

Entrepreneurial Strategies in Transitional Industries from a Resource Perspective: A Case Study Analysis of the Business Models of German Soccer Clubs

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The recent transformation of soccer clubs in Europe from nonprofit organizations into for-profit enterprises constitutes an entrepreneurial event in transitional industries. In these industries, value has often already been created through alliances with other (for-profit) organizations. The central research question is therefore: How do soccer clubs seize entrepreneurial opportunities under the constraint of prior joint (bilateral) value creation but unilateral value exploitation? The authors adopt a resource-based perspective to analyze the entrepreneurial strategies and show that the existing theoretical concepts provide only insufficient answers. Based on an in-depth case study analysis, new propositions are developed that complement the resource-based perspective.

It was not until 1998 that German soccer clubs were allowed by the German Soccer Federation (DFB—Deutscher FussballBund) to become for-profit enterprises. Up until 1998 soccer clubs had the status of sports associations with public duties such as promoting sports activities to improve the general health of the nation. The following (slow) transformation of soccer clubs as nonprofit organizations into for-profit firms can be understood as an entrepreneurial event. As entrepreneurship scholars understand it, the entrepreneurial process encompasses “all the functions, activities, and actions associated with the perceiving of opportunities and the creation of organizations to pursue them” (Bygrave and Hofer 1991). In its most general form, the constituting element is the entrepreneurial event that signifies the emergence of an organization (Gartner 1995), that is, the creation of a new firm or other organizational unit to capitalize on an opportunity (Gartner 1989; Gartner et al. 1992).

While the core business of soccer clubs remained attracting spectators and related TV revenues, these new firms had to decide how to seize new opportunities.¹

This article focuses on the merchandising business and analyzes the entrepreneurial strategies of the two most important soccer clubs in Germany, Borussia Dortmund and Bayern Munich. These two clubs are regarded as young entrepreneurial firms because they

have only been transformed into for-profit firms during the last few years.

In transitional industries, value has often already been created through links or alliances with other (for-profit) organizations. Research, however, has not addressed the question of how the actual joint-value created will be distributed between the parties after the entrepreneurial act (the creation of a for-profit enterprise) and how these new entrepreneurial firms will perceive and seize opportunities.

Background and Key Research Questions

Cooperative arrangements between sports clubs and corporate institutions have become increasingly important over time as vehicles to create joint value. Since the introduction of television and merchandising rights as new revenue streams, sport clubs are rapidly transforming from former nonprofit organizations into for-profit companies. This entrepreneurial phenomenon is most inherent in the European soccer industry. In the early to mid-1990s, English and Italian soccer clubs like Manchester United and Lazio Rome developed into stock-listed firms, focusing on sport as a financial business to exploit the economic value of “soccer” as a product.

In contrast, German clubs have been comparatively slow to seek alternatives to the “old” business models, mainly due to the strict rules of the conservative Bundesliga and inflexible club structures. The tremendous change in industry conditions is also reflected in the long-term relationships between soccer clubs and sports equipment manufacturers. Corporate sponsorship of sporting and especially soccer events has gained in importance as a marketing instrument due to the increasing value of the sports clubs brand equity. During the last decade, the brand values of European soccer clubs have reached an impressive level compared to other sports. According to a study conducted by FutureBrand, among the 15 highest valued European sport brands, 11 (73.3%) are soccer clubs. The soccer clubs are led by Manchester United (\$259m), Real Madrid (\$155m), and Bayern Munich (\$150m).²

More and more soccer clubs are recognizing the value of their brand names and are starting to actively use their

increased bargaining power for innovative commercialization strategies. But how do soccer clubs react to the opening of entrepreneurial opportunities to create value? What are the potential benefits and risks of different strategies? Despite the growing body of literature in the fields of strategy and entrepreneurship, academic research in this area has not yet been conducted. This article presents a resource-based perspective to analyze the entrepreneurial strategies of these new for-profit firms. It discusses how existing theories and concepts provide insufficient answers to these issues especially in this particular context. That is, before the transition of European soccer clubs from former nonprofit organizations into full-profit corporations, value was jointly created by the cooperative partners, mostly sports equipment manufacturers and sports clubs. In contrast, the jointly generated (market) value was almost completely exploited by the full-profit industry partners (i.e., unilaterally) whereas the nonprofit sports club was traditionally compensated through sponsorship payments that did not reflect the real value potential. Due to the superior bargaining power of the industry partners, sports clubs have been mere marketing vehicles to approach a large number of potential customers. Therefore value was created bilaterally, but exploited unilaterally.

Theory: The Resource-Based View of the Firm and the Relational View

As a consequence, this article addresses a key research question [How do soccer clubs seize entrepreneurial opportunities under the constraint of prior joint (bilateral) value creation but unilateral value exploitation in transitional industries] by conducting two case studies of the leading German soccer clubs Bayern Munich and Borussia Dortmund, both winners of the European Champions League, the most prestigious title in Europe, in the last five years. The case study analysis leads to propositions that complement the resource-based perspective. The research is, therefore, of a proposition-generating nature. Additionally, the findings in this particular industry might give indications for entrepreneurial strategies in other transitional industries.

Resource-Based View of the Firm

The resource-based view (RBV) of the firm (Penrose 1959; Wernerfelt 1984; Barney 1991; Barney 1996; Amit and Shoemaker 1993; Mahoney and Pandian 1992) sees the firm as a bundle of resources and capabilities, and a rent-generating and preserving system. Capabilities arise through the combination of internal resources and collective learning over time inside the firm (Amit and Schoemaker 1993). The RBV assumes that a firm gains a competitive advantage by possessing and exploiting unique resources. The RBV postulates accordingly an

uneven distribution of idiosyncratic resources across firms and a substantial cost of transferring these resources as fundamental for sustaining a competitive advantage (Priem and Butler 2001).

Unique or valuable resources are characterized by non-tradeability and immobility (Dierickx and Cool 1989; Peteraf 1993). There are no factor markets for these resources (Barney 1996), and imitation (creating the same value with the same resources) and substitution (creating the same value with different resources) are difficult (Dierickx and Cool 1989). Resources and capabilities are firm specific. The single firm is the focus of the RBV. Accumulation and possession of resources are crucial. Most importantly, the ownership of resources determines the boundary of the firm and is considered a prerequisite for a competitive advantage (Dunning 1998). Therefore, the RBV of the firm is firm specific—the locus for the generation of competitive advantages lies within the individual firm.

Relational View

The extreme focus of the RBV on the individual firm might be considered one of the RBV's limitations. As research on alliances and knowledge creation shows, interfirm relations enable firms to acquire new knowledge and other valuable resources (Gulati 1995; Nonaka 1994; Child and Faulkner 1998; Powell and Brantley 1992). From an RBV perspective, resources that are transferable to other firms (e.g., knowledge) are not valuable. For example, knowledge can no longer be appropriated by the individual firm and it might leak out to all other firms, including competitors. According to the organizational perspective of interfirm networks (e.g., Lorenzoni and Baden-Fuller 1995; Uzzi 1996; Dyer and Singh 1998; Lorenzoni and Lipparini 1999; Das and Teng 2000; Gulati et al. 2000), the pooling of firm resources can create value for network partners. To overcome the limitations of the RBV of the firm, the relational view (Dyer and Singh 1998; Lorenzoni and Lipparini 1999) positions itself as an alternative or complement to the RBV of the firm. Dyer and Singh argue that critical resources exist outside the firm and that these resources are "embedded in interfirm resources and routines" (Dyer and Singh 1998, 660) that can lead to superior "relational rents" (Dyer and Singh 1998, 661). These interfirm resources can be sources of competitive advantage (Dyer and Singh 1998). The increased complexity, specificity and tacitness of an interfirm constellation can increase causal ambiguity and, therefore, the competitive advantage (Reed and De Fillippi 1990). A competitive advantage of alliances is derived from four sources: "investments in relation-specific assets, substantial knowledge exchange, [...] the combining of complementary, but scarce, resources and capabilities, [...] and lower transaction costs than competitor alliances, owing to more effective governance mechanisms" (Dyer and Singh 1998, 662). The extent to which these sources

are present and leveraged within an alliance determines the amount of relational rents. Complementary elements for a competitive advantage are the scarcity of partners, indivisibility of the combined resources, and prior alliance experience (Dyer and Singh 1998; Gulati 1995; Walker, Kogut, and Shan 1998). The relational view assumes that relational rents are the outcome of joint-value creation (Dyer and Singh 1998; Lorenzoni and Lipparini 1999), its value depending on the resources combined, and the dynamics of interactions that enhance the value over time (Ramirez 1999).

In the relational view, cobranding might be seen as a particular form of alliance that leads to joint-value creation through the combination of different resources. Cobranding means the long-term alliance of different brands that has the potential of a high shared value creation due to the mutual transfer of reputation, image, or other intangible assets, but also through the sharing of competencies in production, marketing, and distribution, etc. (Blackett and Russell 1999; Lechner and Madjdi 1999). The idea of cobranding lies in the assumption that the joint brand equity (i.e., the value of combined brands can be greater than the sum of the individual brand equities; Lechner and Madjdi 1999). One area of cobranding, which is as yet unexplored, is the change of status within a brand alliance.

While alliances between sports equipment manufacturers and soccer clubs in Europe have traditionally been considered a major–minor relationship with the established sports goods manufacturer as the stronger party, the transformation of soccer clubs into for-profit organizations might change it to an alliance between equals. The bargaining power of prominent and successful soccer clubs like Bayern Munich and Manchester United has increased and can be easily compared to the comfortable situation of most U.S. professional sports teams, where potential industry partners have to bid for sponsorship contracts. In comparison, the average nonprofit European soccer club still has problems finding attractive cooperative partners. The nonprofessional organization of these clubs prevents the creation of additional income streams and increases the bargaining power of potential sponsors.

Combining the Two Perspectives

The RBV of the firm and the relational view are complementary but unfortunately not linked to each other: They are stand-alones. One deals with firm-based competitive advantage and the other with alliance-based competitive advantage. While both claim to explain the sources of competitive advantage, neither explains when a firm that has previously opted for a firm-based advantage should switch to an alliance-based advantage or when one alliance partner could seek a firm-based advantage by integrating the value-adding activities of the other partner. Neither does research on cobranding address the question of how the change of

status of alliance partners, as it can happen with partners from transitional industries, changes the partners' strategies.

Research Setting and Methodology

Through the case studies, the authors establish a link between the RBV of the firm and the relational view by investigating the entrepreneurial strategies of these two main German soccer clubs that have been transformed into for-profit firms.

Industry Background: Entrepreneurial Awakening of the German Soccer League

The origins of Germany's "Bundesliga" go back to 1902, when the first national soccer final was held between VfB Leipzig and DFC Prague. For the next 60 years, German soccer was played on a purely amateur level where training and matches took place after work and on weekends. In 1954, the UEFA [Union des Associations Européennes de Football (European Football Federation)] was founded in Basle (Switzerland) as the parent organization and administrative body of the European soccer community. This event enhanced discussions in Germany about the need for a central and professional soccer league to meet future challenges of international competition. At this time, there were five regional leagues ("Oberliga") existing in Germany. The champions of these leagues met in a kind of playoff to decide the national championship. Intense debates about potential threats and benefits of professional sport and about the regulatory structure delayed the start of the new league significantly. However, after disappointing results from the German national team during the World Cup in 1962, the pressure to take action rose noticeably and in August 1963 the Bundesliga finally began with a total of 16 clubs.

The league's early years were characterized by the former amateur clubs' first experiences with professionalism. Players were paid and public interest increased. In its 1997/98 record season, more than 9.5 million people visited the 306 matches of the Bundesliga, compared to 5.9 million during the 1963/64 initial season.

In contrast to major professional leagues in the United States (e.g., National Basketball Association, National Football League, National Hockey League), where sports teams are more or less franchisees in a relatively closed, commercial franchise system, German and other European soccer leagues are still organized according to the traditional and more competitive "qualification system." In this system, a new club usually has to start in the lowest league (on a local or regional level) and receives the right to move up to the next division if it finishes the season in first or second place. This also means that a club has to move down one league if it is last or second to last in its league. The qualification system in Germany presently comprises nine leagues, beginning with "C Class" and ending with "1st

Bundesliga" as major competition for the national championship. To play in one of the three highest leagues, a club also must meet certain requirements regarding its financial situation and organizational structure. Since the official start of the Bundesliga in 1963, one central and very restrictive requirement was that soccer clubs had to be organized as nonprofit associations (e.V.) under the German "Vereinsrecht."³ This restriction made it impossible for German soccer clubs to seize entrepreneurial opportunities by becoming profit-oriented corporations. Furthermore, this regulation affected the financial flexibility of the clubs significantly. The limitations in accessing financial resources forced soccer clubs to follow strategies of joint-value creation with corporate sponsors. In the early beginnings of sponsorship, the main focus of such partnerships was a simple trade-off between necessary financial proceeds for the soccer clubs and advertising effects for the corporate sponsors. As the popularity of soccer teams increased over time, intense and more complex cobranding activities unfolded and began to create additional value for the partners beyond "money for advertising," especially in the area of merchandising.

With the launch of the UEFA Champions League™ in the 1992/93 season as the official successor of the former European Champions Club's Cup, a new era of soccer commercialization began and leveraged the potentials of joint-value creation. This initiated a process of deregulation in German soccer, finally resulting in a review of the relevant §7 of the DFB⁴ statutes in October 1998. Following this deregulation, German soccer clubs were allowed to become profit-oriented firms as vehicles to commercialize their brands and products. The transformation of sports clubs into for-profit organizations required the creation of a separate organization and a holding structure. The holding would contain the for-profit organization as one division and a sports division.⁵ In the summer of 2001, the first and second Bundesliga clubs founded a new association, the "Ligaverband e.V.,"⁶ to represent these (commercial) interests more effectively.

Today, professional soccer clubs in Germany are confronted with rapidly changing industry conditions. Most of them look back to many years of established sponsorship relations and joint-value creation efforts with profit-oriented industrial partners. The following two case studies present two very different approaches as potential reactions to this industrial transition in Germany.

Case Study Research as the Appropriate Methodology

Given the exploratory nature of this study and our interest in knowing more about how soccer clubs have been transformed into for-profit organizations to seize entrepreneurial opportunities under the constraint of prior joint-value cre-

ation, we decided that qualitative research and, more precisely, a multiple case study design would be most appropriate (Yin 1984). The case study deals with business models of soccer clubs after their transformation into for-profit firms, focusing on the area of merchandising. The transformation of firms in other industries puts the study also on a more general level. More and more public (state-owned) firms are going private, state theaters are being privatized, and whole economies in Eastern Europe are in full transition. Dealing with a contemporary event and exploring a phenomenon which has hardly been researched, this research is inductive and theory building in nature, drawing conclusions from the case to the theory (Yin 1984; Eisenhardt 1989).

The units of analysis are the two most important German soccer clubs of the last 10 years as reflected by their success in sports and revenues generated. Soccer as an industry is fairly young in Germany. By definition no soccer firm is more than three years old. Two extreme cases were chosen for this study: one firm has already gone public through an IPO, and one has stated that it did not intend to go public within the next five years. A replicative design (Yin 1984) was used for the multiple case studies. We used mainly secondary information and publicly available material that was validated by telephone interviews with club officials and experts for data triangulation (Eisenhardt 1989). Again, the objective of this research is to generate new propositions in order to extend existing theory and to allow for quantitative testing in the future.

Case 1: A New-Old Partnership Bayern Munich and adidas

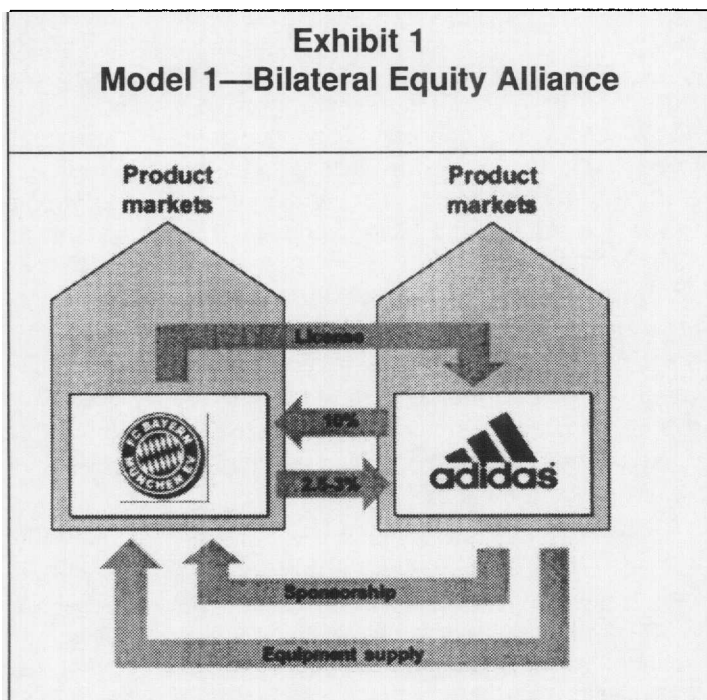
"adidas and FC Bayern Munich are united by far more than just a partnership of many years as sponsor and supplier. We are also bound together by an incomparable passion for soccer."

—Herbert Hainer, CEO adidas

Founded in 1900, the FC Bayern Munich e.V. is today one of Europe's most prominent soccer clubs. Its 33 national (including 17 national championships) and 7 international titles (including 4 wins in the European UEFA Champions League) make the FCB the most successful European soccer club in the last five years. With more than 90,000 club members, 120,000 officially registered supporters in 1,845 fan clubs worldwide, Bayern Munich is also one of the largest sports clubs in Europe. The club reported a preliminary turnover of €179m (1999/2000: € 145m) with pre-tax profits of € 30m for the fiscal year 2000/2001. With a pre-tax sales margin of 16.8 percent, Bayern Munich equals Manchester United in terms of profitability and has become the world's most profitable soccer club.⁷

The partnership between Bayern Munich and adidas as official sponsor and equipment supplier goes back to

1966. Today adidas is the world's leading soccer brand and the second largest sports equipment manufacturer (SEM) behind U.S.-based competitor Nike. On September 18, 2001, adidas and Bayern Munich announced agreement on a new strategic partnership: adidas intends to acquire 10 percent of the share capital of the yet-to-be-founded FC Bayern AG, a full-profit organization under German corporate law that should be established in July 2002. Additionally, the SEM will remain the official sponsor (estimated sponsorship payments of € 10m per year), exclusive supplier, and licensee of the soccer club until 2010. According to a first valuation, the price for the 10 percent equity stake is expected to amount to € 75m (valuing the club's total equity at € 750m⁹) and will be paid with new adidas shares from a capital increase, resulting in a cross-shareholding relationship between the two deal partners. Based on adidas' actual market capitalization of € 2.8bn⁹, Bayern Munich is expected to receive between 2.5 to 3 percent of the company's share capital (Exhibit 1). Additionally, the soccer club agreed to an lock-up period for the shares, which has not yet been specified.



From this unique form of bilateral equity alliance, adidas expects the opening of new business areas including sports marketing, television rights, and player trading. In addition to these diversification efforts, the company hopes to strengthen its position in the key markets of the United States and Asia via extended cobranding efforts with the internationally renowned Bayern Munich brand. In these areas, soccer is the fastest growing sports category with competitor Nike, the market leader to date. The forthcoming FIFA World Cup in Japan and Korea in 2002 increases

the need for a stronger company presence in these key markets.¹⁰ Furthermore, adidas intends to secure its leading position in the home market in Germany, where the company currently owns estimated market shares of 56 percent in the area of soccer and 40 percent in the sports footwear industry. Germany will be hosting the 2006 world championships and, therefore, significantly gains in strategic importance. This new kind of strategic partnership is consistent with the company's top sponsoring strategy. Over the last few years adidas has built up a portfolio of exclusive soccer partners worldwide, including the national teams of France, Argentina, Germany, Spain, and Japan, as well as the clubs Real Madrid and AC Milan. Bayern Munich is the old and new core element of adidas' soccer branding strategy. The deal is also seen as part of the company's long-term efforts to bring annual marketing budgets down from 14.7 percent of its current net sales due to expected synergies from joint branding activities. Despite these potential benefits, capital markets did not welcome the intended alliance: adidas shares closed 8.9 percent lower on the day of announcement, becoming the weakest DAX company that day. This sharp decline was mainly due to expected dilution effects of the capital increase.

For Bayern Munich, the advantages of this expanded partnership seem to be more obvious. First, with the sale to adidas of a 10 percent stake in the yet-to-be-founded company, the soccer club wins a strong branded, institutional partner with longstanding marketing expertise and a global sales network in the sports equipment industry. Second, the purchasing price of € 75m in marketable securities enables the club to fund future investments like the building of its own stadium or new player transfers. Third, a 10 percent equity position does not yet significantly affect the club's independence through influencing management decisions by monitoring and controlling rights. Furthermore, the presence of a committed, stock-listed alliance partner secures future financial flexibility without going public itself. Finally, stronger cobranding activities could lead to joint-value creation, primarily due to increased income from TV rights. This prospect of creating more value together than on a stand-alone basis is the driving force behind this new-old relationship. Commenting on the new partnership, Bayern Munich's Manager Uli Hoeneß, said, "...adidas is the perfect partner for us. We are on one and the same wavelength and pursue the same goals. We are pleased to begin a new era of success with our partner of many years."

Case 2: Just Do It (Alone) **Borussia Dortmund and Gool.de**

"Our brand is strong, so why shouldn't we establish our own sportswear label?"

—Willi Kühne, Vice President Marketing Borussia Dortmund and CEO Gool.de

The roots of today's stock-listed Borussia Dortmund go back to 1909, when the soccer club was originally founded as "Ballspiel-Verein Borussia 09 e.V.". During its 92 years of club history, the BVB won five titles as national champion and three international championships, including the UEFA Champions League and the World Cup for clubs in 1997. In early 2000, the club spun off its commercial activities into a stand-alone company and conducted its initial public offering at the Frankfurt stock exchange in late October 2000, becoming Germany's first and only publicly listed soccer club. During its IPO, Borussia Dortmund sold 13.5m shares at an issue price of € 11 to the public, resulting in gross proceeds of € 148.5m for the company. The first trading day of the share ended with a disappointing close at € 10.05, indicating that investors felt the new issue was over-priced. The company recently reported results for the fiscal year ending June 2001 with the group's total turnover of € 114.6m (1999/2000: € 95.2m) and pre-tax losses of € 10.9m (€ = 1.4m profit) primarily due to going public costs of € 7.7m and the absence from an international competition in the 2000/2001 season," resulting in 45 percent lower revenues from television rights (€ 19.3m in 2000/2001 v. € 35.0 in 1999/2000).

Borussia Dortmund intended to strengthen its position as a leading national and international soccer club. The company invested a total amount of € 61.7m last year and has meanwhile extended its 42.5 percent stake of the home arena, the Westfalen stadium, to 75 percent. Additionally, the club invested in the acquisition of new players (€ 35m) and expanded its merchandising activities, particularly through the development of its own sportswear brand, Gool.de.

After 10 years of exclusive cooperation with U.S.-based Nike as sponsor and equipment supplier, the soccer club decided in early 2000 to launch its own sportswear business as a 100 percent subsidiary, the Gool.de sportswear GmbH. Dortmund expects to generate annual profits of an estimated € 10m through the sale of BVB branded textiles (BVB collection) and other neutral sportswear products like sweaters, shirts, and trousers. In the long run, the company plans to establish a new label for leisure clothing and sportswear articles that is positioned independently of Borussia Dortmund on the market. In a first step, Gool.de focuses on the Internet as a primary sales channel. For the next few years the company intends to increase its use of traditional methods of distribution via national sports and department stores. Gool.de positions itself in the middle-price segment by offering BVB team jerseys for € 50 compared to € 60 to € 65 for the official shirts of adidas- or Nike-sponsored soccer teams (e.g., Bayern Munich, Manchester United).

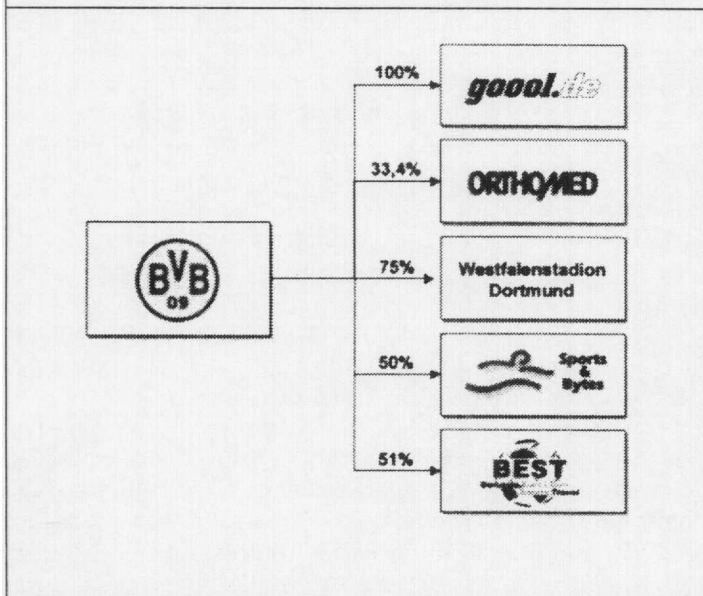
This entrepreneurial strategy of starting up one's own sports equipment business is unique in the European soccer scene. There are several potential reasons behind this

decision. First, Borussia Dortmund has a very strong local and regional brand in the industrial West of Germany ("Ruhrpott area") with a high degree of identification among its supporters. This brand image secures customer loyalty and reduces the risk of starting a new sportswear business. Second, the need to generate value through soccer and performance-independent business areas has increased significantly since the IPO. Since the major revenue streams of soccer clubs are derived from team performance-dependent areas (e.g., gate receipts, television rights, and sponsorship), the related diversification into more soccer-independent activities like sportswear manufacturing could reduce the overall company risk. Third, Borussia Dortmund expects to profit from significantly higher margins after ending the license agreement with former partner Nike. In a typical license arrangement, a soccer club receives a license fee of € 3 to € 5 if the SEM sells a team jersey through its distribution network. If the soccer club sells the same jersey through its own sales channels (e.g. fan shops, online shop), the net margin boosts to approximately 50 percent of the sale price. This margin is even higher when the club independently manufactures the sportswear. On the other hand, this stand-alone version requires huge amounts of initial investments by Borussia Dortmund, in particular in the infrastructure development of its own distribution network. Production costs will also tend to be partly higher due to lacking scale effects and bargaining power of a single soccer club compared to strong SEMs like adidas and Nike. During its record season in 1997, a total of 600,000 BVB jerseys were sold.

Dortmund's diversification strategy into related business areas is obvious. Besides Gool.de, the company holds block investments in a medical services and rehabilitation center (Orthomed), an Internet media company (Sports & Bites), a travel agency (BEST) and in the Westfalen stadium that can also be used for concerts and other events (Exhibit 2).

The initial public offering in October 2000 changed the face of Borussia Dortmund permanently. This new dimension of financial flexibility led the soccer club to a strategy of integrating activities that were formerly organized in partnerships and alliances. It is more than obvious that the IPO played a key role in this development because it provided the necessary financial resources. Whether this significant strategic change due to a cash-richness effect will enhance the future performance of the company is questionable. After one year of being public, the stock lost 49 percent compared to its issuing price and currently trades at € 5.60¹² Dr. Gerd Niebaum, president and general manager of the soccer club, summarized the developments of the last two years more optimistically, by saying, "We are now in more favorable winds and in open sea, although with possible occasional storms."

Exhibit 2 Model 2—Entrepreneurial Equity Investment



German soccer clubs were not allowed to found full-profit corporations. From the RBV perspective, adidas and Nike provided necessary financial resources through their sponsorship in exchange for long-term participation from the clubs' strong brand images to improve their market position in the soccer segment. Deregulation of the soccer industry enabled the soccer clubs to redefine their resource-based strategies by giving access to capital markets and to alternative ways of corporate financing (e.g., strategic investors).

Borussia Dortmund followed the RBV in a narrow sense: The company conducted its IPO, therefore gaining financial independence and reintegrating the BVB brand and related merchandising activities by ending the alliance with Nike and founding its own sportswear company, Gool.de. According to theory, one would expect this reintegration to lead to a superior performance because Dortmund is now able to exploit this critical resource on its own and no longer has to share the brand's value potential with a partner. On the other hand, Dortmund has to spend a significant portion of the financial proceeds on funding the internal development of necessary competencies like international marketing skills and distribution that were formerly provided by strategic partner Nike. As a result, merchandising sales declined in the first year of "do it alone" by a remarkable 23 percent from € 9.8m in 1999/2000 to € 7.5m in 2000/2001 on Borussia Dortmund group level,¹³ despite the fact that the team played quite a successful season, finishing the national championship in third place and therefore qualifying for the UEFA Champions league. As a consequence, it seems likely that the perceived value of a Borussia Dortmund-Gool.de shirt is less, since the current playing shirts are also offered at a price 30 percent lower than the previous Dortmund-Nike or the comparable Bayern-adidas combination.

This is quite interesting since team performance alone cannot explain business success. Generally, the brand value of European sports clubs is somewhat independent of actual sports performance (at least for the short term). Interbrand notes that customer loyalty to these brands is close to 100 percent. Ferrari's unsuccessful attempts to win the Formula 1 championship for more than 20 years hurt neither its car sales nor its sales of merchandise. In the same vein, Borussia Dortmund's core fan base regards the club almost religiously. Stadium attendance during the last five years was not subject to relevant changes due to variation in team performance (Exhibit 3).

In contrast, Bayern Munich and adidas expect to generate competitive advantage via a unique method of combining resources in the soccer industry, resulting in an "idiosyncratic interfirm linkage" (Dyer and Singh 1998, 661) by pooling Bayern's FCB brand and adidas' production, distribution know-how, and the adidas brand. Due to the fact that the strategic alliance between Bayern and adidas is

Case Conclusions

The two cases indicate that extremely different models were selected to seize entrepreneurial opportunities due to the deregulation of the industry. While Bayern Munich decided to intensify its existing relationships with sports equipment manufacturer and sponsor adidas through the establishment of a bilateral equity alliance, Borussia Dortmund went public and ended a 10-year cooperation with Nike to found its own sportswear business. Both cases are worth analyzing from resource-based and relational views for a better understanding of the driving forces behind these entrepreneurial strategies.

The relational view acknowledges the potential of inter-firm relations for generating relational rents and a competitive advantage through creation and bundling of inter-firm resources (e.g., Lorenzoni and Baden-Fuller 1995; Uzzi 1996; Dyer and Singh 1998; Lorenzoni and Lipparini 1999; Das and Teng 2000; Gulati et al. 2000). According to Das and Teng (2000, 32), strategic alliances can be seen as "voluntary cooperative interfirm agreements aimed at achieving competitive advantage for the partners." Thus, the relational view considers strategic networks and alliances to be vehicles for gaining access to necessary resources via sharing, combining, and exchanging. The sponsorship arrangements between soccer clubs and SEMs are an example of such an exchange of resources.

The brand equities of Bayern Munich and Borussia Dortmund represent the most valuable (intangible) resource of these organizations. Prior to the 1998 deregulation, both clubs faced financial constraints because

Exhibit 3
Borussia's Team Performance and Stadium Attendance

<i>Season</i>	<i>Position</i>	<i>Average Attendance</i>	
1996/1997	3	53,052	
1997/1998	10	54,264	
1998/1999	4	65,470	Extension of stadium capacity
1999/2000	12	64,717	
2000/2001	3	63,729	
<i>5-year Average</i>		<i>60,246</i>	

planned to come into effect in July 2002, no further information concerning the development of the merchandising area is available at this writing but the evaluation of Bayern's management reflects its evaluation of this rent-generating alternative.

Cross-Case Conclusions

Both the resource-based perspective and the relational view provide arguments for each of the two models, with a tendency toward the relational view of Bayern Munich and adidas. Unfortunately, both views fail to predict clearly which model will be more successful in the future. The cases have shown that explanations of the RBV are ambiguous if some form of joint-value creation has taken place in the prefirm stage. Since idiosyncratic joint-value creation is a concept outside the RBV of the firm, the RBV lacks explanation power. One of the shortcomings of the RBV is that it is firm-specific not value-specific, suggesting that only one type of organization, namely the company that integrates all high value-adding activities, will gain a competitive advantage. In the case of joint-value creation, it is not clear whether the reintegration of activities leads to value appropriation or value destruction. The cases suggest rather that value destruction takes place if the joint value created is based on two initially idiosyncratic resources, in this case the brands of the partners. As the Dortmund case indicates, there might be a relationship between value destruction and a firm's financial wealth. Borussia Dortmund's decline in investment and operating performance is closely related with its IPO in October 2000. Given that, one could argue that cash richness might lead to inefficient strategic behavior due to the lower relevance of costs of creating complementary resources. As a result, the potentially superior network strategies pre-IPO are neglected and inferior integration strategies post-IPO are subsidized. This argumentation is consistent with pre-

vious and current research findings in the corporate finance literature (e.g., Jensen and Meckling 1976; Harford 1999; Opler et al. 1999) where excess financial resources¹⁴ are likely to be invested in value-decreasing projects (Harford 1999, 1995). On the other hand, partial value destruction might be offset by integration benefits

The relational view as an alternative or complementary concept moves the focus from the firm as unit of analysis to the interfirm relation (Dyer and Singh 1998). Dyer and Singh proposed different hypotheses, most of which are irrelevant for the case studies in this article. The relevant hypotheses, however, do not discriminate firm behavior. One of their propositions deals with interfirm specific investments. Custom design training apparel and game shirts, however, are standard practice for all simple sponsoring agreements. In terms of cobranding activities, the authors propose that the individual value of the complementary resources increases the joint value but that the exploitation of the joint value depends on compatibility of decision processes, control systems, and culture—mechanisms not necessarily important for the case studies. Nor does previous alliance experience contribute to explaining firm behavior, since adidas has been Bayern Munich's only partner for 35 years. Dortmund, on the other hand, had prior alliance experience, which should increase its ability to generate relational rents. Dortmund switched from adidas to Nike in the 1990s but eventually decided to go alone, which contradicts the proposition of superior joint-value creation because of prior alliance experience. While it is true that partner scarcity plays an important role in the sports business, it seems irrelevant that the joint value is indivisible, as Dyer and Singh suggest.

Alternatively, we suggest that strategies in the context of joint-value creation depend on the trade-off between value destruction and joint-value appropriation by a single firm after a possible end to the relationship.

Proposition 1. *If the relation between a nonprofit organization and a for-profit firm is transformed into a relation between two for-profit organizations, the reaction of the entrepreneurial firm depends on the trade-off between the partial destruction of joint-value creation and individual value appropriation. The lower the potential joint-value destruction, the more likely the integration of the value-creating activities.*

In this sense, prior alliance experience would restrict entrepreneurial opportunities. This would also mean that prior alliance duration negatively affects entrepreneurial opportunities because it might increase the risk of joint-value destruction.

Proposition 2. *Prior alliance duration affects negatively the integration of value creating activities. The longer the alliance duration, the less likely is the integration of activities.*

The joint-value appropriation is largely influenced by the possession or cost of creation of necessary complementary resources. Joint-value appropriation depends, therefore, on the existence of professional management and the firm's capability to create an effective marketing function.

Proposition 3. *The higher the cost of creating necessary complementary resources and the lower the availability of financial resources, the more likely is the continuation of the interfirm relations independent of possible value appropriation.*

While current value destruction and value appropriation imply a static view, the sports organization and its alliance partner need to consider dynamic aspects of value creation, which can be understood as a function of complementarity.

Proposition 4. *The greater the perceived potential for dynamic joint-value creation and the greater the division of complementary resources between the partners, the more likely the intensification of the interfirm relations.*

Conclusions

Our findings contribute toward existing research in several ways. First, we identified two unique strategies of soccer

clubs to seize entrepreneurial opportunities in a transitional industry. While Bayern Munich plans to stay private and intensify its partnership with adidas through a bilateral equity alliance, Borussia Dortmund went public and decided to end a 10-year relationship with Nike to build its own sportswear business. Second, our case studies show evidence of weaknesses in both the RBV of the firm and in the relational view as potential approaches to analyzing this behavior. Both theories are useful for finding reasonable arguments for and against each of these strategies, but clearly fail when it comes to evaluation regarding the question of a potential superiority in the long run. At this stage, the Bayern Munich model seems more promising mainly due to significantly greater joint-value potentials on an international level. However, this potential future value strongly depends on future team performance. In any case, more longitudinal studies are needed that help to unbundle the effects of (performance-independent) brand loyalty and team performance on the overall company performance. The latter issue in particular should be of crucial importance for the clubs' marketing strategy. Third, the entrepreneurial awakening of German soccer clubs was the result of deregulation which potentially extends our findings and key questions to other deregulated industries. Additional research on how other formerly nonprofit organizations behave in deregulated environments would provide more valuable insight into the logic of entrepreneurial activities. Fourth, we think that the trade-off between joint-value created and subsequent value destroyed of a go-alone strategy is a phenomenon that has not been studied in depth and should be addressed specifically in empirical research in the future. Furthermore, we expect that other models of new value creation will develop in the soccer world in the near future. This would open up further opportunities for studying this entrepreneurial phenomenon more deeply.

This study has its limits, however. The case study approach is exploratory in nature and can only generalize from data to theory, which calls for quantitative testing in the future. The generation of our propositions is to be understood as a first step toward a deeper understanding of entrepreneurial strategies in transitional industries.

Endnotes

1. About 60 percent of revenues for clubs like Manchester United or Borussia Dortmund come from these traditional revenue streams.
2. The authors would like to thank FutureBrand for allowing data from their unpublished report to be used in this article.
3. Law for clubs and associations, §§ 21-79 of the German Civil Code (BGB).
4. Deutscher Fussball-Bund: German Soccer Federation, official national and international representation of German soccer. Founded in 1900, the DFB today is made up of 5 regional and 21 subregional associations involving 27,000 clubs and nearly 6.3 million club members.

5. For purposes of this discussion, the overall structure is referred to as a "sports club."
6. The term "e.V." refers to an officially registered club or association.
7. Manchester United posted pre-tax profits of £21.79m (\approx € 34.8m) on revenues of £129.6m (\approx € 207.0m) for the fiscal year ending July 2001.
8. Market capitalization of Manchester United Plc as per October 12, 2001: £338m (\approx € 540m).
9. As of October 12, 2001.
10. adidas has already positioned itself as official sponsor and licensee of the 2002 World Cup in Japan and Korea.
11. Borussia Dortmund failed to qualify for one of the European competitions during the 1999/2000 season, as the club only finished 12th in the German Bundesliga. To qualify for an international championship, a club has to finish a season among the best six teams in its national league.
12. As of October 30, 2001.
13. According to the company, 1999/2000 merchandising sales include € 5.1m extraordinary revenues due to the reorganization of the club's commercial activities before the IPO.
14. The authors interpret such excessive cash reserves mainly as a result of stockpiled, free cash flow (Harford 1999, 1970), but the findings should also be applicable to other forms of origination of corporate cash richness, like IPOs.

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