INSEAD
The Business School for the World®

Working Paper Series

2017/25/STR

Responding to Digital Disruption through Alliances

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Incumbents find it difficult to respond successfully to the digital disruption, they may not recognize or take proper measure of the threat early enough and find it hard to develop and implement a timely and effective response. In this paper, based on academic research and personal managerial experience, we propose a way for strategic alliances between incumbent competitors to enable the development of successful responses to disruption. The approach runs counter to conventional wisdom in alliance management, on partner selection, sequence of alliance building steps, the move from exploitation alliances, and the governance mechanisms and leadership principles required for success. These differences are described and analyzed.

Keywords: Innovation Alliances; Corporate Entrepreneurship; Digital Disruptions; Telecom Industry; Innovation Management; Competitive Collaboration; Venture Incubators

The threat:

The digital revolution brings growing challenges to many established industries. New digital players, led by giants like Google, Apple, Facebook or Amazon, enter their markets and disrupt the incumbents' markets. Incumbents find it difficult to mobilize an effective response; dependency on key customers, strategic inertia and organizational rigidity, regulatory barriers and in some cases hubris and a misplaced sense of entitlement conspire to make their competitive responses slow and ineffective. The process of disruption is faster than their ability to respond. In the next decade new competitors from fast evolving industries will increasingly invade and uproot incumbents and submit them to brutally accelerating dynamics for which they are ill-prepared. This is not just confined to digital giants on the prowl. For instance, disruption may also happen from within an industry: consider an altogether different concept of elevators (Schindler's) challenging a mature industry from within, or challenges may come from converging technologies, such as immunology-driven breakthroughs in oncology triggering a new wave of urgent alliances and mergers in the famously conservative and ponderously slow "big pharma" industry.

In this paper we explore how strategic alliances can be used to deploy fast and effective responses to disruption, and show that in order to do this the conventional wisdom around the practice of alliances needs to be turned on its head: new approaches need to be discovered and new practices defined and implemented. Many are counter-intuitive to managers used to traditional alliances.

To explore why and how to pursue new approaches to strategic alliances we have gone to the front-line, where disruptive threats are strong and danger proximate and imminent, and where incumbents are woefully ill-prepared but need nonetheless to be at the forefront of effective responses: the battle between incumbent telecom service operators ("telcos" in short) and the new digital giants (Apple, Google, Microsoft, Facebook) who are invading their businesses. The internet creates new ways for offering traditional services in a different, faster and cheaper way and to create whole new high value-added services - on a worldwide scale - which leave incumbents in several industries faced with a set of unknown nimble adversaries unburdened by the incumbents' constraints and legacy cost structures. The more widespread Internet enabling becomes (e.g. with the Internet of things) the more widespread and profound the changes and disruptions to traditional industries will become.

In short, in the telecom industry the emergence and fast adoption of smartphones, putting the Internet into the hands of consumers on the go, triggered the move of e-commerce digital advertising and many other services from computers to phones. This paved the way for the invasion of the telcos' market by new digital giants and started the war between telcos and them. The digital invaders introduced a series of new products traditionally associated with telcos (Facetime from Apple, Skype from Microsoft, WhatsApp from Facebook, and in China Tencent's WeChat, Rakuten's Line, etc.). Google jumped all the way by providing its own fiber and mobile network in the US and offering Google-branded phones. This confrontation is now turning into a three-way war with new applications and services as the main battle grounds: Both the telcos and the Digital Giants share the same ambition to challenge, invade, create and transform industries that appear at first glance "alien" to their core business (e.g., Google with its autonomous vehicles, its push toward smart homes and many other new initiatives, or Apple with ApplePay challenging the banking industry and probably soon an Apple car). Their common strategic priority beyond each new business is to maximize customer touch points with their core products and build and maintain preferential relationships and strong brand loyalty throughout the entire range of customer experiences, all embedded into the same eco-system, which contribute to further growing their core products and services.

So far the telcos have been notoriously unsuccessful in executing this type of strategy whereas the digital giants are accelerating their pace. The telcos have lost significant ground on enhanced communications such as mobile video calling (Apple's Facetime, Microsoft's Skype) or enriched messaging (Facebook's Whatsapp and Messenger) and continue to be offering "too little – too late" in other adjacent market opportunities such as 'mobile payment' (Apple Pay, Google Wallet) or 'smart connected home' (Google's Nest).

The telcos' leaders understand this poses an existential threat. Once the distinctive look and feel of the telcos' home grown applications and new services disappears from the mobile screen a major differentiating element between them no longer exists; leaving the dire prospect of greater price competition on commoditized network access infrastructure (still requiring heavy investment) as the only future of their business. They want to avoid being relegated to providing the anonymous pipes through which others would create and capture value.

Making an effective strategic response even harder, the strong liberal market attitude of the policy makers (both in the EU and the US) has led to very constraining regulatory and competition law demands. For instance, any initiative to acquire or merge among telecom operators in Europe or the US is met by the imposition of market repair remedies such as the obligation to open up the network to such third parties as mobile virtual network operators. This allows some predators to circle the skies until they can get access to the infrastructure of the telcos with fairly low financial risks (Google's Mobile Virtual Network, for instance, is "hosted" by Sprint and T-Mobile US). This basically eliminates the competitive edge a larger consolidated installed base could bring to the telcos, making consolidation a self-defeating game!

Why is this threat so difficult to face?

But the problem is not just regulation. Like with many incumbents in traditional sectors challenged by the digital revolution, the telcos' time-to-market tempo for new services is simply too slow in comparison with the Digital Giants. Geographical fragmentation, complex organizations inherited from a quasi monopolistic recent past as utility companies and very cumbersome and lengthy standardization debates among them - required to guarantee interoperability and thus scale - have contributed to a very slow-moving eco-system with enforced consensus as the norm. As the changes and discontinuities happen fast and in an unpredictable way it is extremely difficult - not to say quasi impossible - to expect the internal organization to anticipate these or - depending on their size - if that fails to quickly react to these changes. Telcos already tried—and failed—to run through major transformations using change processes that worked in the past; they are too slow or ineffective.

In essence the industry, not so long ago technology intensive national monopolies running only traditional networks in very conservative and reliable ways, is often it's own worst enemy. Incumbent telcos need to find ways to combine a legacy core business, run with great discipline and efficiency, with the ability to explore new domains and discover new services that may transform this core business. They need to be fast and flexible in seizing collaboration opportunities to capture these domains, to be willing to take risks and accept uncertainty, to create new domain strategies and alliances on the go as one experiments and learns, rather than follow and implement a predetermined plan. The dire experience of Microsoft, struggling to protect "Windows" for too long before a new CEO recognizing the inevitable, or worse, the demise of Nokia in mobile phones, show how easy it is for a strong incumbent organization to err toward too much continuity and drive out renewal opportunities.

Why seek renewal through alliances?

As every incumbent – any company that has successfully matured past the stage of being a start-up in any industry -- the telcos face with very high financial, political, social and environmental stakes. The sheer intensity and speed of disruption is such that incumbents can't respond alone fast enough; should they somehow succeed in reorganizing themselves internally they would need to part from their existing beliefs but stay within the boundaries of what is acceptable and understandable for both internal and external key stakeholders. This a very difficult balancing act. The disruption is not just attacking one or the other established player but the whole industry, with different paradigms and business models, it calls for the incumbents to re-become start-ups in their thinking and execution.

Given the stringent external threats and constraints and the internal rigidities they face, telcos are constantly but unsuccessfully seeking new strategic responses to digital disruptors, innovative business models, and efficient scale. They also strive to leverage internal capabilities and circumvent the constraints anti-trust policies impose. Turning to alliances in that context is a reasonable choice, but alliances are no easy panacea. To achieve the speed and flexibility needed to face the digital giants, they present challenges of their own:

1. **Speed is of the essence; but building trust in an alliance takes time**: Alliances are needed to respond quickly to emergent changes, seize new opportunities, and not be left behind by new unexpected and fast moving markets or technology developments in Internet services. Yet, if digital technology is fast, human beings are slow. And the development of trust among them paces the speed of effective alliance negotiation and implementation. Reaching mutual understanding and learning to work across organizational boundaries can't happen overnight. It takes years. So, the post-internet digital industry is simply too fast for traditional alliance building. Alliances typically take years to bloom and really create value; they are best suited to slow moving industries. Likewise, in big organizations inertia looms around every corner of each hierarchical layer. Simply leaving an established organization to re-invent itself out of its own "free" initiative, in light of external threats, is not likely to be very successful. Hence any acceleration in clock speed of recognizing challenges, identifying solutions and executing actions is a significant gain in comparison to the normal evolution of a big organization.

2. **Short of trust, precise contracts may help, but they may also be self-defeating**. Of course a tightly specified initial framework of agreement may limit the need for trust, but it also severely limits the room for adaptation. Adapting tight initial frameworks to new circumstances might require some significant re-thinking of the alliance; in-itself a slow process fraught with risks of disagreements and break up. Second, unless the letter of the agreement is quickly transcended trust is even harder and slower to build within a very tight framework (participants may be more concerned with monitoring each other's compliance, looking for breach of agreement, than with truly working together). Attempts at contractual revision may fail. So whilst a tightly-defined framework may allow collaboration to start in earnest it compromises its longer-term success. And, third, considerable time and energy may be wasted in cumbersome arduous interactions in implementing an agreement that progressively becomes a straightjacket and in attempting to renegotiate it, sapping commitment and energy.

Driving for the assumed but false security of contractual clarity and completeness, sidestepping and ignoring the philosophy or flexible spirit of the partnership or strategic alliance, can result in undermining the longevity and effectiveness of the cooperation, particularly in new Internet-based businesses. Alliances are ways to progressively remove the uncertainty of a business opportunity by working together to pursue it in an unstable context and reduce not only its intrinsic uncertainty but also possible ambiguity between the motives of partners who learn experientially on the go together. So, if a complete contract could be written ex-ante, it could just as well be for a license, a supplier agreement, a distributorship, or the products themselves. In many cases mere spot transactions would even do. No need for an alliance! Uncertainty and ambiguity create the need for an alliance. Coming to the negotiation table with a pre-conceived very precise set of expectations is in itself the most effective recipe for future complexity and frustration - hence potential failure – yet this so obvious point is almost always overlooked. For many, particularly in proud incumbent companies, it is counter-intuitive to strike a good balance between an "open ended" relationship and a sufficiently "binding commitment" in a formal agreement.

3. **Reluctant collaboration**: A truly balanced collaboration in an organization used to dominance in relationships with suppliers and partners (e.g., as we heard it from a chastised ex-Nokia executive: "For us, 'balanced' used to mean WE WIN BIG, you win small") may also sound like an admission of failure and smell of defeat. This may be partly true in alliances among incumbents: alliances are used as a stopgap measure to offset prior difficulties (for instance slowness in Internet product and services development). In other words they are entered from a position of weakness not of strength. Constructive humility is hard to come to for the arrogant, and seeking an alliance may be a first visible signal of difficulty internally, something executives may only resort to reluctantly. Yet, the effort of safeguarding the philosophy of collaboration--flexibility and balance throughout the creation and management cycle of the strategic alliance-- is of paramount importance and requires constant self-scrutiny and forbearance on the part of all stakeholders. Collaboration takes nurturing.

   The reluctance to collaborate may also stem from internal tensions, between levels in management, and between different hierarchies such as central staff groups and local operating subsidiaries in various regions domestically and countries internationally. We had learned from the past that the cooperation within and between members of different organizations should not necessarily be expected to be open minded and positive, despite the CEO's strong drive and convictions. Collaboration at the top would not necessarily percolate through the organizations, yet in order to succeed, the alliance has to achieve alignment at all levels of the respective organizations on a permanent basis. Likewise, we knew from past experiences that the role of the alliance managers as "bridge builders" or "boundary spanners" has its limits as well. In the creation of a strategic partnership we therefore need to take into account both the current and future behavioral reactions of the involved people at every echelon as well as the business challenges of finding speed, flexibility and alignment.

4. **Festering rivalry and suspicion**: The ability to collaborate is further undermined by increasing rivalry and threats of encroachment between potential partners. In the digital services' world value contribution and value extraction among all incumbents and new market players are constantly, and often unexpectedly, shifting, being redefined and contested. This constant reshaping of the value creation and capture balance between players poses serious problems for big organizations which find themselves confronted with the need to connect and collaborate with external parties to rapidly overcome their internal limits, for instance in accelerated product development, and to keep serving rapidly evolving markets and yet, are rather slow in doing so and justifiably suspicious of each other and of new players. But they still need to team up with external parties/competitors to face off the digital disruption. Making a big organization be fast and collaborative is slow, particularly when it faces uncertainty and ambiguity!

5. **Unleashing the Demons of control:** Large incumbent companies used to lead in their markets are not well prepared for successful collaboration. Given their cultural legacy of national dominance one of the challenges they face is to effectively manage the "demons of control" who tend to come back into the debate with a vengeance, whenever it comes down to agreeing on a legally binding text for a framework agreement for balanced collaboration between the parties. Whereas senior management will solemnly promise that the relationship will be 'fair", "balanced" and "open minded" the legal teams drafting the framework agreement will sometimes consider it their duty to protect the company against open ended clauses and unclear definitions of scope and underspecified expected deliverables and benefits, inadvertently creating a straightjacket.

Can alliances really be the answer?

Management scholars advocate that incumbents need to set up new divisions focused solely on the growth opportunities that arise from the disruption. They also suggest that the success of these 'new enterprises' depends in large part on keeping them separate from the core business; which means that incumbents will find themselves managing two very different types of operations. As the disruptive stand-alone business grows it may eventually steal customers away from the core … and create growing tensions.

But is an incumbent really likely to allocate, just on its own, a lot of management attention and financial means to a separate division poised to potentially eliminate over time the very core business of that same company? At best, it will grudgingly tolerate an “in-house anomaly” to exist, as insurance against a possible future business catastrophe, but it will always - at most- consider it a defensive move. Hence the observation that keeping it separately from the core business – not quite “in-house”- is key to success. Our experience suggests that depending on the size of the disruption and the urge to react for the incumbent (which is also a function of the degree of denial/refusal to react in the past) the likelihood of finding senior management willing to set up a separate division varies greatly. One of the main reasons for feet-dragging being the personal threat this represents for the people holding power over the core business. One of us personally observed how the CEO of a major operating unit threw a very emotional set of arguments on the table to prevent new initiatives from becoming a serious business unit to face off WhatsApp and other new platforms, on the basis such initiatives would eat into the core business. It is quasi impossible to sustain an argument against entrenched operating executives stating that disruption needs to be faced off but that the core business should be preserved whilst doing this; consequently the messengers get shot and the company carries on as before further walking towards the abyss.

Faced with this bias toward inaction, fostering an understanding that an alliance with other incumbents in the same industry facing the same disruption could be beneficial is a refreshing way of challenging internal inhibitions and reducing the overall risk of failure of the new initiatives. Knowing others are in the same boat helps convince one needs to act. The purpose – and thus the design of the alliance – are therefore not only to acquire resources/know how or to address new markets – as is the case in more traditional alliances - but even more to accelerate and accompany the conservative incumbents in their 'skin changing’ morphing process in view of the rapid emerging changes around them affecting their core business and existing market.

To illustrate these alliance dynamics let’s first delve into a situation we know from the personal experience of one of the authors. After having announced in September 2009 the merger of their respective businesses in the UK (Deutsche Telecom UK and Orange UK) into EE (a new brand and joint venture) both CEOs had developed a very good mutual understanding and shared a similar vision on the future of the industry. Failing to rally the CEOs of the top five European telcos into jointly addressing some of the major disruption to the industry - within the boundaries of applicable competition law – both the CEOs of Orange and Deutsche Telekom decided that a bilateral strategic partnership ought to be easier and faster to operate, and would deliver more tangible results. Its key success factors were defined as: enabling speed of execution, allowing for flexibility, stimulating alignment and building trust whilst respecting competition law constraints and retaining independent strategic maneuvering space for both parties. In 2011 they both made it a high priority for their teams to make the strategic partnership between their firms a success.

Facing disruption through alliances:

The challenge was enormous given the barriers we outlined above. Conventional wisdom would doom the collaboration from the start. In our reflections toward making this alliance real and effective a few principles emerged for the management of alliances against disruption. They are summarized below.

Putting form before substance:

A lot of effort was devoted upfront in first designing and agreeing on the process for committing to co-operation rather than on the precise content and scope of cooperation. A new, simple, transparent set of management principles and procedures was needed which would enable two different groups of managers to interact with each other as well as with their respective chain of command and this in many different, as yet unknown, situations. The governance was geared to allow for a relatively swift assessment of each cooperation field (from a broad initial list of potential areas drawn by each company) and provide quickly "go-no go" decisions by and towards both organizations. In moving from ideas to concrete projects the incubation governance model aimed at striking a fine balance between "exploit and explore" and provide reassurance to the project leaders that they would not be alienating themselves from the mainstream organizations.

Following the joint incubation phase, the operational implementation of the alliance decisions still needs to take place at the local levels in the various operating subsidiaries. So gaining the true commitment of these subsidiaries' managers within both partners was a basic precondition: they would have to do the work. Failing to gain their wholehearted support could be another source of slowness, tension, conflict and failure. We had experienced in a previous alliance that deep-rooted frictions inherent to the organizational design of the respective parties can undermine the effectiveness of any cooperation. In particular, whilst the two companies were partners from a corporate perspective, they remained competitors on the ground in various countries. Furthermore, implementation could become mired in conflicts between central functional units and local market units on the ground. This obviously didn't help to incite trust between the parties. We realized that the incubation process needed to be complemented by a specific alliance implementation management approach.

In 2003, when setting up the Open Seamless Alliance (described in an INSEAD case study) for optimizing the mobile roaming market (using your phone abroad), we had already experienced the problem of managing sensitivities and building up trust between parties with seemingly conflicting interests. We started from the realization that a mere attempt to convince all participating parties of the business benefits of a stronger cooperation, even if backed by top management, would not provide a lasting guarantee of real implemented results. The specificity of all the independent companies, and of the market conditions they faced, needed to be respected and catered-for in the governance design whilst ensuring that there was enough potential for true value creation and strong commitment in their collaboration. We came to the conclusion that we needed to focus more than anything on a fair and transparent process and associated management behaviors. We aimed at convincing the members that the way in which the alliance would function and how cooperation would be defined would be entirely decided together and that at no point in time should anybody feel obliged to act against its own interests. The underlying assumption was that the alliance members would fundamentally mistrust each other, be reluctant toward binding commitments, and in order to step in would require a governance framework where they could step out at any time and/or be exempted from executing an alliance decision and as such retain full control over their destiny.

This anti-alliance starting point led us to assume that commitment to engage into the alliance would only be achieved by allowing extremely low entry and exit barriers, to the point where the parties would no longer see possible harm in trying it out. Similar to the Orange-DT partnership later on the Open Seamless Alliance was conceived as a series of separate but complementary initiatives. As a consequence, the governance design and its subsequent legal drafting were of paramount importance, more so than the exact business scoping of the activities of the alliance; the alliance scope would evolve over time with threats and opportunities. We first had to find ways to get the parties to trust each other. The self-interest paradox was that every member wanted to retain total flexibility for itself but at the same time was expecting the others members to be extremely loyal in those cases where a decision was considered very important by this one member. So we set out to conceive governance rules and processes – carefully ensuring that every member voted in favor of these rules – and developed specific tools and management practices to underpin these. Having involved the members in every step of the process of setting up the governance process enabled the alliance management team to haul in each member little by little into the alliance. This fair process approach of transparently inviting each member to express its thoughts and observations on the topics at hand followed by a formal vote to conclude on the decision to be made became the core process of the alliance.

This seemingly cumbersome approach of bringing in carefully each member into committing to the governance of the alliance prior to delivering any tangible business benefits might seem overkill and many may feel that this should logically be solved by a top down push by senior management to "get on with it". But we had learned through our experience that within big, complex organizations people are creative in dodging the bullet and easily refer the problem to the alliance management team when not moving things as expected allowing detractors of the alliance and "doubting Thomas" within their organizations to stimulate further doubts. This process could easily doom an alliance.

Therefore, the alliance management team had obsessively designed all its tools and processes and defined its management style and discipline to be impeccable and irreproachable: at no point should a member be in a position to contest an alliance decision based on procedural errors. This went as far, for instance, as writing and distributing the draft meeting minutes two weeks before the date of each Alliance Management Committee meeting (the major decision making body of the alliance in which sat one representative per member). The management team also wrote in these preliminary meeting minutes how the voting of each decision would turn out according to its assessment of each member's views. The positive effects of this approach were multiple. For the Alliance management team and their staff, it provided a clear quality objective to ensure that each and every detail of the upcoming decisions were shared and pre-agreed with each and every individual member and minimize the risks of long painful ex-ante debates during the decision making meetings. It also avoided for controversial topics to be put on the formal agenda for vote, but nevertheless left time in the meeting to debate about potential solutions. The members could easily observe and judge whether the management team did everything possible to be totally transparent and unbiased. Moreover it became easier for them to obtain the necessary backing of their own chain of command prior to the meeting to endorse a decision to be made through the Open Seamless Alliance on the basis of pre-written minutes. Backtracking at that stage in the process would have been awkward. It also allowed for transparency on the position of the other members prior to the meeting, often stimulating crosschecking and constructive discussion among the members, which in itself build more trust and mutual understanding. This also improved everyone's substantive understanding of decisions and heightened commitment to these decisions. Another important effect was that the decision making meetings were succinct and effective as more than 80 % of the decisions were already nurtured into the minds and hearts of the participants. The alliance management team could then spend ample time and effort on the 20 % pending issues and areas requiring further debate during the decision-making meetings. As such a very high degree of closure was achieved on the exact agenda of each management committee, it was seldom that an agenda item had to be postponed to the next meeting, a recourse which would often be a source of great frustration among members and a strong warning of less efficient governances and processes.

Adopting a flexible scope:

In addition to the transparent process specified ex-ante, a core idea was to set-up a strong drive for both organizations to come up fast with new ideas for collaboration. Speed and commitment were critical. This required some broad initial identification of priority cooperation areas and the emergence of specific projects in these areas. The first step consisted in showing top management's engagement by defining several initial areas of potential cooperation important to both partners, up to nineteen in the DT-Orange alliance. Projects in these areas (some easy wins, some really ambitious) could serve as the basis for getting started whilst leaving the future scope of the actual partnership open. Practically, business unit executives in both organizations were stimulated to propose areas of cooperation to their respective alliance program office, which in turn engaged with the peer program office of the other party, to identify a counterpart contact to further discuss and explore the proposed cooperation. Once sufficient mutual interest was established a duo of experts was identified and appointed to champion the cooperation field and further develop the concept. It required for the experts to set up preparatory meetings and scrutinize together both the strategic rationale and concrete scope of the proposed cooperation field and, once comfortable, to present this back to the respective partnership governance bodies for approval. The approved cooperation fields were being pushed through the idea-concept phase and would ultimately be submitted by the senior members of the partnership steering committee (mix of business unit executives and corporate executives) each separately to the boards and/or investment committees of their respective mother companies which in turn decide in total independence of each other whether to approve or reject the recommendations. In other words, new projects were proposed and championed by operational executives who faced competition and disruption in the field; not by corporate staffs and support functions such as R&D and marketing. As the collaboration deepened its scope widened, with new collaboration areas surfacing as a function of evolving strategic threats, making the cooperation scope flexible and adaptive.

Creating a collaboration projects' incubator:

Contrary to new venture incubators, accelerators or business angels, in starting strategic alliances the focus is on stimulating two big, well-established organizations to "think out of the box" -- both in terms of existing organization and business models – fearing disruption from the Digital Giants, and on rapidly implementing significant innovations in their core organizations, a much more difficult task than spawning new entrepreneurial ventures. It is harder for people to champion innovation and change within an otherwise seemingly stable business environment under pressure but still prone to denial of disruptive changes, as opposed to entrepreneurs who already have concrete ideas, energy and drive, and high ambitions but lack the required financial means. To overcome the conservativeness of their core organizations, and make sure good ideas would not be still-born, the DT-Orange partnership relied on a shared alliance project incubator to invite and allow experts and change agents from both organizations to step into an incubator environment which functions in parallel to and is fully endorsed by the mainstream organization - and therefore not seen as a rogue operation (which was a risk for OSA). The incubator pushes for cross–fertilization and sharpening of the ideas and concepts by combining both partners' competencies and footprints and providing an extra critical quality and feasibility

The proof of the pudding …

- **Creation of the Procurement JV "BuyIn" in Oct 2011**
  By forming BuyIn, Deutsche Telekom and Orange increased their competitiveness in procurement, achieving sustainable economies of scale and savings as well as standardization of equipment for the Groups' customers. BuyIn combines the approximately 28bn euros of annual spend of its shareholders in four domains : Network Technology, Customer Equipment, Digital Home & Platforms and Information Technology. Recently talks have started with TeliaSonera and BT to join BuyIn as well which would further enhance its negotiation power.
- **Creation of a network infrastructure sharing JV in Poland in July 2011**
  Achieve cost savings of up to 29% of the total radio access networks of the local affiliates of both Deutsche Telekom and Orange in Poland
- **Joint Hackathon 'Paris to Berlin' on Rich Communication Suite (RCS) in Sept 2013**
  Attracting the development communities onto the telco standards for enhanced messaging and communication (RCS) is key to compete effectively with Whatsapp, Facebook messenger and Google Hangouts
- **Linking up Orange Fab and hüb:Raum in Dec 2014**
  The objective is to leverage both start-up programmes' portfolio in order to enrich the innovative products and services that the operators offer to their customers of their respective footprints. Both operators may also help these young companies scale up by accessing

scan of the cooperation projects. It allows also a more or less smooth adaptation when new people step into or exit the hierarchy. The approach allows the existing hierarchy to focus on the day-to-day operational activities whilst the alliance team, seamlessly connected to it, stimulated the exploration of new ideas and activities to face the digital challenges without the need of a slow, cumbersome complete overhaul or major internal transformation project for each of the parties. In other words it outflanks the traditional hierarchies. It even, as a pathfinder, feeds a sense of unavoidability, direction and confidence into the internal transformation that will ultimately have to take place, albeit later and more slowly. These are necessarily slow, as all hierarchies with their specialized business units, rules and optimized business processes crave for stability in doing what they really know how to do – running a network efficiently in an engineer-driven environment under strong union influence (in still partly state owned incumbents). In fact, change coming from a partnership is accepted far more easily by unions than change imposed by the internal hierarchy! Their need obtained far more street credibility when it shown that similar players were moving in the same direction[1].

The results of the cooperation projects would have to be implemented within local operations of both Orange and DT. These operations were –and still are - separate legal entities in each country (as local licensed network operators) with full P&L responsibility sometimes reluctant to accept business unit initiatives and prompt to remind to corporate how different their local conditions really are. Once approval was given to a cooperation project and the execution was well under way, it was lifted out of the governance of the strategic

[1] In the case of Orange - and its history of employee suicides – senior management was always suspected of ill-doing and Machiavelli-inspired machinations. Alliance projects were less exposed to these suspicions.

partnership and pushed to start living its own life as a separate stand-alone project reporting into the relevant business units.

Allowing less than 100% success rate to overcome reluctance:

The nursery phase through the alliance incubator served its purpose and brought the key factors for success together, including the top management approval, but the real work started outside of the partnership governance, in the operating units after the incubation phase. The incubation phase protected embryonic ideas from being prematurely mired in conflicts about who would head the effort, how its operations would be governed or who would gain most, and it preserved the focus on speed, flexibility and alignment on incubating ideas for cooperation. This also allowed “non-alignment” on certain cooperation areas. In cases when the partners agreed to disagree, it was necessary for the parties to decide swiftly whether to continue or stop a cooperation field in a transparent and respectful way, once the different stages of scrutiny by the different decision bodies were achieved, and move on to the next idea for cooperation. Anecdotally the corporate lawyers on both sides, which initially raised their eyebrows when confronted with an open-ended partnership scope made up of alliances within the alliance, became big supporters because of this “transplanting-or-elimination” of cooperation fields as if they were little plants in a greenhouse brought to the field to become crops. They found reassurance that their company would not be dragged into long, wild adventures of unruly projects with complicated legal proceedings. In practice it resulted in a good inflow of cooperation fields, which were scrutinized by a Joint Program Office, a Joint Senior Management Committee and ultimately by a Joint Steering Committee. As time went by the participating staff of both parties became less and less pre-occupied and apprehensive about the risks of potential failure both at the personal level and the level of delivering successful cooperation fields. Individual collaboration initiatives could be brought to a stop without compromising other areas.

Table 1, below highlights in summary form the contrast between usual approaches to strategic alliance building and the approach practiced in the OSA and orange-DT collaborations.

Conventional alliance building	Innovative alliance building
• The need for an alliance is identified based on the company’s strategy • The alliance scope is set and potential eligible partners are identified. The scope is narrow and issue specific.	• The alliance is build to face growing and accelerated disruption of the overall industry • The scope of the alliance is open-ended and broad; the governance is defined first. Speed and agility are the main drivers for defining/fine tuning the process.
• The expected outcome of the alliance is negotiated, based on a common understanding between the parties of value creation	• The outcome of the alliance is the identification of value creation/protection opportunities. Multiple alliance projects are explored

and growth opportunities	in parallel across a wide range of topics.
• The negotiation and implementation of the Alliance are paced by the ability and speed of building trust between the key stakeholders	• The negotiation and setting-up of the alliance is about agreeing on transparent and fair processes to enable the building of trust, trust at all levels is not a prerequisite to get started
• The collaboration framework agreement (typically a long legal document with elaborated rights and obligations of the parties spelt in detail) is defined both in scope and rules and processes. Value creation is to be entirely managed by the alliance.	• The framework agreement is short without elaborated rights and obligations other than the commitment to accept and follow loyally the agreed rules and processes.
• Exit barriers are high and elaborately defined	• Low exit barriers allow commitment to grow at a low perceived risk
• An alliance management team is established and	• There is no dedicated alliance management team, the alliance day-to-day activity is intertwined with the existing organizations as part and parcel of the daily activities.
• A rotation of representation at the several governance bodies is often foreseen	• There is a high rotation of change agents/experts at the cooperation project level, there is no structural rotation foreseen at the level of the enabling program office nor in the other governance bodies

Alliance leadership skills

This experience had taught us that whilst aiming for speed, flexibility and alignment in the DT-Orange strategic partnership we should not, at any time, underestimate or ignore the need for building trust and remaining sensitive to the fluctuating commitment of the individuals within the partnership by applying a transparent and fair policy inspired alliance management approach with a high level of integrity. Whereas in traditional alliances a large part of the trust building lies in the agreement on the scope of the alliance – after all talking at length about a joined opportunity does force a certain bonding – in fast moving environments with an open-ended scope this trust-building is largely created by the quality of the alliance leadership. The leadership

Leadership

- Managing a fair process based alliance governance requires significant energy and stamina.
- The authority of the alliance management team is closely scrutinized by its alliance members; the team and its leadership is expected to demonstrate on an ongoing basis its intellectual capacity to understand the business and its specific shades for each member whilst remaining neutral.
- It requires charisma and diplomatic skills to drive the alliance forward to achieve the sought business results.
- Whilst empathy for the members' situation is a necessity it is required to impose rigor and monitor/police the implementation of the agreed rules and procedures.
- Investing a high degree of commitment and energy is a must; self-effacing and humility even more.

team needs to be exemplary in executing the rules and processes without any flaws and it has to show the ability to understand the threats ahead, which is only possible by having a deep knowledge about the core business. If the alliance leadership allows any crew member to see in every floating object in the ocean an ice-berg and keeps raising false alerts – or even worse, misjudges the real dangers – it will very rapidly be sent to shore potentially even leading to abandoning the whole idea of the alliance.

Implications for other fast moving industries

The alliance incubator approach followed by Orange and DT, and building on the Open Seamless Alliance earlier experience, has shown itself capable to accelerate collaboration to develop a competitive response among slow and ponderous incumbents that would otherwise remain, like frozen dears in headlights of incoming cars, static victims of brash new Digital Giants. It allowed for fast & flexible collaboration without straightjacket agreements. It has been able to overcome the slowness organizational complexity usually brings, in particular between headquarters, business units and international subsidiaries. Beyond the specifics of the telco context, it provides a way for “incumbents” in mature industries facing strong regulatory restrictions to counter disruptions from faster moving invaders from faster –typically but not always digital- industries. Its success rests on establishing non-threatening principles and frameworks for the process of collaboration that facilitate subsequent engagement among “reluctant partners” toward fast and effective elements of an effective response to disruption. It also calls for fair and adaptive leadership process by a neutral, but intellectually leading alliance management group, deploying high level intense diplomatic skills.