



O N E

# The Collaborative Foundation

## What It Is and Why It's Essential Today

Any organization seeking to increase the efficiency of its problem-solving efforts needs to understand the foundational concept of a value alliance. At its root, a *value alliance* is a group of participants with aligned interests pursuing an outcome with value for each of them. However, it is not an ad hoc or informal effort, not the sort of casual cooperation people engage in every day as they pursue their mutual interests in work, social, and governmental arenas. Instead, a value alliance is a formally organized entity following a process that has been deliberately designed to achieve a collective advantage. In such an alliance, the pursuit of *value* is the purpose and *alliance* is the platform. Collaboration is the means.

While value alliances can be formed in pursuit of joint opportunity, they most often coalesce in response to a complex but common problem. Various entities share a certain pain—for instance, businesses in the same industry struggling with a larger common issue such as the changing marketplace or an environmental concern—and they collaborate in order to diminish or eliminate this pain. We've found that problems provide a stronger impetus to collaborate than opportunities and are usually the catalyst for value alliances. That isn't to say, though, that value alliances

fail to capitalize on opportunities. Quite the contrary—the solution to a complex problem often produces an opportunity.

Value alliances begin by addressing scary-looking problems—problems so overwhelming that it's difficult to see the opportunity that exists when you look to solve them. Once groups get past the initial challenge of dealing with the tough issues, though, they begin to realize that they're not just eliminating a negative, they're also capitalizing on a positive. In collaborative terms, this simply means that when organizations come together to solve a complex problem, they may well discover that it is an opportunity in disguise.

For instance, when Bank of America created one of the first credit cards in the 1950s, it encountered a range of unanticipated problems, including a 22 percent delinquent rate on the cards that it had distributed widely and randomly throughout California. It spawned a new form of consumer, and fraud was also rampant. In an effort to clean up this problem and to broaden the base, Bank of America licensed its card to banks in other states—then organized an entity to deal collaboratively with the problems the banks now had in common. In essence, they formed a value alliance. This banking network eventually took over ownership of the card from Bank of America, leading to the formation of Visa in the 1970s. Initially, Bank of America thought it was creating a solution to a thorny business problem. The solution, though, produced an opportunity for one of the greatest twentieth-century businesses.<sup>1</sup>

Value alliances can have any time frame. They may be temporary creations, existing only until they solve their complex problem. In other instances, they may raise awareness of ongoing problems and opportunities and give rise to a new collaborative group that becomes an *alliance enterprise*—a collaboration that is sustainable over the long term.

As governor of Utah, I was involved in a temporary value alliance designed to solve the problem of air pollution over the Grand Canyon. In the early 1990s, Congress was about to impose measures aimed at preventing activities that contributed to the problem in states surrounding the canyon. The governors of the states viewed many of the federal solutions as highly problematic. Congress was persuaded to

allow stakeholders in the Grand Canyon region time to develop a plan to clean the air with less costly solutions. Six states, numerous tribal nations, and assorted environmental groups, businesses, and municipalities all had vested economic interests. They came together to form the Grand Canyon Interstate Air Transport Commission to collaboratively develop the plan. Though the task took more than five years, when the plan was complete, the collaboration turned to the Western Regional Air Partnership to implement the Commission's recommendations. Congress adopted the plan. States' economies were disrupted far less than might have been the case without a collaborative solution. Best of all, the air over the Grand Canyon is cleaner as a result of this alliance.

Most value alliances begin as unincorporated entities. Those that take on a longer-term mission are normally incorporated so they can exist as free-standing enterprises. Generally the value proposition comes from the enterprise's capacity to provide greater flexibility, larger economies of scale, or superior adaptability.

For centuries, farmers have formed cooperatives to solve a locally shared problem of insufficient economies of scale. Now, enabled by digital technology and the Internet, global enterprises create similar entities to achieve the same goal. In the first decade of the twenty-first century, financially strapped airlines survived by creating value alliances under which competitors share systems and equipment in order to lower operating costs. Hospitals and their suppliers have formed group purchasing organizations to achieve greater efficiency in procurement. Even nations often use value alliance-like configurations. The European Union is a union of member states that traces its origins back to the 1950s and evolved with the accession of new states as they each decided they could compete better as a network in a global economy than as independent entities.<sup>2</sup> The North Atlantic Treaty Organization (NATO) is a permanent value alliance where nations collaboratively align their defense assets.<sup>3</sup>

While technology facilitates the formation of many value alliances, sociology—the study of how people develop, organize, and work together—explains why they stay together and function at a high level.

You can put together a state-of-the-art electronic system for exchanging information among collaborators, but as effective as this system may be at channeling data, it will fail if people don't connect with each other as efficiently and productively. Over many years, Rich and I have studied how people interact in collaborative frameworks, and we've learned that it's crucial to manage the human element. Good technology rarely makes up for bad sociology in a value alliance.

Value alliances require that participants subordinate their egos, their agendas, their preferred styles, and their biases—not to mention their organizational agendas—in favor of a shared benefit. This isn't easy, especially for people who are accustomed to doing business a certain way. Perhaps more significantly, collaborating is especially difficult for competitors. People facing difficult common problems often start out with noble ambition and good fellowship, willing to make sacrifices to overcome obstacles or capitalize on a significant opportunity. But when they're under stress, when deadlines loom, when they become frustrated, when it seems as if one group is being favored over another, human nature takes over and collaborative opportunities degenerate into a tournament of self-interest.

You can dramatically increase the likelihood of success by constructing the proper framework for your alliance and employing a set of tools that minimize relationship problems. In collaboration, getting the structure and people issues right makes a huge difference. It's all about managing the human factor. If you fail to do that, the innate personal and organizational differences among collaborators will prove too divisive for the union to hold.

In a world connected by a digitized cloud, invitations to participate in value alliances arrive constantly. They may start as a small group of colleagues from different functional groups, teams, or offices using a threaded e-mail discussion to work out a problem. Frequently, competitors may orchestrate a carefully negotiated meeting to address a common threat to their profitability or their industry's future.

All collaborative efforts involve risk. They require the allocation of time, money, and people, and they may not provide a return on that

investment in the short term. Likewise, they may not provide as much of a return or the type of return participants expected, or they may fail to provide a return at all. Investing time, money, and people on the wrong collaboration can be wasteful and devastating. It can cause organizations to believe (erroneously) that they must go it alone, since partnering with others has proven to be a disaster. Value alliances, on the other hand, minimize the investment risk and maximize the return by creating scale and shared investment and opportunity.

## **BITTER COMPETITORS, RESPECTFUL COLLABORATORS**

The problems facing organizations today are complex and significant. Western businesses want to compete globally yet are stymied by the nuances of operating in markets such as China, South America, and India. Organizations see the great promise of social media to create increased customer loyalty, yet can't quite figure out how to translate this promise into profits. New technologies produce tremendous excitement across industries, yet taking advantage of these technologies cost-effectively can be a daunting proposition.

It turns out that even bitter competitors can work together and achieve a goal that benefits all participants. The story of Surescripts illustrates how a value alliance can provide a collaborative framework to solve complex problems effectively.

This story begins with a World Health Organization report stating that the United States spent more on health care per capita (\$7,146), and more on health care as percentage of GDP (15.2 percent), than any other nation in 2008, without correspondingly high results.<sup>4</sup> The U.S. system was poorly coordinated in large part because a shockingly high percentage of medical records remained as paper files. In 2005 (as HHS secretary), I resolved to attack one of the biggest barriers to solving that problem, the variety of ways electronic medical record systems transferred information. Chief executives of three large hospitals located in the same city told me about the large investments they had made to

implement electronic medical record systems. Each had purchased systems from a different vendor, and none of their systems had the capacity to share information with the others—they lacked *interoperability*. The same situation applied throughout the United States; medical record systems were not just economically inefficient, they were a factor in poor patient care. With almost two hundred different vendors developing and selling new electronic medical record systems, this problem was only going to worsen until standards relating to interoperability were created. Many medical record vendors resisted the idea of standards, whether they created them or the government did.

Something had to be done to deal with this huge problem. Creating a value alliance became the solution.

To get two hundred competitors to the table as serious collaborators, I needed some leverage. As HHS secretary I was responsible for Medicare, the largest payer of health care claims in the United States. President George W. Bush had issued an Executive Order in 2004 establishing a national goal of interoperable health information standards in place by 2014. I arranged for a second Executive Order to be issued, giving me as secretary of HHS the authority needed to organize a grand collaboration (a value alliance) around the task of creating health information standards. The Executive Order specified that the alliance would be called the American Health Information Community (AHIC).<sup>5</sup> To give this effort converging power, the order made it clear that Medicare would eventually begin to penalize doctors and hospitals who did not use electronic medical records that had been certified by an approved accreditation body. It was this provision that truly gained the attention of the entire health information technology industry and caused all the parties to come to the table.

I chose to chair the effort personally—this was unusual for a Cabinet officer but I thought it critical to give the effort sufficient stature. Nearly every significant technology vendor joined the alliance, great progress was made in establishing electronic medical record standards, and AHIC's efforts set the stage for another value alliance to form, this time in the private sector.

This was a massive undertaking, and I decided our best opportunity for early success was to standardize electronic drug prescriptions. Increasing the percentage of electronic drug prescriptions would save billions of dollars as well as numerous lives (doctors' sometimes illegible handwriting, misread by pharmacists, results in thousands of illnesses and deaths).

During that time, two separate groups launched collaborative efforts to build the electronic highway necessary to join pharmacies, doctors, insurers, and patients. One group consisted of pharmacies—from small independents to large chains. The other group involved pharmacy benefit managers (PBMs)—organizations hired by insurance companies and employers to manage drug costs, allowing them to aggregate the power of many insurance companies and giving them clout with drug makers.

Internally, each collaborative effort had problems. The large pharmaceutical chains and the smaller independents had always been fierce competitors and viewed each other with suspicion. The PBM organizations, too, had intense rivalries. Nonetheless, both groups were able to overcome their reluctance to collaborate with competitors because they recognized the importance of e-prescriptions for the future of their businesses.

The PBM group formed RxHub, while the pharmacy group formed Surescripts. Each was only a piece of the electronic medical record puzzle, lacking the capacity to connect with all the key players. Nonetheless, each continued to invest millions of dollars to create its separate electronic network. Over time, RxHub and Surescripts realized that their investments weren't paying off because they lacked a critical mass of traffic.

Combining the two networks may seem obvious in hindsight, but at the time, a major obstacle stood in the way of that merger: the PBMs and the pharmacies disliked each other. In fact, *dislike* might be an understatement. Pharmacies viewed PBMs as commoditizers of their business; they felt that the PBMs wanted to convince people to buy on price alone and forgo the personal relationship between

pharmacists and customers. PBMs, on the other hand, saw pharmacies as roadblocks to electronic progress and savings for consumers—they felt the pharmacies were clinging to an old and inefficient paradigm. As a result, the animosity between the two groups ran deep, and many observers of the industry couldn't imagine them ever pooling their resources.

Fortunately, John Driscoll, the chairman of RxHub, and Bruce Roberts, the head of Surescripts, shared a vision of the tremendous social and economic value a combined enterprise would create. They recognized that if the electronic routing of prescriptions could become cheaper, smoother, and more seamlessly connected, it could be both a profitable endeavor and a benefit to consumers. The two of them discussed and negotiated the complicated relationships that had emerged from their combative history. It took them a year, but these two executives used their remarkable diplomatic skills to bring the two organizations together under the Surescripts name in 2008.

Though the technological challenge of combining networks was complex, getting the relationships right was just as challenging. To this day, Surescripts board members are fierce competitors in the marketplace. For instance, two of the PBMs proposed a merger that a pharmacy group saw as a serious threat to its business competitiveness. As a result, this group opposed the PBM merger and took out ads in major newspapers, challenging the propriety of the deal and the motives of its sponsors. It also filed litigation and hired lobbyists to derail the merger with legislation. Yet during this squabble, leaders of both groups served on the Board of Directors of Surescripts, collaboratively leading the value alliance and working toward solving a common problem. Their ability to do so was made possible by the skillful alignment and discipline this value alliance provided.

The new Surescripts electronic network has greatly increased the number of prescriptions flowing through the system, creating sustainability for the network. This combined entity produced savings value to consumers as well as to all the participating entities. Interoperability was achieved.



The increased use of electronic prescriptions has boosted *adherence*—the percentage of people taking their prescribed drugs—resulting in better health for patients and fewer hospitalizations. In addition, Surescripts has provided a model for converting paper medical records to electronic ones, a social benefit of incalculable value.

Five key traits were critical for Surescripts to become a value alliance—five traits that exist in every value alliance. Collaborative efforts often lack one or more of these traits, and their absence hampers the group’s effectiveness from its inception. Therefore, before embarking on any formal collaboration, make sure these traits are in place:

- *Multiple interests.* In this instance, the PBMs and the retailers formed two distinct sets of interests and within each of these groups other factions existed. While multiple interests can create tension in a value alliance, they also produce creative conflict along with a range of resources and perspectives.
- *Self-interest.* Altruism is wonderful, but self-interest is what drives participants to work long and hard and with multiple parties to come up with solutions. In this instance, the participants’ self-interest was completing the electronic highway for prescriptions for the increased profit of their respective members.
- *An incremental surrender of independence.* Both the pharmaceutical group and the PBMs were willing to make the mental leap from being independent to being mutually dependent. This was no small leap, given their animosity. Yet from a psychological perspective, such a surrender is necessary or participants will engage in power politics that will destroy the alliance.
- *A free-standing governance process.* Neither the PBMs nor the pharmacies run the value alliance. Instead, the executives operate with no strings attached (to their other companies). The executive committee makes decisions on its own and not in consultation with the participants’ other employers.
- *Value that continues.* It doesn’t matter whether the value alliance is temporary or permanent. Its benefits are ongoing. If it solves one

problem, the value of that solution continues long after the value alliance dissolves. And permanent value alliances provide a series of solutions year after year.

## THE VALUE OF A VALUE ALLIANCE TODAY

Since the 1990s, the world has experienced a confluence of new economic forces. The Internet allows instantaneous global communication. Dramatic improvements in shipping technology and capacity make it possible to move goods efficiently and inexpensively from region to region. The emerging economic models of countries like China, India, Malaysia, Vietnam, and Brazil have caused dramatic increases in global competition. In most industrialized nations, too, consumption has been fueled by deficit spending. Nations and states along with individual families and businesses have taken on piles of debt and now face limits on new borrowing and spending.

In this environment, people and organizations no longer have the luxury of inefficiency. No one can afford to operate slowly or at a financial disadvantage globally. With these new financial parameters, efficiency has become a matter of survival. As the economy evolves, value alliance-building will become a Darwinian determination of who survives.

That's because networks are simply more efficient than non-networks. As many businesses have learned, networks trump silos just about every time. It no longer matters how big a silo is. Networks offer the advantages of speed, diverse resources, flexibility, and connectivity that singular entities can't match. Even some of the largest airlines, retailers, and online marketers have formed networks of competitors, suppliers, vendors, and others to deal with issues that are too challenging to manage on their own. Just as networks of smaller computers have proven superior to mainframes, a network of varied organizations is far more efficient than a large, slow-moving company. Singularity is inherently inefficient.

The problems facing organizations today have become so complex that it's unrealistic to expect any single company—even one as large and

dynamic as General Electric, Wal-Mart, or IBM—to solve them on its own. When affected parties collaboratively gang up on complex problems, value alliances produce superior results for at least four reasons:

- *Multiple perspectives provide a more complete picture of a problem, creating more options, synergies, and solutions.* Even when organizations sincerely solicit diverse ideas and opinions, they can only take these efforts so far. They're limited by dominant cultures—"the way we have always done things around here"—as well as by an employee population that to a lesser or greater extent has been trained and developed with the company's and industry's existing perspectives in mind. Value alliances bring together participants that are much more diverse in their thinking than the employees of any one organization.

- *Trust produces efficiency.* When people trust one another, business arrangements and innovative solutions can be achieved quickly. For example, Lloyd's of London is not an insurance company—it is a collaborative membership organization where people who want to share risk can come to find those willing to assume risk. Because only participants willing to abide by time-honored traditions of collaborative behavior are permitted to be members of Lloyd's, trust develops and members begin depending on one another's expertise.

- *Shared investment and reduced litigation help limit financial risk.* Looking back at the economic downturn, which commenced in 2008, many organizations are wary of any program or project that seems risky legally or financially. Leaders are highly sensitive to criticism that they squandered funds on a bad bet or to the negative publicity that results from litigation. Value alliances spread the risk of investment among participants and make it manageable.

- *Speed improves when agreed-upon standards reduce friction.* By bringing together diverse influencers from private and public sectors, value alliances can establish standards that accelerate virtually any process. With standards in place, organizations can transact business with greater ease. Sectors with well-defined standards, such as the automated teller machine (ATM) networks, allow for broader services as well as

consumer ease. Bank customers with ATM cards can obtain cash from their bank accounts anywhere in the world, regardless of what bank owns the machine.

## A TRADITION AS OLD AS THE UNITED STATES

While the term *value alliance* may be new, there is little new about competitors competing aggressively at one level and cooperating at another. I first heard the word *co-opetition* in 1992 when Ray Narda, the founder and CEO of Novell (a pioneer in the development of network software), used it to describe his company's business strategy. *Value alliance* as a concept goes back even further. In fact, the origins of the United States of America can be attributed to a value alliance. In 1787 representatives of the thirteen original states gathered in Philadelphia to solve a serious problem: their new country was floundering. A decade after the Declaration of Independence, the colonial states were still governed by the Articles of Confederation, and it wasn't working.<sup>6</sup> The country had a \$60 million Revolutionary War debt and no taxing authority to pay it. Three states claimed what is now part of Vermont, but no courts had the authority to settle the borders. Trade disputes routinely divided states, and some states were even creating their own currency. There was a need for a mechanism to bring the states together.

Calls to create a national government were initially received poorly. A few years earlier Americans had won their independence from Great Britain with their blood, and they were not enthused about subjecting themselves to a big national government.

Delegates met in Philadelphia during the summer months of 1787 to explore solutions. What emerged is often referred to as the Miracle at Philadelphia: the Constitution of the United States. The miracle wasn't simply the document. It was the willingness of thirteen colonial states and the people who inhabited them to subject themselves voluntarily to a national government.

In reality, the Constitutional Convention was a value alliance. The colonial states, while competitors, shared the burden of their collective dysfunction. The founding fathers persuaded all but the most skeptical states to participate. The convention was not intended as an ongoing organization but rather a venue to explore remedies. However, at the conclusion of the convention's work, a solution was proposed: a jointly formed permanent enterprise—another alliance—to be called the United States of America.

The Constitutional Convention and the subsequent creation of the U.S. government shared all the defining characteristics of a value alliance: multiple interests, personal interest, self-interest, an incremental surrender of independence, a free-standing governance process, and value that continues.

## VALUE ALLIANCES TAKE MANY FORMS

Organizations from every sector of society already benefit from value alliances. Whether these alliances are temporary or permanent responses to complex problems, they can involve participants from different functions, companies, industries, and countries who come together to address local, national, or global problems.

Western Governors University (WGU) illustrates the surprising way in which diverse sectors of society can come together. Between 2001 and 2010 the cost of a university education soared from 23 percent of median annual earnings to 38 percent.<sup>7</sup> The preceding decade had seen a similar increase. Subsidizing the cost of state universities and colleges had become increasingly difficult for state governments, leaving more and more of the price to be covered by tuition payments. Students complained that as tuitions increased, they accumulated bigger and bigger debts. Employers complained that universities produced workers ill prepared for the modern workplace, so many students found it hard to find jobs that fit their needs. And states found it increasingly difficult to find money in their budgets to support this unsustainable escalation of cost.

The pressure was building. In June 1995 I hosted a luncheon for the governors of western states in Park City, Utah. Our discussion of the issue was sparked when one of the governors noted that each year, universities and colleges were asking the state legislatures to fund more buildings to house growing student populations—a pressure that we all felt. Each building cost millions and fueled higher costs for maintenance and utilities. Given the growing imperative for more workers with college degrees, we knew the demand would continue to increase—and we knew that state budgets could not sustain building traditional campuses to provide education in the same old way.

Several of the governors had begun to see the potential of the Internet to deliver education. Others believed passionately that the education system's results would not improve until it began to measure student competency in practical skills acquired rather than class attendance and memorization of facts. At the conclusion of the private lunch it was obvious that we shared a problem and an interest in working together on it. That day we organized a collaborative process to explore how we could proceed, and a few months later we started a value alliance. We called it Western Governors University.

Governors, their higher education advisers, and selected business leaders came together to develop ways states could create new models of delivering higher education. Knowing we would need the involvement of the technology community for this idea to gain traction, I invited Eric Schmidt (who was then CEO of Novell, a Utah-based company) to advise our alliance. He and other business leaders provided invaluable expertise and emphasized the notion that higher education needed to be driven by measurable results. Ultimately we produced a set of ideas that traditional universities considered quite disruptive. We proposed that the western states form an alliance to develop Internet-based education delivery, rather than having every state university system work independently. Even more provocative was our desire to implement a system where students progressed and were measured by demonstrating competency in real-world job skills rather than through accumulation of credit hours.

The reaction of the state universities made it clear that we faced four barriers: bureaucracy, regulation, tradition, and turf. If our ideas to drive value in higher education were to be tried, it would require a new university.

We began putting together all the ingredients necessary to launch Western Governors University—a nonprofit institution that would be online and would cost students far less than traditional colleges or other existing online universities. We envisioned a university that would serve adult learners looking to earn a degree while still working full time—a free-standing, collaboratively developed enterprise to implement innovative ideas using collective strengths of many different organizations. We wanted to build a true network that would create new value.

Governor Roy Romer of Colorado and I took the lead in bringing together the disparate parties that were essential to the collaborative effort's success. We visited Silicon Valley and besides Eric Schmidt (soon to become CEO of Google), we brought on board Scott McNeely of Sun Microsystems and Eric Bienemu of 3 Com, two other highly regarded technology leaders. They contributed money, technical know-how, and computer systems, and in exchange they hoped their investment would help increase the number of software designers and other technologists their businesses needed, who were in short supply.

We held a meeting in Omaha, Nebraska, and nine governors—all wearing Western Governors University sweatshirts—launched the new virtual university, which was to be headquartered in Salt Lake City, Utah. Symbolically, rather than cut a ribbon, we clicked a computer mouse. The institution was designed to be unique in four ways. First, it would exist only on the Internet. Second, student progress would be measured by demonstrating competency through tests, projects, and other means. Rather than granting degrees when a specified number of credit hours were completed, we would give degrees when students had demonstrated competency in given subjects. The third difference: We would use the best online courses from other universities and learning resources rather than develop our own. Fourth, the well-qualified faculty

of the university would mentor students one on one rather than teach them in large classes.

We recruited other states to participate, and over the next two years the number grew from the initial nine to nineteen. Each of the initial states contributed \$100,000 seed money, but an equally significant contribution was providing the educational resources essential to design the course work and the technology provided by major Silicon Valley companies.

We sought and received support from Congress, which passed a statute that provided certain capacities before we were fully accredited. And we forged an agreement with the accreditation agencies. This was the toughest of our collaborative partners to get on board, but we knew WGU had to meet the highest national academic standards if the degrees WGU offered were to be accepted widely—that is, by employers, other schools, and those who offered financial aid—as having value. The dilemma was that there were no standards or criteria for accrediting a competency-based online university. For one thing, our online model didn't dovetail with the geographical accrediting regions. Since our students would use library resources from the Internet, we didn't have a brick-and-mortar library with stacks of books for the accreditation agency to count. Nonetheless, we persisted, and over time, we convinced the agencies that they had a responsibility to foster innovation in education, and that they had to create new standards that fit the new type of online university. The accreditation agencies worked with us as collaborators, and we developed rigorous criteria and then created a novel process under which four of the seven regional accreditation agencies participated.

None of this happened overnight, but it happened. Invariably, the multiple interests we brought together had a synergistic effect, applying diverse expertise to the issues we faced. Our technology partners and educators possessed the motivational self-interest to make our initial model even better. Together, we revamped the curriculum, focusing it on degrees that were especially appealing to older students who wanted to acquire marketable skills—in areas such as business, nursing, and



technology. We invented a learning model where WGU faculty did not teach but mentored the students as they used the best of online courses from universities and private sources.

WGU is both disruptive and transformative. In the last decade, the model gained traction and took off. In 1997, our first year, WGU had three hundred students. By the end of 2013, it will have nearly fifty thousand. It continues to expand at 30 percent a year.<sup>8</sup> Recently states have begun to formally incorporate WGU into their education system. There is a WGU in Texas, Indiana, and Washington. The average age of a student is thirty-two. More than 75 percent of the students are working. By 2012, WGU prepared more math and science teachers than any other institution in the United States. It has a rapidly growing health school that will be among the nation's top trainers of nurses. The average student earns a bachelor's degree in thirty-one months at a cost less than one-third that of state universities. All of this is done on the revenues received from students; state governments provide no tax support.

Though Western Governors University is a nonprofit educational institution, nonprofit status was not essential to its success. The impulse to create a value alliance is even more powerful in the business world. Many times, value alliances hide in plain sight. You don't even realize that a network producing great value exists unless you do a little digging, as I discovered when I was at the airport. I bought a Delta ticket for a flight from JFK International Airport in New York City to Salt Lake City, Utah. It was to leave from Gate 17. However, when I got to Gate 17 the electronic marquee at the agent's desk announced an Air France flight. I glanced at my ticket, thinking maybe I had walked to the wrong gate. When I looked back at the sign, it was announcing an Alitalia Airlines flight. Once again I stared at my ticket, trying to figure out what was happening. Another glance at the ticket counter told me that a Virgin Airlines flight would be leaving from Gate 17. Finally, my Delta Air Lines flight number was posted. I walked to the terminal window, where I could see a Boeing 767 operated by Delta. Passengers ticketed on six different airlines would board the same jet.

Delta is part of a collaboration called SkyTeam Alliance, a group of twenty-seven airlines formed in 2000 as defensive move to survive after five of their competitors formed the Star Alliance, a network in which participants share aircraft, ground equipment, computer systems, and marketing dollars.<sup>9</sup> Star Alliance radically changed the cost structure and competitive landscape of the airline business.

Under a contractual membership agreement, airlines commit to align their operations with standard guidelines developed by the governing board of the alliance. They develop joint marketing programs, airport synergies, cargo systems, and compatible information technology systems. Over time, airline alliances have expanded their areas of cooperation. Typically work groups among members are formed. These groups collaboratively devise and maintain pathways of cooperation which produce common value to the members.

Prior to the 1997 formation of Star Alliance, airlines functioned like mainframe computers: siloed and completely independent, each bearing the full costs of its operations. After Star Alliance, most airlines operating outside a network could no longer compete. Within three years, SkyTeam and another airline alliance known as Oneworld had been formed. Nearly every airline in the world joined one of the three or faced elimination from the marketplace. Prior to the formation of SkyTeam, success depended on an airline assembling and operating all the components for itself. After SkyTeam, success depended on which network an airline joined or created. A siloed entry is disadvantaged when competing with an efficient, networked competitor.

## FINDING THE RIGHT ELEMENTS

All the collaborations Rich and I explore in this book—the airline alliances, Western Governors University, and Surescripts, among others—possessed all eight elements essential for a value alliance. From committed leaders to the effect of a northbound train, incorporating these elements is the best action you can take to elevate your collaboration to the level of a value alliance. To facilitate this effort, the next eight

chapters examine each element in detail, the challenges associated with integrating it into the collaboration, and how others have made the element work for their group.

Value alliances always begin with a common pain. People need to be motivated to leave their comfortable silos and work with other groups who come from different cultures, possess different philosophies, and may have different perspectives on the problem. Pain may hurt, but it's also a valuable catalyst for value alliances. Chapter Two takes a look at how this pain manifests itself and brings collaborators together.

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