

STAKEHOLDER MANAGEMENT AND PATH DEPENDENCE IN ORGANIZATIONAL TRANSITIONS *

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STAKEHOLDER MANAGEMENT AND PATH DEPENDENCE IN ORGANIZATIONAL TRANSITIONS

This paper offers an explanatory process model of stakeholder management. The paper addresses an important research gap, exploring how stakeholder-related path dependencies influence the process of conflict escalation. Our theoretical work and a case illustration of the United Airlines and US Airways abandoned merger demonstrate that initial conditions are accentuated by the sequence of actions, offering a plausible explanation for process outcomes. On the practical side, the paper provides a problem-solving tool for stakeholder management to analyze the stakeholder linkages during strategic initiatives.

Keywords: stakeholder management, path dependence, airlines, mergers and acquisitions, case study

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Stable evolutionary periods of organizational development are occasionally disrupted by revolutionary transitions, usually catalyzed by environmental or intra-organizational shocks (Choo, 2008). To cope with these transitions, organizations are compelled to radically re-formulate their strategies and structures (Amis, Slack, and Hinings, 2004; Miller and Friesen, 1980; Tushman and Romanelli, 1985). These re-formulations also engage and concern various organizational stakeholders. However, stakeholder research has largely ignored the examination of unexpected transitions and focused on static phases and power relations (for notable exceptions, see Jawahar and McLaughlin, 2001; Winn, 2001; Pajunen, 2006a; Schneper and Guillen, 2004). We believe that this focus on stable rather than changing stakeholder-organization relationships is a consequence of the structural nature of the stakeholder theory. Hence, more dynamic perspectives are needed to complement the extant theory on stakeholder management.

We address this issue by turning to the notion of path dependence. In other fields of strategic management (e.g. Barnett and Burgelman, 1996; Burgelman and Grove, 2007; Teece, Pisano and Shuen, 1997) and social sciences in general (Page, 2006) the understanding of path dependence, as a process determined by initial conditions and increasing returns, has found to be useful to deal with organizational transitions (cf. Barnett and Burgelman, 1996; Burgelman and Grove, 2007; Teece, Pisano and Shuen, 1997). Specifically, in this study we seek to clarify the role of stakeholders prior and during an organizational transition and show how transitions may escalate towards a positive outcome or conflict depending on the initial conditions and process dynamics. In other words, we show how and why path dependence is manifested in organizational transitions from a stakeholder management perspective.

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Our study contributes to the management literature in three ways. First, our examination of path dependence creates an explicit process perspective (cf. Mohr, 1982; Langley, 1999) with potential explanatory power for analyzing stakeholder management issues. As we illustrate, only a process perspective can explain the causal structure of a successful or failed organizational transition: the danger lies not in the repertoire of actions but rather in the sequence of the actions (cf. Page, 2006; Lamberg and Parvinen, 2003). Second, this path dependent perspective improves understanding of organizational transitions in the context of a complex web of contract commitments (Argyres and Liebeskind, 1999) and suddenly increasing dynamics (Burgelman and Grove, 2007). We demonstrate how initial conditions – that is, negative stakeholder-organization relationships – may be accentuated by the top management team’s sequence of actions, offering a plausible explanation for why organizational transitions may result in unexpected outcomes. Furthermore, we show why the attempts to heal the initial relational problems between the focal organization and its key stakeholders often fail in organizational transitions.

Literature review and propositions

Stakeholder dynamics in organizational decision-making

Stakeholder research has repeatedly demonstrated that an organization cannot survive in the long run unless it provides fair treatment to its key stakeholders (cf. Freeman, 1984; Carroll, 1991; Clarkson, 1995; Donaldson and Preston, 1995; Jawahar and McLaughlin, 2001; Kochan and Rubinstein, 2000; Mitchell et al., 1997; Pajunen, 2006a; Rowley and Moldoveanu, 2003; Savage et al., 1991; Mason, Kirkbride and Bryde, 2007; Wolfe and Putler, 2002). Following Huegens and van Oosterhout (2002), we consider organization-stakeholder relationships as based on an

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explicit or implicit agreement of mutually acknowledged rights and obligations in order to achieve mutual benefit or prevent some harm.

Stakeholders' interests, identities, demands, power, and structural relations create the boundaries for that agreement, limiting the operational and strategic options of the focal organization's top management. A core dilemma deriving from this situation is that a decision or action by an organization, for example a M&A initiative, may induce varied responses from a set of stakeholders, with each stakeholder potentially having a different interest in the organization, as well as varying levels of power. As a result, understanding the nature of an organization's environment, constituted by a set of stakeholders with acknowledged rights, obligations, interests and power, becomes a critical precondition for successful managerial decision-making.

Stakeholder research has approached this dilemma from three main viewpoints: the identification of stakeholder groups; the strategic activities of stakeholders and the focal organization; and the determinants of stakeholder mobilization. Research related to identification and classification has produced various schemes for distinguishing the different attributes and roles of stakeholders. Some of these frameworks are based on economic and legal rights (Preston, 1989); others consider the potential of stakeholders to threaten or cooperate with the organization (Savage et al., 1991), the salience of the stakeholders in terms of their legitimacy, power, and urgency (Agle et al., 1999; Mitchell et al., 1997), or the ability of stakeholders to influence organizational survival based on their resources (Frooman, 1999) and network positions (Pajunen, 2006a; Rowley, 1997). All in all, these various frameworks provide a set of tools for identifying stakeholders who may have a notable effect on organizational decision-making in different situations.

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Researchers have also examined the appropriate strategic actions, given various types of organization-stakeholder relationships. This body of research has identified strategies for managing stakeholders from the focal organization's viewpoint (e.g., Cummings and Doh, 2000; Jawahar and McLaughlin, 2001; Savage et al., 1991), as well as how stakeholders can influence the decisions of the organization (e.g., Frooman, 1999; Frooman and Murrell, 2005). Also, researchers have demonstrated how the network of stakeholder relationships and the specific characteristics of the dyadic organization-stakeholder relationship may determine the actions of the focal organization and its stakeholders (Pajunen, 2006a; Rowley, 1997; Savage et al, 1991; Winn, 2001).

As a third viewpoint, researchers have examined the underlying motives for stakeholders' actions. For example, Rowley and Moldoveanu (2003) argue that stakeholders are motivated not only by rational interests (both material and nonmaterial), but are also mobilized to preserve their identity. Consequently, interest symmetry among stakeholder groups with dissimilar identities is proposed to have a positive influence on the mobilization, whereas identity overlap may reduce the likelihood of stakeholder action.

Summary. The three perspectives described above provide starting points to analyze and explain stakeholder dynamics, but they do not provide specific hypotheses that would explain stakeholder dynamics and conflict escalation during organizational transitions. For example, stakeholder research on the identification of stakeholder groups attempts to predict which stakeholders are important for an organization to manage, at any particular point in time. However, this static perspective does not account for sudden or even evolving changes in organization-stakeholder relationships. Similarly, stakeholder management research devoted to predicting the strategic

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activities of stakeholders vis-à-vis an organization are both ahistorical and structurally constrained. Predominately, existing research provides a first order view of dyadic stakeholder-organization relationships. Systemic second order effects of a given stakeholder strategy are seldom considered. Lastly, research that examines the determinants of stakeholder mobilization has focused primarily on group identity, without considering the history of organization-stakeholder relationships and its impact. Thus, to develop a theoretical perspective with specific explanatory power about stakeholder dynamics in organizational transitions, we turn to the notion of path dependence.

Stakeholder related path dependencies in organizational transition

Following the pioneering work of David (1986) and Arthur (1989), economists typically conceptualize path dependence as contingent on history, “rather than simply at current conditions of technology, preferences, and other factors that determine outcomes” (Puffert, 2003). Many identified mechanisms, such as sunk costs and technical interrelatedness, that cause path dependence resemble factors that generate relative inertia (Hannan and Freeman, 1977) or dependence on history (Nelson and Winter, 1982; for review Lamberg and Tikkanen, 2006). In contrast, the notion of increasing returns has been seen as a new and promising way to explain social processes. Following Pierson (2000), increasing returns in a social and political context means that the costs of switching from one setting to another increase over time. This argument follows not only the original definition of Arthur (1989) but also the insights of North (1990), who introduced the notion of an institutional matrix: A web of contracts and rules, which over time becomes increasingly costly to change. In summary, the existing literature lists four elements that typify a process as path dependent: (1) dependence on initial conditions; (2) web of

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commitments; (3) network effect; and (4) event sequence. In the following, we offer propositions that link these elements with stakeholder management in organizational transitions.

Dependence on initial conditions. Adoption of a path dependent perspective (cf. David, 2001; Arthur, 1989; Mahoney, 2000) allows movement towards a behavioral and dynamic (cf. Barnett and Burgelman, 1996) theory of stakeholder management. That is, such a perspective takes into account process dynamics starting from initial conditions. Integration of path dependence with the structural stakeholder models noted previously provides not only an opportunity to understand the effect of initial conditions on outcomes (for a review, see Page, 2006), but also explicates why processes may be doomed from the beginning or at least why large scale organizational transitions are so difficult to execute. Following Page (2006: 7), an explicit definition of initial conditions refers to “deterministic dynamical processes in which the trajectory or the equilibrium depends sensitively on the initial point of the systems.” In a stakeholder context this means that the previous relationship history determines the initial condition of a process. It does not mean, however, that the state of the relationships would determine the future trajectory. Importantly, however, the relationship history (1) shapes the process direction and structure and (2) limits the number of alternative trajectories.

Proposition 1: During an organizational transition, a number of stakeholder-related outcomes (e.g., conflict vs. consensus) are possible. However, determined by initial conditions and following process dynamics, some outcomes are more probable than others.

The interests and identities of the stakeholder groups constitute the state that will affect an issue process outcome. Significantly, these characteristics are not absolute but relative. For example,

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interests may diverge or converge on a hypothetical vector of issues, but they are never exactly similar. During organizational transitions, the relative similarity versus dissimilarity is manifested by the number of contested issues and overall level of conflict. We argue that a disordered organizational transition is expected to catalyze rather than heal existing controversies:

Proposition 2: The more similar the initial interests and identities are among stakeholders, the more likely an organizational transition will reach expected goals. Conversely, the more contested the initial stakeholder relationships, the less likely they will heal during the transition.

Web of commitments. Viewing stakeholder relationships as an institutional and institutionalized (e.g., Meyer and Rowan, 1977) web of interests and identities offers an opportunity to understand why the stakeholder environment is of crucial importance during organizational transitions¹. Any strategic initiative affects the existing institutional matrix (North, 1990) encompassing the focal organization. The institutional matrix becomes vital for understanding the costs, boundaries, and the many alternative outcomes (e.g., implemented change vs. failure) of organizational transitions. The twin concepts of institutional embeddedness and path dependence are widely discussed in the governance literature (cf. Williamson, 1975; Bacharach and Lawler, 1980; Coase, 1988; March, 1989; Aoki, 1990). The concept of governance inseparability refers to the influence of past governance choices on the range and types of governance mechanisms that a firm can adopt in future periods (Argyres and Liebeskind, 1999). The governance inseparability

¹ The firm can be conceptualized as a functional and juridical individual-like entity, nexus of contracts, and even as a series of multilateral contracts among stakeholders as defined by Freeman and Evan (1990). In this study we see that at one level firms are just bundles of contracts yet at another level the firm is embodied in a specific identity and organizational architecture that distinct it from its contractual partners. Thus, for example, pilots may be conceptualized both as a part of the firm (the nexus of contracts perspective) but equally as stakeholders who have a relationship with the juridical individual called firm.

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principle (Argyres and Liebeskind, 1999) explicates two key issues in stakeholder management: (1) a firm's contractual commitments severely constrain strategic flexibility, and (2) changes in the bargaining power of contract-based stakeholders may obligate a firm to adopt sub-optimal governance mechanisms. Thus, we may expect that existing contractual commitments are an important factor affecting organizational transitions:

Proposition 3: Existing contractual commitments between the focal organization and its stakeholders create inertia and may lead to a single equilibrium.

Network effect. An important character of path dependence (and especially in stakeholder relations) is that the process outcomes are not normally distributed. Thus, the processes to some extent are not only inflexible (David, 1986; Arthur, 1989; Katz and Shapiro, 1994), but also the outcomes are unpredictable (Arthur, 1989; Capoccia and Kelemen, 2007). Unpredictability means that early events have large effects on processes (Pierson, 2000) and consequences are partly random. The network effect has very tangible stakeholder manifestations: Stakeholders are not only linked to the focal organization, but also may have dyadic or multilateral connections with other stakeholders. In these dense network structures, almost any incident in one dyadic node may effect changes in many or all stakeholder relations. The network effect is accentuated if the focal organization attempts exclusive bilateral bargaining with some stakeholder groups, potentially marginalizing other stakeholders. Moreover, the more complex the stakeholder network, the less predictable the network effects. This leads to the following proposition:

Proposition 4. The greater the number of contractual linkages between and among stakeholders, the more complex the stakeholder network and the less predictable are stakeholder reactions during organizational transitions.

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Sequence. Following Pierson's (2000) ideas, the contingency of small events and timing are important factors for understanding how stakeholder issues are related to organizational path dependence. In any business context, the strategic choices of executive decision-makers and the sequence of those choices may have an enormous effect on the final outcome of any stakeholder-related process (cf. Lamberg and Parvinen, 2003; Capoccia and Kelemen, 2007). A crucial question is why certain sequences within a process amplify stakeholder controversy, while other sequences do not (cf. Bennett and Elman, 2006). Following the governance inseparability principle, we may expect that the increased bargaining power of stakeholders is related to the sequence of decisions and policies. Following Arthur (1989), we may also note that each decision by the focal organizations is remembered: No events can be cancelled or 'done again' and they always affect the next stage of the process. Thus, not only the events and decisions are important in the process, but equally the sequence of the events and decisions:

Proposition 5: The sequence and nature of decisions by the focal organization's management team has an important role in how organizational transitions proceed. Even small, technical issues may escalate a conflict if they threaten or violate existing contractual commitments. Similarly, management team decisions may change the bargaining power of organizational stakeholders, causing further dynamics in the stakeholder network.

Summary. This combination of propositions offers an understanding of how and why stakeholder management is a dynamic process issue rather than a static planning and execution exercise by the focal top management team (cf. Zietsma and Winn, 2007). To concretize our theoretical suggestions, we next illustrate how and why stakeholder problems happened in a specific

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organizational transition: United Airlines and US Airways abandoned merger during 2000-2001. The case illustration is suitable for further scrutinizing path dependence in stakeholder issues. It reveals the sequence of events, is a rare or juncture transition, facilitates the identification of complex causal relationships, and allows examination of the network dynamics as accentuated by a single strategic initiative (cf. Bennett and Elman, 2006; Capoccia and Kelemen, 2007).

Case methods

The case materials include interview and documentary data. In the selection of the data sources, we used multiple vantage points into the phenomenon of interest (Jick, 1979). The use of multiple data sources facilitated the triangulation of facts and inferences. In the beginning of the research project, we collected a large amount of documentary material drawn from press releases, annual reports, news articles in newspapers and magazines, as well as internet-based communications. Such material is an appropriate data source for retrospective, longitudinal research because its original purpose was the communication of facts surrounding the focal events to a target audience (see Burawoy, 1998; Anand and Watson, 2004). We also consulted several sources focusing on the airline industry (Baitsell, 1966; Greenwald and Madigan, 2001; Kaps, 1997) and its strategic management (Kling and Smith, 1995).

Our research group also interviewed 16 individuals representing the most important organizations related to the M&A process. Ten interviews were recorded and transcribed, while six individuals only allowed written notes. Interview sessions lasted from 60 to 120 minutes and followed a semi-structured agenda. The informants represent all the key stakeholder groups. An obvious limitation is that the CEOs of UAL and US Air were not accessible for interviews.

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Otherwise, our research group was able to contact actors with intimate knowledge about the merger discussions.

As is typical in case illustrations (e.g. Siggelkow, 2001), we began our data analysis by building a descriptive history of the merger process. Drawing on the different documentary sources noted above, we constructed a case history that documented the entire process chronologically. From the beginning, we built an event database that we supplemented the more we had interview data and the further the process developed. We present next the result of the case analysis, followed by an interpretation based on our theoretical insights of the stakeholder-related issues involved in the M&A process.

UAL-US Airways M&A Process 2000-2001

M&A initiative (Phase 1)

On May 23, 2000, UAL Corporation, United Air Lines' parent company, entered into an agreement to merge with US Airways Group, the parent company of US Airways. The shares of US Airways Group common stock held by the stockholders were to be converted into the right to receive a cash merger consideration of \$60 per share. The premium was nearly 130 percent of the market value for the stock. In the context of US Air, the main beneficiaries were the largest institutional owners of US Air, the hedge fund Tiger Management LLC (24.64 percent ownership in February 2001) and Morgan Stanley Dean Witter & Co (6 percent ownership). Two directors of US Air, Rakesh Gangwal and Stephen M. Wolf, both owned over three percent of the company's common stock. Additionally, the executive officers of US Air owned almost nine percent of the common stock. UAL's employees owned 55 percent of that company; in contrast, UAL's top management team had no stock in the company.

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US Air's strategic position as a mid-sized, geographically-focused carrier was difficult to maintain in an increasingly competitive market (see also, Kling and Smith, 1995). Thus, from the owners' perspective, the merger with UAL was a rational way to secure invested capital. This was also the dominant interpretation made by UAL's management as a vice-president of UAL states:

Well the US Air had been on the verge of bankruptcy before and consequently I think US Air people were very concerned that they were going to get severely constrained from a competitive nature specifically in the east coast with the United, American and Delta and everything else that was taking place and so their company was much more dire straights at that particular time.

From the perspective of UAL's strategic apex, the merger had a different connotation. It was meant to strengthen UAL's strategic position vis-à-vis American Airlines and Delta. Moreover, it would have supported UAL's strategic position for global competition. As concluded by a vice-president of UAL:

I think the whole purpose behind [the merger] was consolidation as something that is sooner or later going to take place in this industry... the revenue benefits would have come from combination of the schedules and cross-feeding the passenger flows. US Air would have fed a lot of passengers on UAL's international operations.

Similarly, the top executives of US Air had an especially strong interest in the M&A since they owned almost nine percent of the company. A representative of US Air pilots summarizes the case:

Steven Wolfe was singularly focused, you could arguably say, shareholder management. I think there was a significant personal interest and he did exit the US Airways with a lot of money. I think that had a lot to do with the receptivity of US Airways when United came to... and again there was a huge lump of cash for him in this transaction.

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In other words, for UAL the rationale for the merger was strategically compelling, explaining also why UAL and US Air had attempted to merge previously in 1995. At that time UAL pilots and mechanics had prevented the merger. In the 2000 merger process, the initiative did not become public before the companies reached a consensus. In 2000, two unions had representatives on UAL's board, Frederick Dubinsky from the Air Line Pilots Association (ALPA) and John Peterpaul from the International Association of Machinists (IAM). According to media sources, when the new merger was considered by the board, Dubinsky voted against it, whereas Peterpaul accepted the initiative. Importantly, if they had acted together, the two union representatives would have been able to prevent the deal from going forward from that point.

The merger plan included three elements. First, UAL would acquire US Air and its business operations. Second, UAL and US Air would enter into an agreement with Robert Johnson to buy certain US Air assets. Johnson would found a new company, DC Air, to continue US Air's operations at Reagan National Airport in Washington, D.C. This agreement was crucial, as UAL dominated traffic at nearby Dulles airport. By divesting assets at the Reagan Airport, the companies wanted to defend against antitrust issues. Third, as officially announced in January 2001, UAL and American Airlines (AMR) agreed that AMR would start competing routes, would buy 86 aircraft from US Air, and would participate in a joint-venture to provide shuttle services to Washington, DC, New York and Boston. Moreover, AMR tentatively promised to purchase a 49 percent stake in DC Air. It was clear that even though this complex agreement with AMR was reached during the third phase of the M&A, it had been under negotiations during both the first and the second phases.

Union struggle (Phase 2)

Immediately after the merger decision, ALPA's representative on the UAL Board, Captain Dubinsky, announced his disappointment that the company had entered into a transaction of this magnitude without reaching full agreement with the United Airlines pilot group on all issues. The background to ALPA's resistance was the expired Employee Stock Ownership Plan (ESOP) agreement and consequent labor agreement negotiations. When the ESOP agreement started in 1994, the pilots had made concessions in terms of salary and benefit cuts. In return, they received shares of UAL with the restriction that the shares were saleable only upon retiring or resigning from the company. Pilots had received some modest improvement in salary in 1997, but during the first post-ESOP negotiations they wanted much greater compensation. Within this context, as put by a representative of ALPA, "the pilots saw this [the M&A process] quite honestly as a negotiation tool" for concessions in the labor contract negotiations and as a threat because of the uneven distribution of seniority rankings across the two airlines.

During the summer of 2000, UAL pilots and some of the machinists started a work slowdown. By enforcing their contracts literally, the pilots were able to refuse overtime work, to decline to fly in hazardous weather, and to call in sick at the same time, creating chaos in the airline's logistics. Between June and August 2000, over 20,000 flights were cancelled and the airline's on-time performance dropped to under 50 percent. As a result, UAL's stock value dropped from a high of \$79 in January 2000 to a low of \$48 in August 2000. An ALPA representative described the situation as follows:

I'm scared to death, because I've only been here five years and all the people in US Airways that are flying the same airplanes have been here three or four times as long as me. The company promised that they were going to take care of that as a natural agreement and it appears that they are not. So, what was labor to

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do... We didn't have a new contract. All the things that we've been promised weren't there and we were being tremendously humiliated in labor's mind.

After a long and difficult series of negotiations, UAL and ALPA announced on August 26, 2000 that they had reached a tentative agreement, with the pilots obtaining an average 23.8 percent increase in salaries. This new contract had fundamental side-effects. First, it raised UAL's costs by over a billion dollars per year. Second, it motivated the machinists (IAM) and flight attendants (APFA) to seek similar treatment in their labor contract negotiations during the following year. Third, the mistreatment of UAL's customers intensified the federal government's examination of the M&A's influence on airline competition. This linkage between the antitrust examination and the dysfunctional flight operations during the summer of 2000 was evident with the first declarations from the Department of Justice.

Antitrust examination (Phase 3)

Even before the announcement of the UAL-US Air M&A, it was expected that the Department of Justice's (DOJ) Antitrust Division (AD) would critically examine the agreement. One reason for this expectation was the AD's fundamental resistance to actions that would reduce competition in the airlines' national hub-spoke network. In early 2000, the AD defined its prime interest in the investigations to be "...concerned about transactions that significantly raise concentration levels in city pair markets." Specifically, the AD analyzed market share changes by the two combining airlines that affected (a) overlapping hubs; (b) nearby hubs – such as Dulles and Reagan National; and (c) distant hubs which were connected by non-stop flights. In this case, the AD estimated that the M&A would have given United a monopoly or duopoly on nonstop services for over 30 routes. The AD noted six areas in which the proposed merger would reduce competition: hub-to-hub nonstop markets; the Washington, D.C and Baltimore nonstop market; East coast connect

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markets; international routes; corporate and government business travel; and finally airline service concentration. Thus, from the beginning the merger was primarily seen as a competition policy and antitrust case as emphasized by a DOJ representative:

“The main issues in not approving the merger were airline competition between the overlapping parties, secondarily connecting routes with only two options in Washington markets... Parties claimed the merger would provide benefits to the passengers by new service opportunities. We were not agreeing with the material we were showed.

UAL and US Air prepared for the inquiry by including the DC Air plan and other concessions in the proposed agreement; also, during the process they submitted several further proposals in order to legitimate the merger. However, the AD did not view DC Air as a competitive addition to the Washington, D.C. market. Also, it perceived the joint shuttle service venture between UAL and AMR as reducing rather than increasing competition. Indeed, in May 2000 when announcing the proposed M&A, Jim Goodwin estimated that the probability of approval from the DOJ was “no less than 50 percent”; by the spring 2001, he announced that “if it's meant to happen, it will happen ... and if it doesn't, life will go on at United Airlines”, acknowledging the potential legal risks in the plan. It is significant that UAL did not submit any new proposals to the AD after January 2001, even though UAL and US Air could have restructured the M&A with new concessions. As market analysts and media reports noted, UAL was unwilling to salvage the M&A by abandoning additional future routes or business units. Finally, on July 12, 2001, the two companies notified the AD that their intention was to close the transaction, causing the DOJ to make its final announcement that blocked the M&A on July 27, 2001. According to a DOJ representative, “if the parties were surprised of the outcome they did not listen to what we said.”

Epilogue

UAL lost substantial market value during the failed M&A process. US Air's stock also declined in value, and UAL's operating losses were substantial during the last quarter of 2001. Despite the AD's announcement that it would have blocked the M&A if it had continued, there is no single reason for the failure. Opposition from government agencies was an important factor, but so were the union disputes and the overall complexity of the process. As stated by a DOJ representative, "the unions were sending postcards to Billiel about the merger, stewardesses were distributing cards to passengers asking them to send them too, DoJ has 'two feet of cards'." The complexity was the obvious outcome of the multiple roles of the employees, owners, union members, and political pressure groups.

Moreover, the proposals submitted to the AD enhanced the circle of stakeholders involved in the process, as AMR and various other organizations became engaged in either supporting or resisting the M&A. The unions' opposition was obviously an important obstacle during the process. Importantly, employee ownership did not result in loyalty among the pilots and machinists. This was manifested in the work slowdowns and in the unpredictability of union actions. For example, the IAM eventually opposed the M&A, despite its representative's early support, arranging a lobbying campaign in Washington, D.C. against the acquisition. ALPA's role was especially interesting as it catalyzed the failure process with its victory in the labor contract negotiations.

Analysis

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In the following, we investigate the match between the stakeholder path dependent framework and the empirical illustration of the UAL-US Air by scrutinizing each proposition in the context of the historical processes and outcomes.

Dependence on initial conditions

The history of conflict between the major stakeholder groups can be proposed as one of the key determinants in determining whether polarization of opinions occurs during organizational transition periods. In turn, the closing-out or ignoring of supportive or secondary stakeholders is likely to have a central position in enforcing polarization among stakeholders. In this case, the history of conflict had clear antecedents in the failed M&A negotiations during 1995. The acrimonious history of the employee stock ownership plan (ESOP) agreements at UAL created mistrustful and antagonistic relationships between the top management teams and the pilots and machinists. The case shows how this history of conflict produced a vicious cycle of conflict escalation that was difficult to reverse, especially as there were numerous union-management negotiation rounds preceding the M&A process. Initial conditions seem to be a major factor in a path dependence view of how stakeholder-organizational processes will unfold. Indeed, in the UAL-US Air case, initial conflicts were the most influential in determining the final outcome.

Web of commitments

In the UAL-US Air case, existing contractual commitments seemed more flexible than initially anticipated in the proposition. Even though the process analyzed took several years, the finding that contractual commitments, both implicit and explicit, could be renegotiated (e.g., recently negotiated union agreements not holding in the light of new contracts by neighboring unions) was rather surprising. Whereas existing contractual commitments influenced the dynamics (e.g., pace

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and sequencing) of the process, the inertia of the web of commitments did not lock stakeholder positions as strongly as expected. Nonetheless, the sub-optimal governance mechanisms observed by Argyres and Liebeskind (1999) are obvious, but there is a distinct element of choice in many of the outcomes. Similarly, many of the outcomes influenced by the commitments did not seem final. There is little evidence to suggest that a single equilibrium would thus exist.

Network effect. As the classic decision-making literature (March, 1978; Simon, 1957) suggests, rational choices involve two guesses, one about uncertain future consequences and the other about uncertain future preferences. This is obviously problematic when trying to predict the behavior of only a small number of individuals and organizations, but even more so when the complexity of the field increases. If we adopt a network view of a firm's stakeholder field, the problems of rational choice are paramount. Not only do decision-makers need to predict the actions of stakeholders in terms of their historical behavioral patterns, but they must also take into account that the stakeholders each conduct similar calculations with similar computational capabilities. On a more pragmatic note, the presented case account suggests that it is possible and recommended to focus on second order, or "one beyond the next", network dynamics. With hindsight, many of the Department of Justice's reactions could have been anticipated. Similarly, the escalating spiral affected by the demands of the different unions was imaginable. However, the more complex the network, the less feasible it becomes to anticipate or influence network reactions. In this case, it took a considerable research effort, hindsight, a wealth of information, and ample time to understand at least some of the higher order dynamics.

As recent stakeholder literature (cf. Winn, 2001) suggests, firms generally need to adopt strategies equal to the complexity of their environment. In the UAL-US Air case, UAL's

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executives and the task group were seemingly unable to follow this maxim. The communication and contract linkages between the different stakeholders made binary stakeholder strategies useless, since inter-stakeholder relations drove the process with equal force. For example, the unions engaged actively in three simultaneous merger processes, while negotiating with the various airlines, as well as lobbying in Washington, D.C. Also, an obvious problem in the governance of the organizational transition was that the boundaries and identities of the stakeholder groups were blurred. The best example of this was the UAL pilots, who maintained multiple roles (owner, employee, and bargaining agent) during the process, swapping from one mode to another.

Sequence. The influence of stakeholder closing out becomes evident as the negotiating parties (UAL and US Air executives, board members, lawyers and investment bankers) effectively closed out both employees and unions from the negotiations. The intent to merge was presented as a ‘done deal’ or completely negotiated pact. This is an understandable act from the perspective of the ‘rational’ decision-makers. Co-operation would have become a notable option only if the parties had had a history of co-operation in terms of ‘tit-for-tat’ tactics (see Jones, 1995). On the other hand, as our analysis indicates, the ‘closing-out’ of stakeholders, even if rationally based on the history of conflict, can exacerbate the polarization of interests.

The sequencing of events within the organization transition process is important not only in a tactical sense (e.g., how others perceive a ‘move’ in time), but the case suggests that there is also a more fundamental and concrete effect. The order of activities in a negotiation seems to constitute very different dynamic patterns *per se*, regardless of how stakeholders see it. In the UAL-US Air case, this is easy to understand by contemplating the sequencing of multi-party

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negotiations and DoJ involvement. Surely, the multi-party negotiations would have been different in terms of process, agenda and outcome, if DoJ involvement had happened after, not before. Similarly, the sequencing of events also seems to be important from the conflict triggering standpoint. An action (e.g., agreeing on one union’s demand) has a different triggering effect depending on whether it takes place before or after a union contract has been signed.

In summary, we offer the following notions of how the five research propositions were manifested in the UAL-US Air case:

Proposition	Extent of empirical support for proposition	Potential future modifications
<i>Proposition 1: Dependence on initial conditions</i>	Strong	More refined understanding of initial conditions should be reached.
<i>Proposition 2: Initial conflicts</i>	Very strong	Relationship between initial conflicts and process dynamics should be refined
<i>Proposition 3: Web of commitments</i>	Moderate for inertia; very weak for single equilibrium	Contractual conditions and commitments should be viewed as explanations rather than reasons in the future
<i>Proposition 4: Network effect</i>	Very strong	Future research should focus on understanding 2 nd order, “one beyond the next”, reactions
<i>Proposition 5: Sequence</i>	Very strong	Future research should focus on patterns of events as a starting point for studying sequences

Conclusion

Previous strategic management research has largely ignored the question of whether stakeholders might have an important role regarding the success or failure in organizational transitions. As we have demonstrated, stakeholder theory relies on interests, identity, and power as primary explanations for why stakeholders influence corporate strategic activities. By combining stakeholder management theories with path dependence and applying this synthesized perspective within a longitudinal case illustration, we attempted to construct a process perspective of stakeholder management that goes beyond interests, identity, and power. Especially, the importance of initial conditions qua stakeholder relationships largely explains why a transition turns to unexpected direction. Path dependence, thus, is manifested during organizational transition processes. The notion of path dependence is novel in the context of stakeholder research and opens new ways to understand the dynamic aspect of organizational transitions. Thus, the view of stakeholder management developed in this paper contributes to the literature in three ways: (1) It provides a dynamic understanding of organization-stakeholder relationships as a function of past and present actions; (2) it highlights how organization-stakeholder relationships are dependent on small random effects; and (3) it underscores how intra- and inter-group relationships existing within a stakeholder network influence organizational actions and outcomes.

The managerial lesson of this paper is that a numbers-logic oriented tradition of business planning is unable to suggest how a network of stakeholders will react when a major organizational transition takes place. On one hand, as Williamson (1996: 286) has pointed out, a major problem is that an economic-based approach “postulate[s] hypothetical ideals, making it

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nonoperational [...it] focuses too narrowly, thereby omitting or undervaluing important attributes.” On the other hand, Mintzberg et al. (1998: 250-251) has argued that prescriptions derived from conventional stakeholder management theories are simplistic, manipulative, and unsuitable for turbulent environments.

With these criticisms in mind, our paper offers a potential problem-solving tool for stakeholder management. Our starting point has been a significant business outcome: abandonment of a merger. If executives were to use our insights to analyze the stakeholder linkages in strategic initiatives (such as M&As), the following types of prescriptions should be considered: (1) Given path dependence, all stakeholder groups whose contractual position can lead to a vicious cycle of demands, threats, and sanctions should be involved in the initial negotiations; (2) The financial impacts of ‘deal contingencies’ (e.g., pay increases tied to a M&A contract) must be calculated by an unbiased party and made transparent in order to alleviate information asymmetry-related incentive conflicts; (3) Explicit strategies for harnessing opportunism should mitigate its use, especially if the initiative creates organizational discontinuity; (4) The complex multi-party negotiations inherent during a strategic change and the risk of uncontrolled conflict escalation are a fundamental threat and should be treated not as a hurdle, but as a decision-making variable (much like price issues, profitability problems, cultural differences or expected post-merger integration problems) to be evaluated objectively when deciding whether to initiate a change process or not.

This paper is not an exhaustive explanation of stakeholder-related problems in organizational transitions. Rather it opens new directions for further research. For M&A and strategic change researchers, thinking about how stakeholders and path dependence impact process outcomes may create new avenues for empirical and theoretical research. Indeed, since this issue is under-

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researched, we believe there is a need for a serious re-interpretation of many failed strategy processes. For stakeholder researchers, a practical phenomenon such as an M&A offers opportunities to reexamine existing frameworks and develop more dynamic and realistic understandings of what happens within (and between) stakeholder networks. Finally, the proposed process approach to stakeholder management could also be applied to other business phenomena beyond transitions. A similar approach should especially benefit researchers focusing on major strategic processes which involve multiple stakeholders. Interesting areas of application would include, for example, large collaborations involving complex company consortia, legislative changes with major business implications (e.g. liberalization or regulation), and the introduction of new technological standards.

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