
Breaking an Alliance to Take the Lead



By [Henrich Greve](#) , INSEAD Professor of Entrepreneurship

Toyota appears to have broken an unwritten agreement among automakers, but it has done so before and won.

The Paris Auto show is usually a time to celebrate new models, show off prototypes, and generally be in a good mood about what each car maker has done, and even what the industry has done. It is hard to be really upset during such a "celebrate and show off" occasion. Yet this year the CEOs of Daimler and Renault-Nissan attacked Toyota's plans to launch a new line of environmentally friendly cars based on fuel cell (hydrogen) technology, with Carlos Ghosn of Renault-Nissan asking "How are you going to market these cars?"

Funny question that one. One would think that marketing a car would be Toyota's problem, and that Renault-Nissan would not be worried about the marketing being difficult, or even impossible. Toyota's loss would be Renault-Nissan's gain, right? Toyota responded that it had introduced new technologies before, an unobvious reminder that Toyota came up with the

Prius while European car makers thought that diesel was the path toward environmentally friendly driving.

To see the reason for the conflict, one has to realise that auto makers, such as Toyota, Daimler and Renault-Nissan are not alliance partners, but they sometimes act together in order to advance technologies that they all depend on. Through legal requirements they are being pushed to produce zero-emission vehicles, especially in the important California market, which they are currently addressing by making electric cars. But electrical cars are hard to market, in large part because there are too few recharging (not refueling) stations around. In order for electric cars to succeed, the car makers are strongly dependent on the state of California and others to make good recharging networks for them.

For a while, Toyota has been playing along with the others. Although their skepticism of electric cars is well known, they finally made a rechargeable version of the Prius (but not until the third generation model), so one can now drive a Prius without ever starting its gasoline engine if buying the plug-in version. Yes, it is a special version; a regular Prius cannot be recharged, only refueled. But Toyota isn't satisfied, and it isn't particularly concerned about hurt feelings among other car makers. It thinks fuel cells are the way forward, even though that technology is difficult to master and also requires a network of refuelling (with gas) stations.

So the critiques of Toyota are based on its lack of cooperation with other car makers in pushing for recharging networks to be made. In the short run, this makes marketing of electrical vehicles harder. In the long run, if Toyota should succeed with the fuel cell technology (far from a sure thing), it would undercut the entire electrical vehicle market. This is a kind of situation that

often occurs when industry participants are locked in competitive battles and lobbying efforts together, and it is a situation that we still do not understand well enough through research. Nor are the firms good at handling it. Daimler CEO, Dieter Zetsche was clearest in expressing what he thought Toyota should do about no-emission vehicles: "we have to set the stage for this industry change together." Good idea, except that Toyota remembers that car makers compete and that Toyota has won with new technology once before.

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