom it completely changed to game to its benefit. By doing this it almost turned dead-end negotiations with its

[148] Until WorldCom's fraudulent practices were exposed.

Global One partners into the biggest acquisition in corporate history with Sprint as a large beneficiary;

- Rules: For Telefónica forming an SBA with MCI WorldCom was contrary to Nalebuff and Brandenburger's advice. It would require a radical change of engrained practices of both MCI WorldCom and Telefónica and those specifically are not the type of Rules Co-opetition suggests changing.

Suggestions for future research

One of the first suggestions we made in this thesis regarding a desired direction of future research was related to the ownership and control paradigm. As far back as the 1930s academia has engaged itself with issues of ownership and control in business and theoretical contributions have migrated from referring to a single national form to a parent company with overseas (wholly-owned) subsidiaries. We indicated that these well-established paradigms have little applicable value to the more recent and diverse phenomenon of SBAs. However, our call for new paradigms of ownership and control to adequately cover alliances should be considered as a direction to work towards in a much longer term than our current suggestion for future research refer to. We propose to concentrate research efforts first on more incremental areas before developing a potentially grand theory on ownership and control. Considering the absence of clarity in defining alliances (see chapter 1) it is no surprise that the existence of a developed theoretical body on alliances is left wanted.

In this thesis we take a first step in considering an existing theory as a possible framework to assess alliances. Having shown the applicability of this theory to our cases, our first, and most logic suggestion for future research would be testing Co-opetition on alliances in different sectors and industries. SBAs in the automotive sector, airlines, pharmaceuticals and the steel industry have some completely different features due to the differences in the industries they refer to (Mytelka 1990, Ojode, 2004, Vassolo, Anand and Folta, 2004). For example, the traditional regulatory aspects we witnessed in the telecommunication industry are absent in the automotive industry. To be sure, if a proposed alliance is deemed to be anti-competitive industry regulators will sanction the deal in a similar fashion as would be the case in telecommunications. However, although not entirely regulatory-free, car companies contemplating alliances are generally not bothered by golden (state) shares and possibly civil servant legacies, universal service requirements, network development and interconnection fees, or "cherry-pickers". The presence or absence of these matters directly influences a company's alliance strategy. Similarly, the airline industry (also highly regulated, infrastructural, typically high fixed costs, small profit margins due to low-cost operators, brand-driven) differs from the pharmaceutical industry (driven by R&D, healthier profit margins, "focused" regulation, highly fragmented) and so on (Kangis and O'Reilly, 2003). These differences lead to different types of alliances and our first suggestion for future research is to assess Co-opetition's applicability on different types of industries and sector. The outcome of such studies will either promote Co-opetition to a generally valid theoretical framework for alliances or prove it to be more applicable to some sectors than to others.

The aforementioned is our primary suggestion. A secondary relates to Co-opetition's Mindset. Without some of the logistical restrictions we faced in our research, a more embedded approach may be possible with regard to the testing of the peace and war dimension in alliances. A detailed mapping of the scores on these dimensions by different types of alliances would make for extremely valuable research output. We maintain that the inter-partner learning versus trust-based approach is a useful mark to build on but suggest collecting empirical material through either inside observation or extensive interviewing. However, much like we encountered, participants' reluctance to divulge potentially strategic information may be a stumbling block to this suggestion.

Finally, our third suggestion for future research refers to our periphery subject of Different Agendas. Our scenario-based theoretical construct is intended as the first building stones to develop a theory on Different Agendas in first instance and around the entire instability argument as a wider goal. Our suggested approach in this case would be to focus on one single alliance as a longitude study with a separate researcher as analysts at the each of the individual alliance partners and one analysing the collective membrane. After a set period, initially three to five years, the researchers will compare the interpretations of the individual companies and to what extent this was reflected in the collaborative membrane as well as how the partner interpreted the other partner's output. This will reveal if and when agendas differed. However, potential weak point in this approach is that co-operation of the companies with this research is unlikely to come from those partners to an SBA that intend to operate on a hidden agenda from the outset.

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