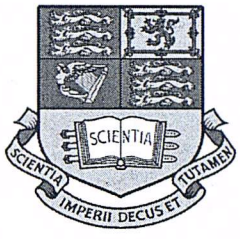
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"Developing lobbying process as a strategic capability: a study of European flag carrier airlines in contrasting policy contexts"

By

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A thesis presented in part consideration for the requirements for the degree of Doctor of Philosophy and Diploma of Imperial College London

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"Veni, vidi, vici"

I declare that the thesis presented by me in June 2007 for examination for the PhD degree is my own work

Tazeeb Rajwani, June 2007

ABSTRACT

There has been an increased interest in cross fertilizing studies between strategic management and political science. Studies have examined the effectiveness of corporate political lobbying at both an organisational and industry level. What is lacking in these works is a systematic and comprehensive perspective on corporate lobbying development from within the firm. In this thesis we deploy a dynamic resource-based perspective to unbundle the development of lobbying processes as a strategic capability. We examine two distinct policy contexts: Exogenous policy context (where the firm engages with political decisions and policies in an unexpected way) and Endogenous policy context (where the firm engages with political decisions and policies in an expected way).

Using a qualitative methodology, this thesis describes the findings from five case studies of European long haul airlines. It focuses on the nature of lobbying capability development, by focusing on the micro foundations and the interactions between the micro lobbying components. Furthermore, it also considers whether the different policy environments create distinct lobbying capability development paths.

The findings from the case studies illustrate using several inductive frameworks, how cognitive blueprints play a vital role in defining the level of management attention to modify human capital resources, network capital resources, organizational capital resources and lobbying competencies to develop divergent corporate lobbying capabilities in contrasting policy contexts. Our frameworks and propositions shed light on the ways in which path dependence and path creation are enacted over time in different European flag carrier airlines.

In conclusion the thesis demonstrates that different organizations- state owned vs private owned- follow different patterns in lobbying capability development in different policy contexts. This is down to the senior management's cognitive blueprints, which play a vital role in underlying interpretive schema by heuristics from previous experiences, current learning and forevision. We show that while these sources of lobbying capability development are somewhat interlinked, there are hazards in assuming they are not connected to lobbying capability development. Ultimately, this thesis and its findings have some impact for practice.

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LIST OF ABBREVIATIONS, ACRONYMS AND INITIALISATIONS

RBV	Resource Base View
DC	Dynamic Capability
CPA	Corporate Political Activity
IATA	International Airline Transport Association
AEA	Association European Airlines
COREPER	Committee of Permanent Representatives
CFSP	Common Foreign and Security Policy
ICAO	International civil aviation organization
TAP Air	Transportes Aereos Portugueses
BA	British Airways
KLM	Koninklijke Luchtvaart Maatschappij
SAS	Scandinavian Air System
EU	European Union
VAT	Value added Tax
CAA	Civil Aviation Authority
ICAC	Independent Commission Against Corruption
SER	Social and Economic Council in the Netherlands
ATAN	Netherlands Air Transport Association
ECAC	European Civil Aviation Conference
ICC	International Chamber of Commerce
EC	European Community
ACIE	Airports Council International Europe
EC	European Commission
DG VII	Directorates for aviation transport
DG IV	Competition
DG XXI	Indirect Taxation
DG 1	External Relations
DG XI	Environnent
ICC	International Chamber of Commerce
PE	Political Economy
ECOSOC	Economic and Social Council

ITND	Invitation to Negotiate Documentation
FBC	Full Business Case

Chapter

1

INTRODUCTION

1.1 PROLOGUE

The creation and preservation of competitive advantage is a core challenge for all strategy leaders. Government action affects the competitive advantage of firms and industries, and can therefore increase or decrease profitability.[1] As a discipline, strategic management has offered a variety of theoretical routes to meet this challenge (Segal-Horn 2004). Dynamic capability, a conceptual approach embedded in a resource-based perspective, has emerged as a primary explanatory framework of competitive advantage (Teece, Pisano and Shuen 1997; Eisenhardt and Martin 2000; Rosenbloom 2000; Zollo and Winter 2002; Helfat and Peteraf 2003; Ethiraj *et al.* 2005; Sirmon *et al.* 2007). It explicitly focuses on conditions of market environment change (Eisenhardt and Martin 2000) and more recently non-market environment change (Holburn and Bergh 2002; McWlliams *et al.* 2002; Frynas *et al.* 2006). Originally, Teece *et al.* (1997, p.510) defined dynamic capabilities as the ability of

[1] While it is often difficult to isolate the profitability impacts on firms and industries of government policies, the finance literature has examined the impact of proposed public policies on firm and industry share prices in a wide number of contexts (MacAvoy 1992; Ries 1993; Thompson 1993). The event studies show that stock market participants believe that government actions can have major impacts on profits.

firms to integrate, build and reconfigure resources to sustain competitive advantage in rapidly changing environments.[2] However, the dynamic capabilities perspective encountered criticism for being theoretically ambiguous (Eisenhardt and Martin 2000). Eisenhardt and Martin (2000) addressed the criticisms, by proposing that dynamic capabilities consist of specific identifiable strategic and organisational processes i.e. product development, alliances and strategic decision-making that create value for firms within dynamic markets by manipulating resources into new value-creating strategies. More importantly, Eisenhardt and Martin (2000, p.1107) build on Teece *et al.* (1997) to describe dynamic capabilities as "the firm's processes or routines that are used – specifically the processes to integrate, reconfigure, gain and release resources – to match and even create market change".

However, since Eisenhardt and Martin's (2000) seminal work, empirical research on dynamic capabilities has become more narrowly focussed, with some management authors researching identifiable capabilities by looking at specific processes and routines, such as pricing process as a capability (Dutta *et al.* 2003) and marketing capabilities (Morgan *et al.* 2003). These authors believe that there is no such thing as an all-purpose dynamic capability that will give a firm competitive advantage in all contexts (Ethiraj *et al.* 2005). Moreover, this author believes that looking at the micro levels of specific capabilities is fundamental to explicating competitive advantage.

On the other hand, whilst earlier accounts of the resource-based view (RBV) focused on how firms can create advantages using resources and capabilities in market environment (Wernerfelt 1984, 1995; Barney 1991; Helfat and Peteraf 2003), more recently it has been suggested that these ideas can be cross fertilised into a non-market environment, particularly to the corporate political context (Baysinger and

[2] Most parts of the thesis have been presented and reviewed by people at the European Academy of Management Conference, Oslo, 2006; Irish Academy of Management, Cork, 2006; European Doctoral Research Conference, London, 2005, 2006; European International Business Academy, Switzerland, 2006; Academy of International Business, London, 2007 (to be presented at Academy of Management, Philadelphia, 2007 and Strategic Management Society Conference, 2007) and Surrey University, 2005.

Woodman 1982; Baysinger 1984; McWlliams *et al.* 2002; Holburn 2001; Hillman *et al.* 2004; Frynas *et al.* 2006).[3] However, the criticism of some of these studies from the political focal lens is that they are not paying attention to the managerial coordinative processes by which firms assemble and leverage knowledge assets (Baysinger and Woodman 1982; Hillman *et al.* 2004). Our study will aim to meet these shortfalls in providing micro level empirical evidence on the development of corporate lobbying processes that will be contextualised in two contrasting airline policy environments.

Recognition of both endogeneity and exogeneity in public policy, governments and corporate lobbying activity has been the catalyst for an explosion of academic interest in aspects of political (lobbying) strategies (Vining *et al.* 2005). Despite the acknowledged importance of governments and politics to organisations like airlines (Brown 1987; Pedler and Van Schendelen 1994), the state of scholarly knowledge about non-market lobbying strategies remains scant when compared with research on strategies for the economic marketplace (Baron 1995). In the field of competitive strategy, Hambrick and Frederickson (2001, p50) argue "*we now have...a host of helpful, often powerful, analytic tools. Missing, however, has been any guidance as to what the product of these tools should be-or what actually constitutes a strategy*". Grosse and Behrman (1992) argue that theories that fail to incorporate the political activities of organisations take the 'national' out of 'international' and leave the analysis 'as a simple extension of firm and market theories' (p 97). While international business literature has focused on MNE–host government negotiations regarding initial entry into a country (Dunning, 1992), little research is directed towards the antecedents of corporate lobbying development. Therefore, the better the knowledge gained regarding the way organisations formulate their ongoing lobbying processes and routines, the more enhanced will be our understanding of the

[3] Governments represent major sources of uncertainty for firms because they often control critical resources and opportunities that shape firms' industry and competitive environments (Jacobson *et al.* 1993; Baron, 1995). As a result, many firms engage in 'political strategies', or proactive actions to affect the public policy environment in the firm's favour (Baysinger, 1984).

organisations successes and failures (Jacobson *et al.* 1993; Boddewyn and Brewer, 1994).

1.2 OVERARCHING FRAMEWORK AND THEORY-SETTING THE SCENCE

The airline industry is one of the most dynamic industries of this century. Notwithstanding the fact that this industry will be a pivotal component of the thesis, it has become obvious to all airline leaders that their business environment has become a more unpredictable and complex place in which to trade and invest. The unexpected event of the 9/11 terrorist attacks and expected policy changes designed to liberalise the airline industry have highlighted the changing business environment for airlines (Harrington *et al.* 2005; Doganis 2005). In light of these developments, a fundamental question springs to mind in the field of strategic management; how do firms create and sustain a competitive advantage? The sources of a firm's competitive advantage have been viewed traditionally through the lens of industrial economics (Porter 1980). However, more recently other researchers have questioned this focus on industry structure and have decided to instead focus internally on firms' resources and capabilities in order to understand the source of competitive advantage, as it is possibly the most important issue in strategy (Penrose 1959; Wenerfelt 1984; Dierickx and Cool 1989; Barney 1991; Peteraf 1993; Helfat and Peteraf 2003). The extant literature suggests that superior performance can come from resource uniqueness (e.g. Barney 1991), from reconfiguration, leveraging and integration of existing resources (e.g. Eisenhardt and Martin 2000), and from the ability to respond appropriately to the surrounding environment (e.g. Teece *et al.* 1997; Mintzberg 1987). Indeed recent studies have also shown firm resources and capabilities are often context-specific (Ethiraj *et al.* 2005 p26). Thus we will aim to answer the recent call from Ethiraj *et al.* (2005, p26), "*that fruitful research in strategic management area might emanate from enjoying an in-depth study of resources and capabilities in a specific context*".

Conversely, there has also been increasing academic interest in the non-market environment context, particularly, in the intersection of politics and business

management of firms or what some scholars call ''corporate political activity'' (Kobrin 1978; Epstein 1980; Mahon 1983; Baysinger 1984; Keim and Zeithaml 1986; Boddewyn 1988; Baron 1995; Hillman and Hitt 1999; Hillman, Zarkhoodi and Bierman 1999; Rehbein and Schuler 1999), moreover specifically in our study, lobbying activity (Coen 1998; De Figueiredo and Tiller 2001; De Figueiredo and De Figueiredo 2002). Some of these studies and others have looked at ways in which firms create political advantages using corporate political strategies (Yoffie 1985; 1988; Hillman *et al.* 2004) and ways in which firms can control political uncertainty in foreign direct investments (Holburn 2001; Delios and Henisz 2000; Henisz and Zelner 2003). However, it seems that scholars have not sought to understand the process issues from within the firm in conjunction with ''uncertain and certain'' contexts. Moreover, these scholars fail to address "why and how" organisations develop their lobbying capabilities to help create these advantages. Subsequently, "how" firms use capabilities, to organize, reconfigure, leverage, integrate and deploy political resources, in their given contexts. Thus the challenge is to begin learning how to cope with levels of uncertainty or ambiguity in the capability development process.

1.3 RESEARCH RATIONALE

Government policy impacts upon most industries in democratic nations. Industries like oil, gas, defence, tobacco, telecoms, banks, manufacturing, pharmaceutical, airlines and so forth, all have a government affairs function to lobby and manage this complex non-market policy domain. In this thesis, the airline industry is selected as a "natural laboratory" in which the research questions will be investigated. Bearing in mind that there are different types of airlines like low cost,[4] charter,[5] flag carrier

[4] A low-cost carrier or low cost airline (also known as a no-frills or discount carrier / airline) is an airline that offers generally low fares in exchange for eliminating many traditional passenger services. The concept originated in the U.S before spreading to Europe in the early 1990s and subsequently to much of the rest of the world. The term originated within the airline industry referring to airlines with a low - or lower - operating cost structure than their competitors (Lawton 2002).

and fully private airlines, this thesis will focus on European flag carrier airlines (the choice of flag carrier airlines and Europe will be explained in more detail in this introduction and in the methodology chapter).

Nevertheless, most airlines have traditionally had a strong natural relationship with their own national governments (Pedler and Van Schendelen 1994; Lawton 1999). This close link has been a direct consequence of the traditional involvement of national governments in the aviation industry (Kasim 1995). The relationship was created as a result of airlines flying into foreign jurisdictions where they operated with foreign regulated systems. Airlines were allowed to operate on the basis of a strictly regulated system of licenses, provision of which was also determined under technical, economic and aviation politics criteria.[6]

Nowadays, the mutual granting of licenses is regulated internationally by means of bilateral agreements with other countries, unless the airlines are flying in deregulated zones (Kasim 1995). Therefore almost every airline of any size also has a government affairs department (some organisations use different names like public, institutional, foreign or aeropolitical affairs for the same function). The operations carried out within these departments are governmental/political activities and were so even before these terms existed, although they were exclusively directed at the preservation and expansion of airlines. However, since deregulation their importance and function has shifted to lobbying rather than simply route negotiation. It is

[5] Charter airlines are airlines that operate charter flights that take place outside normal schedules, by a hiring arrangement with a particular customer. Although charter airlines typically carry passengers who have booked individually or as small groups to beach resorts, historic towns, or cities where a cruise ship awaits them, sometimes an aircraft will be chartered by a single group such as a company, a sports team, or the military. Many charter flights are sold as part of a package holiday in which the price paid includes flights, accommodation and other services. At one time this was illegal, but this is no longer the case, and so-called "flight-only packages" can be bought by those who merely want to travel to the destination.

[6] Apart from the issue of the granting of licenses, relationships between flag carrier airlines and their governments have also been strong because most national governments have held shares in their flag carriers since the Chicago convention.

usually within this department that lobbying commences (Pedler and Van Schendelen 1994).

Bearing in mind that this study will be conducted from within the government affairs offices of our chosen sample airlines, at this stage we emphasise that it will not try to find an underlying relationship between performance of the airlines and lobbying capabilities development. More importantly, the aim of this study will be primarily exploring and examining "what" lobbying capabilities are (Eisenhardt and Marin 2000) and, our case, *strategic and organisational lobbying routines and processes:* "how" they are developed in two specific contrasting policy contexts,[7] and "why" they are developed in these specific ways.[8] We argue that the lobbying process is a capability that a firm can develop as a basis for competitive advantage but that organisations need to understand the dynamics of and interactions between the micro foundations in the development of this strategic capability.

The frame of exploration and identification of two distinct policy contexts in this thesis is based on historical reconstruction and follow-up of two major events that had many implications for Airlines. (The choice of the two contexts will be explained in more detail within the literature review and methodology chapters). It is in these contexts that we extend our understanding of the nature of lobbying capability development and in doing so extend resource-based theory. Subsequently, we will try to build on that level of heterogeneity in corporate political decision-making by looking at recent literatures of corporate political activity and resource-based view (hereafter RBV), more specifically dynamic capabilities, to provide an enhanced understanding of the development of a lobbying capability.

[7] The unexpected (exogenous policy event) and expected (endogenous policy event) policy contexts will be described later in this study.

[8] In other words, our study will ask "what and how" are the micro foundations of lobbying capability, developed in order to capture value from specific policy outcomes, and "why" are they developed in those specific ways?

1.3.1 DEFINITIONS

The concepts involved in describing the process of developing dynamic capabilities have remained obscure (Priem and Butler, 2000; Ethiraj *et al.* 2005). Many scholars have used different definitions of concepts such as knowledge, micro-level mechanisms, resources, assets and competences in relation to the same theory (for an overview see Bogaert *et al.* 1994). However, in order to gain more insight into a lobbying process as a strategic capability, some clear definitions of the various concepts are required at this stage.

We would like to define and introduce the most important concepts, underlining that these definitions are not universally agreed upon but suitable and appropriate to this study, in order to allow the readers to grasp some of the "main characters of the story". Therefore, following Barney (1991) and Zander and Kogut (1995), we define 'resources' as the stock of available factors (tangible or intangible assets) owned or controlled by the firm. A 'capability', however, refers to the capacity to deploy, integrate, reconfigure and leverage resources to make change (Mahoney and Pandian 1992; Eisenhardt and Martin 2000; Makadok 2001; Sirmon *et al.* 2007). A 'competence' is different from a capability in that it enables the firm to sustain the way in which it uses its resources in order to achieve its objectives (Sanchez *et al.* 1996). In other words, this refers to a meta-capability or a firm's ability to develop its capability. Finally 'lobbying' refers to the presentation of views, communication of opinions and suggestions in order to influence institutions and political factors that form an essential part of a democratic process at the heart of the non-market policy-making environment (Coen 1997).[9]

[9] Contrary to popular stereotype, most lobbyists are not sinister figures. They are professionals that lobby or advocate interests that can make a real difference in the process of allocating funds or shaping legislation. They conduct research, assemble the facts, understand both substance and procedures, and prepare quality advocacy. Indeed, integrity and credibility with decision-makers are indispensable. Increased recognition of the importance of government decisions and how they are influenced is what has resulted in the widely reported, explosive growth in lobbying (Coen 1997).

Therefore, building on Holburn (2001), McWilliams *et al.* (2002), Bonardi *et al.* (2007) and Eisenhardt and Martin (2001), we define a lobbying capability as *the corporate political processes - specifically the processes in which managers work together to integrate, reconfigure, gain and release resources - that use resources to match or even create non-market change. Lobbying capabilities are the organisational and strategic routines by which senior representatives or acting representatives achieve new resource configurations to match or even create non-market change, in our case, in the corporate political environment.* They are firm-specific routines and processes that require interaction with political resources.

1.4 IMPORTANCE OF THIS RESEARCH

This area was chosen for investigation based on two fundamental facts. Firstly, there is still a paucity of studies that examine the RBV in relation to corporate politics.[10] This is surprising given that the needs and demands of many markets are forecasted to grow within the airline industry, which will undoubtedly expose airlines to different forms of policy contexts. Thus understanding the micro-level corporate lobbying components, its developmental antecedents and its given context will be vital in extending the notion of dynamic capabilities (more broadly RBV), as it will offer a fresh extension to academia, using the non-market environment perspective (Holburn 2001; Henisz and Zelner 2003; Hillman *et al.* 2004).

Secondly, this study will be significant as it will specify more clearly the conditions under which lobbying capabilities of different types and levels are developed. Although the study in its current form does not address outcomes/performance relationships it will aim to provide important first steps in exploring the relationships by establishing some dependent relationship between the micro sources in the organisational lobbying capability, types of political resources and the onset of specific types of policy contexts to the airlines. The conclusions of this study will

[10] This view is aligned with the view of Getz (2002) and Hillman *et al.* (2004) who have asked for scholars to do more research into corporate political activities using the RBV scope.

certainly have implications for practice, but a basic objective is to generate further efforts directed at the improvement of this emerging and critically important managerial function.

1.5 REASONS FOR CHOOSING THE RESEARCH INDUSTRY OF EUROPEAN AIRLINES

The airline industry, with emphasis on "European flag carrier" airlines, was selected as a "setting" for our investigation. This industry and its emphasis on European flag carrier airlines were chosen for three reasons. (The airline selection process and sample size will be discussed in the methodology chapter.)[11] Firstly, there is a widely shared view that European Long haul flag carrier airlines have traditionally been politically active to some degree, due to the high level of involvement of national governments in regulation of the industry (Doganis 2001).[12] What is more, in recent times, European flag carrier airlines have become increasingly politically active (Cohen and Willman 1998, Doganis 2001). This is due to their planes needing to fly into foreign jurisdictions, develop new routes and negotiate traffic rights with different countries. Therefore, in light of these developments by European flag carrier airlines, the government ownerships, the level of corporate political actives in Brussels (Cohen and Willman 1998), and the lack of empirical Resource Base View (RBV) studies on the airline industry, it would be interesting to investigate the phenomena of a lobbying capability in this highly politicised industry.

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[11] However, only recently have governments realised that they can no longer treat this industry differently to others (Hillman *et al.* 2004). They hope that commercial aviation will become self reliant. In this their resilience will depend on their capabilities to innovate as with firms in other industries. Thus airlines need to be able to sustain themselves and compete to provide a service that aligns consumer expectations with perceived value. This has been highlighted by recent figures showing that airlines are growing and meeting new market demands (IATA Annual Report 2004).

[12] The regulation of international aviation was initiated with the Paris convention of 1919. It was accepted that states have sovereignty over the air space above their territory. Control was mainly handled with a set of *ad hoc* arrangements between nations. The rules on certain economic rights, however, were not set until the 1944 Chicago Conference.

The second reason for the industry choice is personal interest in and knowledge of airlines. Two previous studies on the airline industry have convinced me of the usefulness of this field. My own background will make understanding the industry and interviewing senior managers easier, and I believe I am well placed to appreciate the problems involved and any shortcomings.

Thirdly, the choice of European flag carrier airlines was based on the fact that European airlines included low cost airlines. This breed of short haul carriers was not subject to the same political pressures as long haul flag carriers due to their different business model and history. These revolutionary low cost airlines managed to entice consumers even through the pressures of 9/11 with their bargain prices. What is more, firms like Easyjet and Ryan air (low cost airlines) emerged as a result of the endogenous policy (i.e. deregulation - the introduction of the third liberalisation package) context. Thus having looked at short haul airlines, we decided that adding low cost airlines would not justify the comparisons to test theory, as our chosen contexts were viewed very differently by low cost airlines and flag carrier airlines.

1.6 RESEARCH CONTRIBUTIONS

Explaining the variation in the degree of success of business organisations, with reference to degrees of environmental uncertainty and choices of organisational resources and capabilities, has been a major focus of recent theorising in strategic management. Concepts and labels coined to characterise the phenomenon abound. From pioneering efforts, such as Selznick's (1957) "distinctive competence", to the more recent and refined notions of organisational routines (Nelson and Winter 1982), core competencies (Hamel and Prahalad 1990), architectural knowledge (Henderson and Clark 1990), combinative capabilities (Kogut and Zander 1992) and finally, dynamic capabilities (Teece, Pisano and Shuen 1997) there are decades of investment in sorting out the traits and the boundaries of the phenomena. Recent contributions aimed at providing definitions and clarify distinctions among the

various constructs offer some hope that the problem of proliferating and overlapping terminologies is being alleviated and real progress made (Sirmon *et al.* 2007).

As the corporate political activity field progresses in the definitions of the lobbying phenomenon, though, it becomes correspondingly apparent that we are still missing a solid account of how lobbying capabilities come into existence and of how they evolve over time. What accounts for the fact that one organisation exhibits "lobbying competence" in some sense, while another does not? And how do we explain the growth and decay of that particular lobbying process, other than the simple repetition, or lack thereof, of behaviour? Building on Nelson and Winter's (1982) view of the organisation as a set of interdependent operational and administrative routines, which slowly evolve on the basis of performance feedbacks, Teece, Pisano and Shuen (1997) define the concept of "dynamic capabilities" which we will look at more closely in the literature review, in order to understand lobbying capabilities.

Indeed, this research will provide a theoretical account based on gathered empirical evidence of the genesis and evolution of dynamic lobbying capabilities within the firm. We will contribute to existing knowledge in a number of areas. This research will:

- strengthen the theoretical understanding of the antecedents of the development of lobbying processes as a strategic capability by analysing the processes using dynamic resource-based theory;

- conversely, support corporate political activity literature in conceptualising the relationship between the internal government affairs department, the policy environment and the development of lobbying capabilities;

- provide evidence on whether airlines develop lobbying differently or similarly to each other in two contrasting policy contexts;

- identify the micro foundations and interaction effects in the lobbying capability development process that either encourage or discourage the implementation of specific political resource configurations;

- develop potential solutions to the problematic issues identified in the procurement and development of a lobbying capability and clarify a future research agenda for the dynamic resource-based view.

The research findings will be of interest to a wide range of individuals, from people concerned with the state of the airline services to those working in any lobbying institutions. However, the findings will have specific value in the provision of government affairs in the airlines for both the governments and for private owned airlines in various roles, from government affairs management to CEOs and government officials. As lobbying is rapidly gaining popularity around Europe, the findings will also be of value in countries that are currently experimenting with the lobbying method.

1.7 METHODOLOGY

This thesis adopts an inductive, qualitative approach as the review of the literature indicated that existing theory on dynamic capabilities development and lobbying development is still in its embryonic stage. Thus, we decided to choose cases from the same industry to increase the validity of findings by replication of theory. The data was collected from interviews and documents from within the government affairs offices. We conducted a within and cross case analysis of data using a RBV and corporate political activity theoretical (CPA hereafter) focal lens to analyse the development processes, focusing our efforts on analysis of the lobbying capability in contrasting policy contexts over two time periods. This case study approach allowed

us to retrospectively explicate the effects of different policy environments on capability development processes, in conjunction with unbundling the micro level interactions between different sources.

1.8 STRUCTURE OF THESIS

The thesis is designed chronologically, with an in-depth look at the types of lobbying structures, government affairs departments and the lobbying capability development processes in two contrasting policy contexts. One objective of this study is to overcome the existing perception of government affairs as an unimportant function in an organisation and to demonstrate that lobbying capability development can be managed to create the basis of a sustainable competitive advantage.

This thesis is structured chronologically and systematically in five parts: (A) Introduction, (B) Literature Review, (C) Methodology Development, (D) Case Studies and (E) Discussion and Conclusion. Part B (Chapters 2 and 3) reviews the existing literature both on static and dynamic resource-based view, corporate political theories relevant to the use of the lobbying capabilities and the aviation sector. Part C (Chapter 4) develops a methodology that can be used to achieve the aim of this research. Part D (Chapters 5 and 6) presents the different case study findings. Part E (Chapters 7 and 8) discusses the findings arising from the case study research in the context of the two contrasting policy contexts and draws conclusions from the findings.

As such, Chapter 2 commences the literature review with particular emphasis on the intellectual antecedents of the static and dynamic resource-based view and its implications on the evolution of business over time. Subsequently this chapter starts to map out the intellectual terrain of corporate political activity and lobbying literature by looking at its impact on internal and external business changes. Thereafter, the lobbying capability notion is introduced with its current theoretical weaknesses.

Chapter 3 is a continuation of the literature review and it focuses on allowing us to understand the nature of the two contrasting policy contexts and the chosen airline sector. The reviewed literature includes scholarly views on the history of airlines. More importantly, this chapter also aims to focus on clarifying key terms and key concepts in this study. These include 'endogenous policy', 'exogenous policy', 'European flag carrier', 'European airline business', 'deregulation' and 'post September 11th terrorist attacks'. Finally, this logically leads to the research questions that are extracted from the literature reviews in Chapters 2 and 3.

Chapter 4 provides a detailed analysis of the research design and methodology used in this study. It includes sections on the research design, research methodology, selection of the sample and details of the process of analysis carried out.

Chapters 5 and 6 contain empirical findings using five case studies. These two chapters scrutinise the mechanisms used in each case study, with emphasis on the lobbying capability development process. This development process is demonstrated using illustrative quotes and archival data, which allow the reader to comprehend the nature of the lobbying capability development process and underlining micro foundations. Secondly, it examines how these lobbying processes are developed and why airlines are developing them in these specific ways.

Chapter 7 discusses the findings that arise from the case studies research in the context of the two contrasting policies. This chapter integrates the results with the literature review and develops recommendations arising from the study. The frameworks for lobbying capability development by European flag carrier airlines are also illustrated in this chapter. Subsequently, Chapter 8 provides conclusions that draw from this research as a whole. In addition, it outlines the future course for lobbying capability research and comments on the execution of this research.

1.9 CONCLUDING REMARKS

Lobbying is an important means by which a firm appropriates value through influencing policy that will positively affect its market position (Hillman and Hitt 1999). Moreover, we have found that a very small proportion of literature has directly addressed how firms develop lobbying processes within a given context to create an advantage. Therefore, stemming from dynamic capability literature we argue that lobbying capabilities are a set of specific and identifiable strategic and operational processes that are used to acquire leverage with political resources by firms in non-market environments, in our case the corporate political environment. This distinctive theoretical position draws attention to the ways in which firms use lobbying capabilities to obtain, integrate, reconfigure, and release political resources. The main purpose of this study is to examine "what, why and how" lobbying capabilities (Eisenhardt and Marin 2000) are developed in an exogenous policy context (post September 11^{th} terrorist attacks) and endogenous policy (European airline deregulation) context by European flag carrier airlines.

In the next section we develop a set of arguments from the RBV and CPA literature to demonstrate that policy contexts in the business, non-market environment are inherent to capability development, more specifically lobbying capability development, given the evolutionary nature of the process.

Chapter

2

LITERATURE REVIEW

This section provides a review of the strategy process and content literatures. This will be done from a dynamic resource-based and corporate political activity theoretical viewpoint, with a specific focus on the related areas including non-market environment, lobbying, public policy, decision making and where appropriate, attempts to draw links between the six literatures. In order to introduce the reader to these literatures and provide some idea of the objective of this section, a brief outline of the literatures will be given, along with a general critique of the existing perspectives. This section will be presented systematically to allow the reader to grasp the logical flow between the key literatures that lead to the three key research questions.

2.1 OUTLINE OF THEMES AND PERSPECTIVES

The primary pursuit of business is creating and maintaining value (Conner 1991). The resource-based view (RBV) suggests that firms' resources drive value creation by building competitive advantage (Ireland, Hitt and Sirmon 2003). In recent years strategy scholars have increasingly agreed that competitive advantage needs to be based on non-imitable and non-substitutable organisational resources (Rumelt 1984; Wernerfelt 1984; Dierickx and Cool 1989; Barney 1991; Peteraf 1993). However, all these authors fall short when they fail to recognise the importance of the non-market environment (Baron 2003). Indeed, the underlying principle of the market and non-market strategies is their aim of creating and sustaining competitive advantage. In other words,

firms that actively participate in both market and non-market strategies increase revenues which enhance shareholder value (Basinger 1984; Baron 1999; Hillman *et al.* 1999; Bonardi *et al.* 2006). While market strategies involve decisions regarding such issues as product positioning in relation to competitors, technology, customers, supply issues, innovation, R&D, pricing and so forth, non-market strategies are decisions taken by organisations in their political, regulatory and social environments (Baysinger 1984; Baron 1997, 1999, 2003). The non-market, and more specifically corporate political activity, includes such activities as lobbying a legislator or regulator individually or as a group, litigating a case in court, making campaign contributions and so forth (Hillman *et al.* 1999). Unfortunately, there is minimal theory in the corporate political activity arena that explains "how" political resources in firms are likely to be used and "how" lobbying capabilities are developed, principally in an endogenous (expected) and exogenous (unexpected) policy context and "why" are they developed in these ways. These questions are important as they relate to both firm strategy and environmental boundaries of the firm. To fully understand this linkage, the effects of a firm's external policy environment on managing lobbying capability development needs to be examined more closely.

In this literature review, the author will begin by first addressing the market context literature, specifically the RBV and dynamic capabilities literature, with their limitations, which will then systematically lead into the non-market literature. Thereafter we will look at the corporate political (lobbying) activity literature that has been recently cross fertilised with RBV theory, along with general critiques. Finally attempts will be made to draw links between the literatures.

MARKET CONTEXT:

KEY TENETS, RECENT EVOLUTION, AND SELECTED WEAKNESSES

2.2 THE RESOURCE-BASED VIEW

In the past 20 years, RBV has become one of the most important theories to address causality and the fundamental beginning of competitive advantage (Wenerfelt 1984; Cockburn *et al.* 2000). The canonical reference for RBV literature is usually taken to be Penrose (1959), where she views the firm not as a "black box" but more as a composition of bundles of resources. The RBV argues unique market positions of close competitors derive from each firm's heterogeneous bundle of resources and capabilities (Barney 1991; Peteraf 1993). Moreover, to be a source of competitive advantage, resources and capabilities have to be "valuable, rare and isolated from imitation or substitution" (Barney 1991, p.115). Implicit within the RBV is a significantly different view of the dynamics of strategic advantage, and, in particular, of exactly what firms can and cannot do (Wenerfelt 1984; Barney 1991; Peteraf 1993; Hoopes *et al.* 2003). These extensions broaden the RBV's range and level of explanation of inter-firm performance differences. Although the RBV dominates the conceptual landscape and is large in numbers, empirical research on the RBV has not evolved in a similar way. It lacks a profound understanding of how resources and capabilities are actually developed in different contexts. Thus many scholars argue that the theory is still essentially tautological (Priem and Butler 2001; Hoopes *et al.* 2003) and requires in-depth studies to understand the antecedents and the practice issues (Ethiraj *et al.* 2005).

Nevertheless, some recent studies have been important in demonstrating the influence of resources and capabilities on strategy planning and outcome (Brush and Artz 1999). For instance in a longitudinal study encompassing three periods of transformation in the typesetter industry, Tripsas (1997) shows how investment in technological and complementary resources enhanced the ability of incumbent firms to survive. Similarly, Collis (1991) highlights the importance of resources associated to organisational capabilities, and administrative heritage, as

the bearings industry undergoes global transformation. Equally, other researchers have highlighted particular resources that rise in importance in rapidly shifting industry environments (Majumdar 1998; Chakravarthy 1996). While in the industry of banking, Mehra (1996) finds that as this industry restructures resources such as management quality and depth, technological expertise, and innovation play an important role in explaining performance variation in the U.S. banking industry.

The conceptual RBV literature makes explicit a view of "strategy" that has long been dormant, the sense that strategy is not all, or not only, about the ability of the top management team to make the ''correct'' decisions, but also about their ability to work creatively with the raw material presented by their firm and their environment (Mintzberg 1987); to respond appropriately when their firm's organisational structure finds "good" strategies (Burgelman 1994); and to generate decision structures and procedures that allow a firm to react to its environment adaptively (Levinthal 1997). In short, in focusing on the dynamic capabilities and resource management, the RBV is centrally concerned with the degree to which successful firms are indeed "fortunate", since it suggests that many of the capabilities underlying advantage are the result of investments made under a heavy cloud of uncertainty (Helfat and Peteraf 2003). Therefore, we can see that investing time and effort in the resource building process in the market environment can bring forth superior outcomes for many firms (Morgan *et al.* 2003). However, we believe the simple observation that resources may lead to advantage is only half the battle: the other half understands how these capabilities are developed and how these capabilities are used to leverage on specific resources in different environments.

We have seen from the above that the RBV approach promises to shed light on those who stress 'heterogeneity' in shaping firm performance and the central insight of the strategy field: that what firms do matters (*Please look at Appendix 1 for an expansion on RBV genealogy).* However, critiques of the current RBV need to be recognised, as its implications have not yet been fully worked out, especially within the political realms. Most importantly, RBV has not generated the kinds of empirical studies of the adoption of the lobbying capabilities and

usage of political resources by the firms that are crucial to building a richer understanding of how firms manage resources and function in different policy contexts to create a competitive advantage (Hillman *et al.* 2004).

While there are studies suggesting that the possession of unique organisational resources will lead to superior performance from the market context (Henderson and Cockburn 1994; Conner 1991; Dierickx and Cool 1989), and others suggesting that competitive advantage may be heavily influenced by conditions at a firm's founding (Holbrook *et al.* 2000; Eisenhardt 1988), so far few studies have looked at dynamic capability development in contexts of uncertain and certain environments. At its worst, just as overenthusiastic readings of Porter led to the prescription 'choose a good industry', overenthusiastic readings of the RBV have had the flavor of 'build the right resources/capabilities' from a market context. Even Barney's original piece has something of this tone, as for example when he suggests that, "To be a first mover by implementing a strategy before any competing firms, a particular firm must have insights about the opportunities associated with using unique resources that are not possessed by other firms in the industry, or by potentially entering firms" (Barney 1991, p.104). Such an analysis clearly places the source of competitive advantage in the lime light, but leaves unanswered the critical empirical question: *what about the non-market environment; what about antecedent of specific lobbying capabilities, political resources and how are they all developed in different contexts?*

Let us now individually view and elaborate upon resources and capabilities.

2.2.1 RESOURCES

Organisations are a collection of unique resources and capabilities that provide a basis for strategy and are the primary source of firm's returns (Wenerfelt 1984; Knot 2003). Firm resources include all assets, capabilities, firm attributes, information, knowledge and so forth. There are many definitions of resources but for the purposes of this discussion, we will use Barney's (1991) definition of resources, as he is viewed by many as an important proponent of RBV. Barney

(1991, p.101) postulates that to have resources that are a primary source of return, firms need to make their *physical capital resources* (i.e. technology, firm plant, equipment, raw materials, capital etc), *human capital resources* (i.e. skills of individual employees, training, experience, intelligence, relationships etc) and *organisational capital resources* (i.e. formal reporting, structure, planning, coordinating systems etc):

1. *Valuable:* A valuable resource allows a firm to improve its market position relative to competitors. For example, resources acquired at a price below their discounted net present value can generate rents (Peteraf 1993).
2. *Rare:* To be a value the resource must be available in short supply relative to demand.
3. *Isolated from imitation or substitution*: To be rare, resources need to be immobile, and costly to imitate or to replicate (Knott 2003).

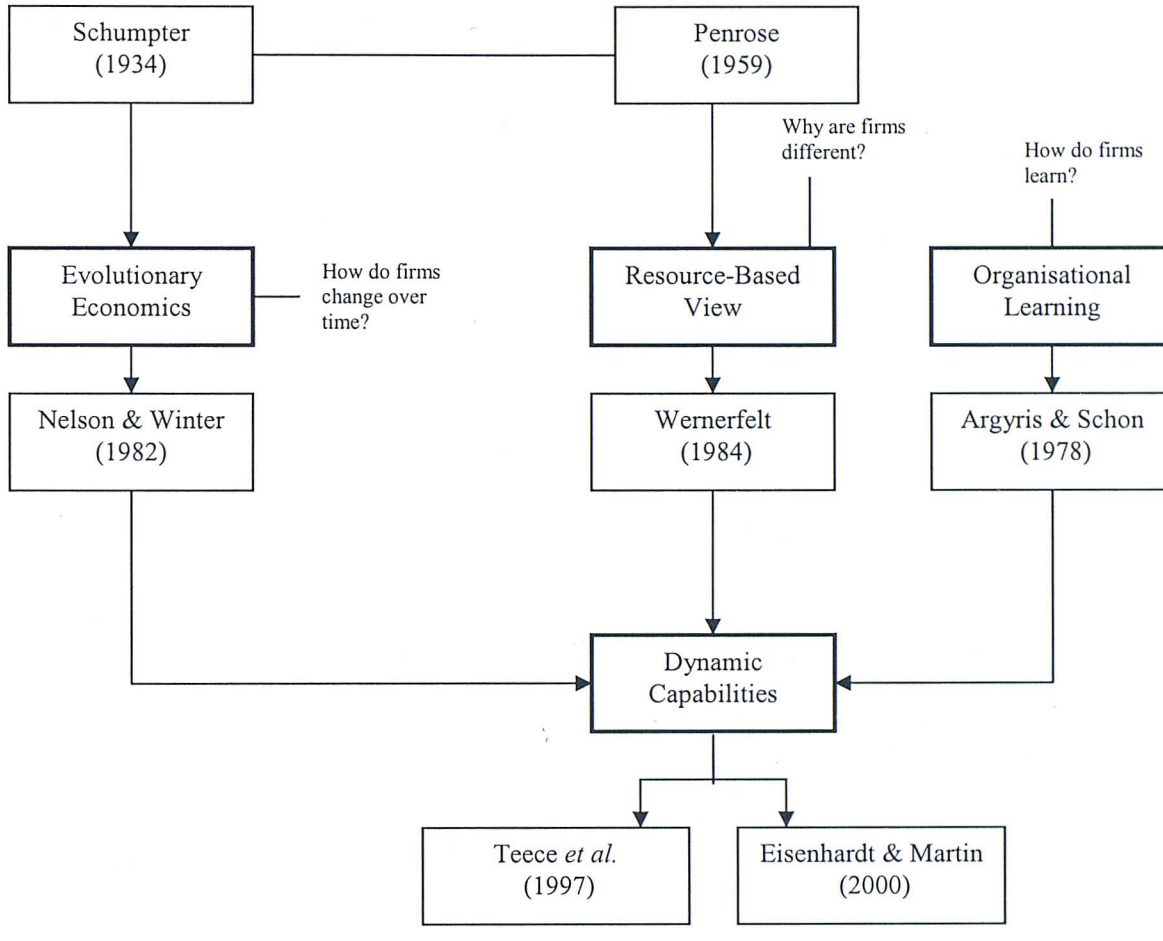
In other words, resources that are either intangible or tangible in nature and concentrating on rareness are crucial to creating value (Besanko *et al.* 2000). It is through the synergistic combination and integration of sets of resources and capabilities that competitive advantages are formed (Hoopes *et al.* 2003). However, a critique of the earlier static RBV literature (from mid 1980s to the mid 1990s) is that it did not incorporate an evolutionary perspective of resources and capabilities to explain competitive advantage. Similar to Barney and Griffin (1992, p.56), we believe that *"within the analysis of competitive advantage, process issues must always be integrated with content issues"*.

Since then studies have moved beyond the static RBV to a more dynamic RBV, in which strategy scholars have started embracing the dynamism of resources and capabilities within the firm to the changing environment (Teece *et al.* 1997).

2.2.2 TOWARDS A DYNAMIC VIEW OF RESOURCES AND CAPABILITIES

In an attempt to counteract the limitations of earlier RBV, a dynamic RBV theory has been extended to incorporate dynamic capabilities, which, while still predicated on path, focus strongly on the processes by which firms reconfigure their resources to adapt to changing environments (Teece *et al.* 1997; Helfat and Raubitschek 2000; Winter 2003). Dynamic capabilities and competitive advantage emerge over a period of time and also may shift over time (Hamel and Prahalad 1996). Recent research on the evolution (and development) of capabilities suggests the promise of a dynamic resource-based theory (Helfat and Peteraf 2003). The habitual point of reference for the dynamic capabilities can be traced back to three authors. Firstly, Schumpeter (1934) viewed performance rivalry and profits from a disequilibrium process, change and entrepreneurship perspective. Secondly, Penrose (1959, p.25) suggested resources consist of a bundle of services. Finally, Argyris and Schon (1978) asserted that people hold maps in their heads about how to plan, implement and review their actions. All these authors helped to create the concrete foundations of dynamic capabilities and competitive advantage creation (Teece *et al.* 1997). Please see Figure 1 for an intellectual map of the terrain.

Figure 1: Mapping the Intellectual Terrain



Building upon this earlier literature of the economics, evolutionary theory and organisational learning, the concept of dynamic capabilities emerged (Teece *et al.* 1997). The "dynamic" term refers to the capacity to renew competences so as to achieve congruence with the changing business environment (Teece *et al.* 1997). Dynamic capabilities have evolved to attract increasing attention within the Strategic Management field (Eisenhardt and Martin 2000; Rodenbloom 2000; Zollo and Winter 2002; Helfat and Peteraf 2003; Winter 2003; Ethiraj *et al.* 2005). These scholars have come to understand that resources are available to all firms, however the 'capability' to leverage them productively is not uniformly developed.[1] (*Please look at Appendix 2 for an expansion on dynamic capability positioning.)*

[1] Leveraging on resources here refers to the using the capability to create value for the owners (Sirmon *et al.* 2007)

Dynamic capability has been viewed as being the antecedent organisational and strategic routines by which managers alter their resource base (Nelson and Winter 1982). They are often characterised as unique and idiosyncratic processes that emerge from path-dependent histories of individual firms (Teece *et al.* 1997). Over time, firms' knowledge, accumulated through 'learning by doing', is embedded in bundles of 'routines' or 'processes' that are likened to the genetic material of the firm (Nelson and Winter 1982). Consequently, this dynamic view of capabilities sees the requirement of investment in routine-specific human, organisational and physical capital by a historical entity. This viewpoint suggests that history matters and dynamic capabilities are rooted in organisational skills and routines (Sirmon *et al.* 2007). As a result, these heterogeneous skills and routines tend to be the drivers behind creation, evolution and recombination of other resources into sources of competitive advantage (Teece *et al.* 1997; Helfat and Peteraf 2003). As such, similar to Teece *et al.* (1997) and Eisenhardt and Martin (2000, p1107), we describe dynamic capabilities as (*see Appendix 2*):[2]

> *The firm's processes that use resources - specifically the processes in which managers pool to integrate, reconfigure, gain and release resources - to match or even create market change. In other words, dynamic capabilities are the organisational and strategic routines by which firms achieve new resource configurations to match the changing environment.*

This definition, describes dynamic capabilities as being specific processes that are able to integrate, reconfigure, gain and release resources. For example,

- "Strategic decision making is a dynamic capability that integrates resources, in which managers pool their various business, functional and personal expertise to make the choices that shape the major moves of the firm" (Eisenhardt and Martin 2000, p1107).

[2] The definition bears many similarities to definitions given by other authors such Amit and Schoemaker (1993) who use the term 'capabilities' to describe how resources can be deployed, and Kogut and Zander (1992) who use the term 'combinative capabilities' to explain firm processes by which organisations use their knowledge resources to construct new applications from those resources.

- "Patching" are strategic processes used by managers to reconfigure to match-up the businesses and their related resources to the changing markets (Eisenhardt and Martin 2000, p1107).
- "Knowledge creation routines" are used by firms to build new thinking within the firm, and represents a crucial dynamic capability as it allows firms to gain and release resources (Eisenhardt and Martin 2000, p1107).

These dynamic capabilities often have combinations of simpler capabilities and related routines (Eisenhardt and Martin 2000). Dynamic capabilities and their specific identifiable processes are generative and developmental in nature (Helfat and Peteraf (2003). The generative processes are identified through retrospective sense-making, experience and knowledge of the organisational processes by senior managers (Helfat and Peteraf 2003). Conversely, some researchers have also suggested that capabilities are developed as a result of deliberate investments in organisational structure and systems to make constant improvements in those practices (Zollo and Winter 2002).

The evolutionary nature of the capability phenomenon is powerful in revealing how managers are constrained in their actions to manage the process. However, criticism of the dynamic capabilities, more broadly RBV, argues that its followers are relatively silent when it comes to sense-making in relation to managing the composition of the resource bundle. In other words, while the RBV has given us theories on how and why a firm's resources provide foundations to competitive advantage, the strategic process by which the firm manages the composition and structure of the resource portfolio remains somewhat of a "black box". This is surprising, given that in their seminal work on the RBV, Dierickx and Cool (1989, p1506) observed that "*a key dimension of strategy formulation [is] the task of making appropriate choices about strategic expenditures ... with a view to accumulating required resources and skills*". While another critique is that the studies fail to research specific types of capabilities and the interactions between sources at a micro level in the building process, i.e. lobbying capabilities and how they are developed to manage the political resource portfolio. Also, the definition essentially "kicks" the learning problem one level up, from single-loop to double-loop learning in Argyris and

Schon's (1978) terms, and leaves us with the same problem: how are dynamic capabilities formed? How do they evolve? We believe that understanding and identifying the specific developmental processes in practices will help in the creating a richer notion of dynamic capability.

Thus the focus of our study will be on strategic and organisational processes of the firm. These processes carry such weight because organisational-level resources and capabilities are arguably the most important elements of the organisation's performance and related competitive advantage (Zollo and Winter 2002).

2.3 THE MARKET CONTEXT, DYNAMIC CAPABILITIES AND RESOURCES

Consideration of the environment in both the market and non-market context (Baron 1995) is important to the analysis of firm resources and capabilities development as different environments imply different valuations of resources and capabilities (Penrose 1959; Noda and Collis 2001). In addition, firms in any given industry are likely to face similar types of environmental forces. The differences in their accumulated resource and capability endowments (e.g. skills, propensity for learning, specialised assets) could become important factors that may influence the development of the sources of competitive advantages (Kogut and Zander 1992).

These accumulated resource and capability endowments have also been viewed in resource dependency approach to organisational theory (Pfeffer and Novak 1976). Its research shows that firms facing uncertain environments establish joint ventures as a means of reducing uncertainty and sharing the risk (Pfeffer and Novak 1976). Similarly Achrol (1991) who studied Joint Ventures found that firms usually seek to enhance competitive advantage by leveraging critical capabilities (i.e. technology related and marketing-related capabilities) and by improving flexibility in response to uncertain technological change. Other authors like Kogut and Zander (1992) and Prahalad and Hamel (1990) have shown that the notions of learning, expertise and skill development have only recently been considered in the context of developing firm-level strategies that take advantage of differences in firm assets to enact the environment.

In retrospect, the notion of dynamic capabilities and environmental contexts help firms achieve competitive advantages i.e. uncertain environments increase causal ambiguity and, as a consequence, the ability to imitate resources or combinations of resources is reduced (e.g. Noda and Collis 2001). Subsequently, in highly uncertain environments, the firms can leverage resources to respond to changing conditions in the environment. On the other hand, when the environment is relatively unchanging and predictable (endogenous environments), competitors can see clearly which resources and combinations of resources are valuable to the business, and these can be imitated because time is not of the essence (Noda and Collis 2001).

While dynamic resource-based research covers a broad range of issues, an area of process and routines research which deals with the question of how cognition (decision making) of top managers interplays with capability development is still not clearly understood (Eisenhardt and Martin 2000).

2.4 TOP MANAGERS, COGNITION AND RBV

The power of top managers on shaping the future strategic contours of organisations has gathered ongoing attention from researchers (Prahalad and Bettis 1986; Pettigrew 1992; Finkelstein *et al.* 2007). Strategic choice scholars (Child 1972) argue that top management in organisations have substantial discretion in determining the present and future strategic contours of the firm (Finkelstein and Hambrick 1990) by using resources, competencies and capabilities (Tripsas and Gavetti 2000). Top managers can use their cognitive thinking processes to choose how to react to different market and non-market environments in order to achieve better performance (Garud and Rappa 1994). Top managers can also influence external and internal organisational environments by constructing, eliminating, or defining characteristic elements of an environment (Child 1972; Weick 1979). In this way, top managers can create their own domain of reality and decision making boundaries. In a similar vein, upper-echelon theorists (e.g. Hambrick and Mason 1984) argue that top managers are the strategists who set the direction of firms and the pace of

competition. However, the role of cognition in capability (specifically lobbying capability) development has yet to be better explored.

The literature on organisational and managerial cognition provides an alternative, cognition-based lens to organisational adaptation (Weick 1979; Barr *et al.* 1992). This literature emphasises the role of cognitive processes and sense-making centered on perceived causation as the key regulator of organisational actions and subsequent process/routine development. Thus, there is a gap in our understanding of how cognitive understandings of purpose-oriented business logic are initially formed, how initial pre-routines for achieving identified goals are created, and how the interplay between cognitive understandings and strategising create a platform for subsequent capability development in non-market environments.

The cognitive representations are typically based on historical experience as opposed to current knowledge of the environment (Kiesler and Sproull 1982). For instance, as the managers work together over time they often develop a set of 'blueprints' of decisions, or dominant logic for the firm based on their shared history (Prahalad and Bettis 1986). These blueprints of decisions are affected by rapidly changing environments, whether market or non-market, and the top managers are often trying to adapt their mental model with these changing environmental contexts (Brown and Eisenhard 1998). These blueprints make decisions reflect the interaction between an organisation and its environment and show how an organisation and senior managers manage this relationship (Ginsberg 1988). They may be formal or informal and can be both intended and emergent (Pennings 1985). They are embedded in both the inner context (e.g. psychological, structural, cultural and political factors) and the outer context of the organisation (e.g. competitive factors) (Pettigrew 1992). They deal with concerns which are essential to the livelihood and survival of the organisation and usually involve a large proportion of the organisation's resources; and they usually address issues that are unusual for the organisation rather than issues which lend themselves to routine decision-making (Stahl and Grigsby 1992). They are difficult to define or to assess in terms of performance; they are associated with different trade-offs and risk; they are interrelated to other

decisions in the organisation and set precedents for subsequent ones; they are political and carry high levels of uncertainty; they rarely have one best solution and, once a decision is made, it is difficult to reverse (Wilson 2003).

On the other hand, Dean and Sharfman (1996, p379) describe strategic decisions as: "committing substantial resources, setting precedents, and creating waves of lesser decisions"; as ill-structured, non-routine and complex (Schwenk 1988); and as substantial, unusual and all-permeating (Hickson *et al.* 1986). Some of the characteristics of strategic decisions are as follows. They are the responsibility of top management. Indeed, these decision-making processes are attached to the cognitive aspects of an individual. The study of strategic decision-making has long been of interest to both scholars and executives (Finkelstein and Hambrick 1990). Research into strategic decision-making has often been divided into two categories: 'content research' and 'process research'. Content research deals with issues of strategy content such as portfolio management, diversification, mergers and the alignment of firm strategies with environmental characteristics (Pettigrew 1992). Process research, however, deals with the process by which a strategic decision is made and implemented and the factors which affect it. For example, it concentrates on the way in which managers influence the firm's strategic position through the strategic decision-making process that they use.[3]

While the success of a firm depends as much on its top management team as it does on the leader perspective (Hambrick and Mason 1984), the leader still plays a crucial role within the "dominant coalition" that steers the organisation. This can be a leader in a department or a leader of the organisation. Every leader plays an external, strategic role linking the organisation with its environment and an internal, organisational role mobilizing and coordinating teams to effectively implement the strategy of the firm (Finkelstein *et al.* 2007). The leader of a department is ultimately responsible before the CEO for setting up the

[3] Although the RBV body of research over the last two decades indicates the domination of the research agenda by content issues, sadly RBV process issues have received less attention. There is renewed interest in process research (Li and Rajagopalan 1995). It should be borne in mind that these two categories are complementary, not alternatives, and that content research can significantly influence the direction of process research and vice versa (Mintzberg and Waters 1985). For the purposes of this thesis, we will focus on the second approach, namely, process research.

departmental goals and for deciding on the means for attaining such goals. For this purpose, the departmental leader must secure access to a differentiated set of resources and information, as week as to link with the different constituencies whose support is crucial for the performance of the organisation (Finkelstein and Hambrick 1990).

On the other hand, the organisational leader has to facilitate coordination among the members of his top management team in order to ensure successful implementation of the strategy. While the impact of the leader within top management teams has been stressed in the strategy and behavioural theory of the firm (Cyert and March 1963), the leader and his team are often left out in RBV theory in understanding the interactions between the organisation and its environment. This thesis will allow us to view the role of the leader and his organisational capacity inside and outside the firm, which pertains to the leader's strategic role. However, before this, it's important to look at the notion of lifecycles to comprehend the 'development' of the dynamic capabilities in given environmental types (whether exogenous or endogenous).[4]

2.5 DYNAMIC CAPABILITIES DEVELOPMENT AND LIFECYLCE

Capability development theory covers two main substrata of resource-based view; core competences (Prahalad and Hamel 1990) and dynamic capabilities (Teece *et al.* 1997; Winter 2003), each of which draws upon similar conceptual fundamentals (Lengnick-Hall and Wolff 1999). Essentially, this body of strategy research views competitive advantage from the perspective of a firm's superior resources, competences and capabilities, which lead to sustainable competitive advantage. However, in capability-development theory these barriers are erected by firm-specific choices about internal organisation, which, being socially complex, are path dependent and non-imitable. This body of theory intrinsically assumes relatively stable competitive advantage, in which the resource or capability or competence base may be gradually evolved and leveraged over time (Lengnick-Hall and Wolff 1999; Venkatraman and Subramaniam 2001).

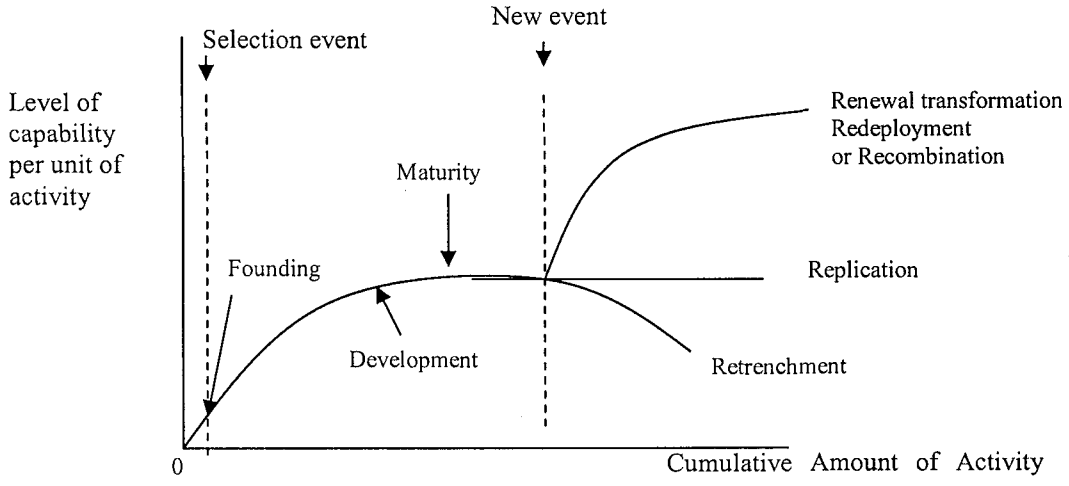
[4] The notions of exogenous (uncertain is high) and endogenous (uncertainty is low) environments will be defined later in this chapter and in Chapter 3.

Furthermore, it involves an essentially stable view of competition, since other firms are assumed to be pursuing fairly consistent courses, such that the firm with a superior resource or competence base can benchmark against the competitor and so gain advantage (Chakravarthy 1997).

The dynamic capability perspective permits some concepts from capability building theory to be relevant and applicable in higher-velocity markets. Thus, firms in high velocity markets may have capabilities in rapidly reconfiguring their resources through, for example, time pacing (Brown and Eisenhardt 1997). Similarly, a firm might have capabilities applicable to a knowledge intensive environment, such as knowledge generation and transfer (Grant 1996). Furthermore, development of dynamic capabilities might reflect the interplay between high velocity and knowledge-intensive contexts, in which speed of change drives capabilities.

Bearing in mind the notion of environment (certain vs uncertain environmental context) and time, the capability lifecycle describes a general pattern and set of paths that characterise the evolution of the firm's capability (Helfat and Peteraf 2003). Helfat and Peteraf (2003), argue that firms can go through different 'development paths' deploying different types of resources along the way. We posit that the environment contexts and capabilities have conjoint cycles or stages where firms use different mechanisms in order to develop a firm's capability i.e. lobbying capability used in a specific policy context. Therefore, dynamic capabilities are suggested to have a cycle that depends on the environmental or organisational context (Helfat and Peteraf 2003), *as shown in Figure 2.*

Figure 2: Branches of the capability lifecycle



Source: Adapted from Helfat and Peteraf (2003, p1001)

We can see from Figure 2, the general form of the initial capability develops from founding to maturity. The horizontal axis represents the cumulative amount of activity toward which the capability is directed and the vertical axis represents the level that corresponds to a particular scale of activity (Helfat and Peteraf 2003), such as lobbying for a type of policy. The figure collapses many attributes of a capability into one specific type of capability i.e. in our case, we intend to look at the lobbying capability and its constellations of attributes.

As seen from Figure 2, the capability lifecycle includes several stages. The lifecycle of a new capability is founded as a consequence of the environment of the organisation and is developed at the founding stage, laying the basis for further development of the capability. The development stage it follows this initial stage, marked by gradual building of the capability. Eventually, dynamic capability building ceases and the capability reaches the maturity stage where it can no longer be used due to the changes in the environmental context. A variety of events may influence the future evolution of that specific dynamic capability development, so firms need to be aware of their time and level of uncertainty, where they either replicate or renew their dynamic capabilities (Helfat and Peteraf 2003).

We have seen from the above lifecycle approach, and generally from dynamic RBV literature, that strategy scholars have not really sought to understand the uncertainty (exogenous environment) and certainty (endogenous environment) that surround choices about what future paths of resources and capabilities the firm should commit to. What is more, we believe that the non-market environment is still underdeveloped and needs more research to create a richer and complete dynamic RBV theory. Environmental uncertainty related to a capability's development and to dynamic complexity of the process has been implicitly recognised, yet largely neglected by strategy scholars. The uncertainty level is associated with the subjective nature of the choice decision, and is thus relevant for organisational theorists, but has also been largely ignored by strategy scholars researching the corporate political activity arena. This avoidance undoubtedly does not contribute to the development of normative frameworks for managing the capability development process. The next part of the literature review leads logically to the application of the RBV to corporate political activities, where we intend to introduce the notion of non-market environment and its sub component, politics (focusing on lobbying).

NON-MARKET ENVIRONMENT:

KEY TENETS, RECENT EVOLUTION, AND SELECTED WEAKNESSES

2.6 NON-MARKET ENVIRONMENT

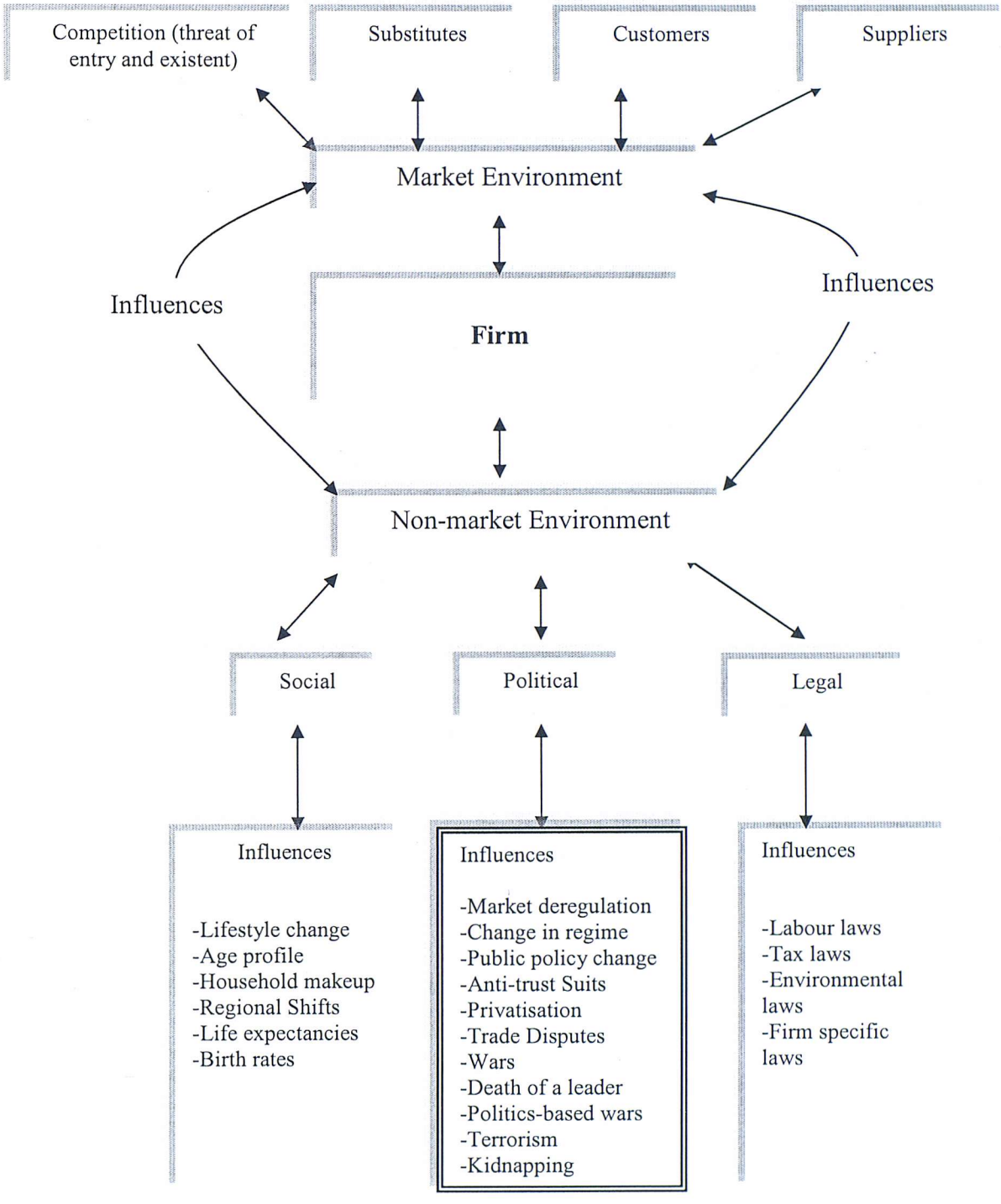
While a firm's creation of competitive advantage derives in the main from the development and exploitation of difficult to imitate capabilities and resources in the market environment, a firm's non-market business environment can also create advantages for strategy makers. Kobrin (1978) emphasises that firms need to recognise both the rules and the broader (non-market) environment in which they operate as it's often ambiguous and changing. However, the resolution of ambiguity and direction of change in the non-market is neither uncontrollable nor divorced from strategic considerations (Hillman *et al.* 2004). Rather, the process involves interest groups interacting within a system of institutions that includes but is not limited to the various branches of government, the media, and non-governmental institutions (Henisz 2002).

According to Shaffer and Hillman (2000), competitive advantage can be affected by this interaction with the non-market, and hence corporate strategies must often include actions to influence the outcome of the policy process. Such is the case in deregulated industries i.e. telecommunications, airlines or electric power where one set of rules is effectively being substituted for another. Correspondingly, market success for large companies depends not just on their products and services, the efficiency of their alliances, supply chain, reducing competition with low cost, differentiation, and distribution channels. Analogously, success also depends on how effectively the top management team's deal with governments, interest groups, activists, and the public (Baron 1995, 1997, 2001; Aggarwal 2001; Wiseman 2004). The forces these parties generate can foreclose entry into markets, limit price and raise the costs of competing, they also unlock markets, reduce regulation, handicap rivals, and generate competitive advantage (Baron 1995). The definition of the non-market that we have provided for the purposes of this investigation will be that given by the founding father of this term Baron (1995, p73), who depicts it to be:

"The environment that consists of social, political and legal arrangements that structure interactions among companies and their public".

Bearing in mind Barons definition of the non-market, the focus of this investigation will be on the political component of the non-market environment and not the other two components. The choice of the politics was based on the fact that there is still very little literature in strategic management that looks at politics and very few studies in corporate political activity that look at the RBV, therefore the logical step was to bridge them together and contribute to this gap. Figure 3 shows the main focus of this investigation, which will be the political facet, but let us try to understand the architectural nature of the non-market in more depth, with emphasis on its political features.

Figure 3 Firm - market and non-market environment



Baron (1995) has made a decade old call for strategy research on the non-market environment within strategic management, but strategic management arena still remains far more heavily influenced by analytic traditions in economics than in the politics. However, the new wave of research from the non-market arena is

slowly gaining pace (Hillman *et al.* 2004; Frynas *et al.* 2006). Authors have acknowledged that the political and legal aspect of the non-market environment can create the rules, in many cases their enforcement are both endogenous or exogenous and are influenced by the strategic participation of companies in the policymaking or legal process (Brink 2004). Corporate strategies to leverage a firm's capabilities and resources are often constrained by the non-market business environment that includes antitrust institutions, governmental actions to reduce market failures (e.g., through information provision requirements, regulations and/or standards), ethical consensus, and public sentiment (Coen and Grant 2001).

Indeed we believe that the firm-centered approaches, shown earlier from the RBV, help to explain competitive advantage as they have already generated many productive insights, but provide only a partial explanation of the entire picture. Their incompleteness, as Pfeffer (1987, p121) points out, stems from the fact that *"just as organisations are structured, systems of organisations are structured, and there exist institutional elements of these structures that need to be attended to in doing either research or practice in the area of strategy."* Analogous to Pfeffer's ideas, we believe the field of strategic management can benefit substantially from taking a more serious inside-organisational view of corporate political (lobbying) activities from the non-market environment to provide a more complete picture of competitive advantage.

Let us briefly look at the non-market lobbying activity and structure within the European Union (the focus area of this thesis) and its structure.

ENTER CORPORATE LOBBYING ACTIVITY: MOVING TOWARDS THE LOBBYING CAPABILITY NOTION

2.7 CORPORATE LOBBYING ACTIVITY NEXUS AND STRUCTURE

We have seen that organisations engage in both "market" and "non-market" strategies to create shareholder value (Baron 1995, 2001). Two ways of understanding non-market activity are (1) "how much" non-market behaviour firms are likely to undertake, and (2) whether non-market activity will be done individually or collectively within the industry. These questions are important as they relate to both firm strategy and the boundaries of the firm. We apply these questions to the corporate lobbying activities undertaken by airlines at mainly the European Commission, European Parliament and national governments levels (*Please look at Appendix 4 for an expansion on the components in the policy making process).*

The notion of corporate lobbying activity and its value to firms is acknowledged in management literature (Baysinger, Keim, and Zeithaml 1985; Getz 1993; Hillman and Hitt 1999). It is preconditioned to influence decision shaping and decision making (Coen 1998). Baysinger (1984) and Keillor *et al.* (2005) suggest that firms involved in corporate lobbying activities have several motives for engaging in political behaviour: (1) domain advantage, (2) domain defense, (3) domain maintenance. The implied reason for engaging in political behaviour can be a desire to pursue the firm's private interest (i.e. domain advantage), to manage public policy that might be at odds with the firm's strategic goals (i.e. domain defense), or to influence public policy that might threaten the means by which a firm achieves it goals (i.e. domain maintenance). A variety of political behaviours can be used to accomplish the firm's overall objective of dealing with political issues. These include business-government relations, political inducements and contributions and, in this study, overt lobbying (Baysinger and Woodman 1982; Baysinger 1984; De Figueiredo and Tiller 2001). The resulting benefits to the firm can include reduced environmental uncertainty, reduced transaction costs, and increased long-term sustainability (Hillman *et al.* 1999).

However one must bear in mind that competing in the non-market political context is "not easy as firms must recognize the need for an exchange: they must give something valued by public officials in exchange for getting favorable policies" (Getz 2002, pp. 318).

Lobbying, consisting of presenting views, opinions and suggestions to influence the institutions (at national and international levels), forms an essential part of a democratic process which is at the heart of the European policy making culture (Coen 1997). Existing research on lobbying tend to focus on the amount and type of lobbying that occurs and has largely omitted the options firms have to organise their lobbying, i.e. the process of lobbying from a corporate perspective. Since the seminal work of Olson (1965), the literature has focused on the ability of individuals and groups to overcome the free-rider problem in creating collective action (Sandler and Tschirhart 1980; Bendor and Mookherjee 1987). While the collective action literature has much to say about the amount of lobbying that occurs, it is less informative when it comes to the organisation of lobbying process (Hillman *et al.* 1999). The theories articulating the free-rider problem do not address whether firms will choose to internalise the lobbying function or do it through a common body in a specific type of context. The only conclusion that can be drawn from the literature is that less lobbying occurs as a group when there are collective action problems (Bendor and Mookherjee 1987).

Lobbying structures vary in Europe at a national and European level. Moreover, various institutional arrangements in Europe respond differently to different contracting policy uncertainties (Lawton 1996). For instance individual national airports, the airport council and an aviation international conference are all used by organisations to exert political influence (Lawton 1999). However, the major organisational arrangements considered here are trade associations, contract lobbyist and lawyers and in-house departments (De Figueiredo and Tiller 2001). Each has its own distinct composition that allows it to perform more effectively and efficiently under certain conditions. Table 1 presents the main organisational forms of lobbying activities that play an integral part in most large EU organisations:

Table 1: Organisational Forms of lobbying structures

	Individual lobbying	Collective lobbying	Third party
National	Individual national lobbying	National association	National consultant
International	Individual EU lobbying	European association	Brussels consultant

We believe that there are three important factors which determine the firms' choice in designing the organisational form for their lobby activities. *Size* is the first important factor with regards to the lobby activities of companies (Hillman *et al.* 2004). It is assumed that whereas large players have enough *resources* to undertake individual lobbying, smaller actors often have to rely on collective action to be able to undertake political action at different levels in the EU multi-level system (Coen 1997). The second major factor that determines the organisational structure of a firm's lobby operations is its *corporate strategy* (Bonardi *et al.* 2006). The different market strategies of national niche players and large internationally-oriented firms require different political strategies. Finally, the *institutional environment* of the firm is the third important factor to study in order to understand the national and European lobbying activities of private interests (Baron 1997). A close working relationship between state administrative elites and private interests at the national level might, for example, create a hierarchical interaction that undermines the incentives of private interests for direct European level action. We now proceed to examine the organisational lobbying forms with respect to their ability to create high-powered incentives in given types of policy contexts.

2.7.1 LOBBYING VIA TRADE ASSOCIATIONS

Trade associations (also known as industry trade groups and industry associations) are voluntary associations that combine characteristics of business groups, business interest associations (BIA), and interest associations (Greenwood 2002).[5] Trade associations participating in the government policy

[5] A collective structure that has developed to provide the centralised information and coordination that may be required in unconcentrated industries' (Pfeffer and Salancik 1978). Associations of organisations in the same population that formulate product/process standards via trade committees and that publish trade journals. Trade associations also undertake marketing campaigns to enhance the industry's reputation, promote trade fairs at which customers and suppliers can gain a sense of the industry's stability. They are minimalist organisations as they are able to operate on low overhead and quickly adapt to changing conditions (Aldrich 1999).

process is not something new. This phenomenon has attracted the attention of scholars since Arthur Bentley's famous work "The Process of Government" in 1908, which discussed in detail the influence of trade associations on politics. Today, the pluralism of trade groups is even taken as a component of democracy in the west (Cohen and Willman 1998; Greenwood 2003; Lyon and Maxwell 2004). Contemplate first that the trade association is an organisational form for legal and lobbying activities (Coen 1997). By trade associations, we mean the multi-member industry organisation to which firms from the industry donate money to sustain them for the greater benefit of the industry as a whole (Lyon and Maxwell 2004). Examples of such in Europe include the Association of European Airlines, the British Generics Manufactures Association, European Computer Manufacturer's Association and the European Regions Airline Association. When the members of an industry give a unified interest in particular governmental action, the trade association can amass and unite tremendous resources through a common vessel with the purpose of influencing governmental outcome (De Figueiredo and Figueiredo 2002).

When benefits can be made through agent specialisation, or when the revelation of proprietary information is needed for effective lobbying, the trade association may become less appealing as an organisational choice. First, specialisation of the trade association as an agent for the firm is unlikely. The trade association is made up of many players, each having some say in the activities of the trade association (Mack 1990). The trade association morphing to one firm's interest is likely to cause deviation with other association members (Mazey and Richardson 1993). Thus, when an individual firm's lobbying needs can be enhanced by a specialised lobbying agent (in-house lobbyist or hired lobbyist), the trade association is an unlikely vehicle (De Figueiredo and Tiller 2001).

2.7.2 DEPLOYING OUTSIDER LOBBYISTS

Another organisational choice for lobbying and legal needs is to hire outside lawyers or professional lobbyists for such services (Greenwood 2002). One gain this offers over the reliance upon a trade association is that the lawyers or lobbyists are agents for the principal business firm and, as such, contracted to

work for the interests of that client company only. Indeed, there is much greater control for the firm over the strategies and performance of the lawyers and lobbyists than if the trade association were handling the effort (Mack 1990). The market incentives for the contracted agent are also extremely high. The profits (for work done efficiently) or the overstated returns from the contingent fees (for work done successfully in the case of lawyering) accrue to the agent, thus creating an incentive for the agent to perform more efficiently. The incentive to specialise is greater in repeated transactions than in one-shot transactions. However, weak loyalty may be of concern in this contractual relationship. Although confidentiality agreements can be raised to provide some security, they are often costly or difficult to put into effect. Furthermore, in the quest for business from future clients, the agent may consciously or unconsciously disclose knowledge gained to other competitors (De Figueiredo and De Figueiredo 2002).

2.7.3 DEPLOYING INSIDER LOBBYISTS

Finally, the firm could choose to organise the legal or lobbying activities "inside" the firm itself by setting up a legal or government affairs department (Baysinger and Woodman 1982; Cohen and Willman 1998; Broscheid and Coen 2004). Here, the motivation for the agent and firm to have a close relationship is much higher, because the employment relationship is stronger than in outside contract relationships (Bennett 1999). Moreover, this employment relationship provides the firm with a high degree of control over its lawyers and lobbyists behaviour (Baysinger and Woodman 1982) and the firm's management is in a better position to monitor their activities. As the agent works solely for the firm, loss of proprietary information becomes less of a problem (Cohen and Willman 1998).

There are trade-offs in this form of organisation. In addition to muted incentives, the managerial costs to the firm are relatively high, as they must sustain a legal or government affairs department and its associated administrative costs. If the use of lawyers and lobbyists is few and far between, the costs of internalising these functions are most likely too troublesome to take on.

2.8 CONTENT OF CORPORATE LOBBYING ACTIVITY

Lobbying activities are realised actions of a firm with the aim to promote or maintain the competitiveness of a firm, and therefore, political activity and a related strategy are seen as an integral part of corporate competitive strategy (Epstein 1969; Gale and Buckholz 1987; Schuler and Rehbein 1997; Hillman, Zarkhoodi and Biermann 1999; Shaffer *et al.* 2000). In order to describe and analyse the corporate lobbying activity process in the political system, it is essential to understand corporate lobbying activity content (De Figueiredo and De Figueiredo 2002), as shown in Table 2.

Table 2: The content of corporate political strategy

Procedure to influence	Tactics	Strategy to influence
Individual lobbying	Petitions	Co-operative strategy
Collective lobbying	Executive lobbying	Information-oriented strategy
	Election funding	Pressure-oriented strategy
	Coalition building	Issue-by-issue strategy
	Advocacy advertising	

The content of the corporate political strategy is here understood as configurations of different kinds of political *tactics*, which in turn can have two characteristics that are here called *procedures* (Table 2). The procedures depict the nature of actions, i.e. what is the aim of a particular action. The procedures included in the framework are collected from the existing research literature concerning corporate political activity (Hillman *et al.* 1999). The literature on lobbying strategy content aims to perceive strategy configurations that represent common, thematically driven alignments of elements and dimensions (Getz 1997). Besides the descriptive elements, constructing the configurations of corporate lobbying strategy and tactics provides the framework for understanding

lobbying capability development, since the analysis reveals the most dominant lobbying processes and routines are still not understood in the current literature.

By categorising each of the observed political moves it is possible to recognise the patterns of actions (for example, to perceive if an airline has favoured individual lobbying strategy over collective lobbying action), and thereby construct a comprehensive picture of corporate lobbying activities. Moreover, when the political moves (events) are ordered through time, it is possible to distinguish temporal variations in the amount and nature of lobbying activity.

2.9 RESOURCE-BASED VIEW AND CORPORATE LOBBYING ACTIVITY

We have seen earlier that the literature on the firm-level corporate lobbying activity (or what some authors call corporate political activity) is the focus of scholarly work utilising assumptions about firm strategies. Management scholars emphasise strategic choice and assume that senior managers choose to engage in political activity to enhance the value of the firm, and that these choices depend largely upon such firm-specific factors as capabilities that deploy resources, size, and dependence on government contracts (Hillman *et al.* 2004). The recent shift of the resource-based view (RBV) of the firm into studies of corporate lobbying activity (e.g., Keim 2001; McWilliams *et al.* 2002) has heightened the focus on firm-strategic factors. Researchers from economics and political science who take on the "profit maximizing" approach (e.g., Mitchell, Hansen and Jepsen, 1997, p1098), typically presume that a firm is a ''black-box'' value maximiser and will routinely connect in corporate political activity given certain firm characteristics. However, even some scholars from this arena admit that organisations still have a fair amount of discretion over their choice of lobbying activities (Caldeira, *et al.* 2000), and how they configure their lobbying capabilities and political resources (Holburn 2001).

Consequently, the interest in corporate lobbying activities is accompanied by parallel interest in a firm's stock of political resources and capabilities (Boddewyn and Brewer, 1994, Holburn 2001). For instance, Boddewyn (1993) highlighted the importance of understanding the development and exercise of

resources as well as their availability and use in the non-market environment. Just as leaders take advantage of economic resources and capabilities in their market environment, the execution of corporate lobbying strategies in their non-market environment requires a better understanding of political resources and lobbying capabilities as they help sustain competitive advantage.

2.9.1 DYNAMIC CAPABILITIES AND A LOBBYING CAPABILITY

As seen earlier, the term dynamic capabilities emphasises two aspects seldom discussed in previous strategy perspectives (Teece *et al.* 1997). The term 'dynamic' refers to the capacity to renew competences so as to achieve congruence with the changing business environment. The term 'capabilities' emphasises the key role of strategic management in appropriately "adapting, integrating and reconfiguring internal and external organisational skills, resources, and functional competences to match the requirements of a changing environment" (Teece *et al.* 1997, p515). Thus, according to this framework dynamic capabilities combine flexibility, which enable firms to change, with constraints, which derive from these firms histories.

We believe that a lobbying capability has always been an important dynamic organisational capability used by large organisations within the oil industry (Frynas *et al.*, 2006) to airline industry (Brown 1987) to the telecommunication industry for decades (Yoffie 1988). Industries like the airline industry have always had dynamic non-market environments. However, academia has neglected to explain how lobbying capabilities are developed by organisations as a strategic capability. What is more, there is no agreed definition within academia to a lobbying capability. Gertz (1997) describes it loosely as every deliberate attempt of a firm to influence political decision-making. However, in this thesis, using Teece *et al.* (1997); Getz (1997); Eisenhardt and Martin (2000); Holburn (2001); Sirmon *et al.* 2007 and Bonardi *et al.* (2007) ideas, we shall describe a lobbying capability as the following:

> *The corporate political processes - specifically the combination or sequence routines in which managers work together to leverage and deploy resources - that use resources to match or even create non-market*

> *change. Moreover, lobbying capabilities are the organisational and strategic routines by which senior representatives or acting representatives achieve influence to match or even create non-market change in the corporate political environment.*

Looking at the definition more closely, and using our words we *believe that lobbying capabilities are the combination or sequence of processes/routines that have the potential to consistently achieve outputs matching the organisational strategic intent.* They consist of routines that enable firms to deploy and leverage political resources to manage and influence (i.e. deploying information to decision makers or leveraging network resources to influence) the dynamic public policy environment.[67] Lobbying capabilities are specific to the jurisdiction in which the firm operates and allow the firm to configure corporate political strategy to fit the context of a particular situation (Holburn 2001). Lobbying capabilities include the networks of relationships between corporate employees and national and local political, regulatory, legal, and interest group actors who influence public policy and these capabilities are based on the firm's experience in a specific country (Coen 1997, 1998; Holburn 2001). They include the aptitude to find political preferences and patterns of behaviour in different types of institutional environment, to correctly assess the source and nature of expropriation hazards and to successfully negotiate with political and regulatory actors (Holburn 2001; Bonardi *et al.* 2007).

2.9.2 POLITICAL RESOURCES AND A LOBBYING CAPABILITY

Having now defined a lobbying capability, let us now understand its relationship with political resources. Previous research has shown us that a set of resources, not equally available to all firms, and their combination into skills and capabilities, are a precondition for sustained superior returns (Barney 1991). The idea of skills and resources used by the firm to manage its political environment is not recent. Fainsod (1940) suggested that an industry obtains a favourable regulation by its capacity to mobilise three kinds of resources: financial (political

[6] Deploying a resource here refers to releasing the political resource to create value for the owners (Eisenhardt and Martin 2000)

[7] Leveraging on resources here refers to the using the political resource to create value for the owners (Sirmon *et al.* 2007)

campaign financing), human (the use of lobbyist and lawyers), political (political coalition-building). The idea of mobilising specific political resources and skills was also mentioned by Leone (1977), while Yoffie and Bergenstein (1985) spoke of the accumulation by a firm of political capital. Within political affairs literature, the notion of political resources, which help create lobbying capabilities, have been indirectly suggested but the theory and empirical evidence in the development processes are still underdeveloped (Dahan 2005).

Attempts have been made at applying RBV concepts to the public policy arena (McWilliam *et al.* 2002). However, the term political resources has caused much confusion. Recently, Dehan (2005) tried admirably to conceptualise "political resources" but stopped slightly short of providing substantial empirical evidence[8]. However, bearing Dehan's (2005) and Barney's (1991) ideas on resources and political resources in mind, we conceptualise political resources for the purpose of analysis as being divided into three categories: *network capital resources* (i.e. access to specific people within the network), *human capital resource* (i.e. skills of individual employees, training, experience, intelligence, relationships and so forth) and *organisational capital resource* (i.e. formal reporting, structure, planning, coordinating systems and so forth). However caution must be given here, as these definitions do not have empirical underpinnings. These early definitions will allow us to easily map out the lobbying capability development process and will give the analysis section more structure in identifying interaction effects between political resources and lobbying capabilities not previously understood. However, we will attempt to clearly define political resources in the theoretical discussion chapter.

The idea of resources as being inputs to capabilities is evident (Winter 2003). According to Coen (1997), developing lobbying and resource accumulation in specific contexts implies that the impact of a policy will be unequal across

[8] The political resource idea is a firm-specific resource from a political view that is embedded within the firm's employees – for example, the in-depth knowledge of particular political systems which rely on the coordinated action of multiple employees. Political resources can include access to legislators, officeholders in public institutions or prior experience in dealing with public institutions that are specific to the non-market environment (Yoffie and Bergenstein 1985; Dehan 2005).

different firms. Firms with differing resource bases and lobbying activities with which to manage their non-market environment will develop different responses to expectations about the profitability and investments in political situations (Lo 2003). How, why and whether firms develop their lobbying capabilities in different policy contexts using specific political resources will be important to understand the interaction effects and broadly the notion of sustainable competitive advantage.

2.9.2.1 NETWORKS AS A RESOURCE

Social capital or what we would like to call *"network capital"* has become an ubiquitous metaphor in the study of organisations (Finkelstein *et al.* 2007). The compelling metaphor embodied in the notion of political resource is implicitly or explicitly present in various research streams that focus on how social ties enhance actor's ability to attain their goals. Previous studies have shown that political networks can facilitate access to information, resources, and opportunities (Campbell *et al.* 1986; Podolny 2001). Thus, actors with networks rich in political capital should have privileged access to resources and information and should be better at leading, organising, and mobilising others actors towards collective goals.

Network capital, which came from the term "social capital", is a common metaphor in the study of how social networks can create advantage for individuals and organisations (Burt 1997). Beyond differences in emphasis, most treatments coincide with a general definition of network capital *"as the resources that an individual or a group can access through his contact network"*. Political network capital is viewed as being social capital but from the political aspect of the non-market. We define it as *"how political networks that can create advantage for individuals and organisations. Moreover, political network capital is a resource that an individual or a group can access through his contact network"*.

Building on this metaphor, early research on social capital focused on the value of relationships as conduits of information and channels to access resources or

social support (Lin, Ensel and Vaughn 1981). Consistent with the emphasis on networks, this research will emphasise the strength of the tie between political resources and the top management team, with the theory focusing on the effects of tie-in facilitating or hindering access to the appropriate information and resources (Bouwen 2002).

In this thesis, we aim in a careful way to conceptualise the context in which actors operate along the dimensions of policy, namely how the top management access the resources and information to minimise policy uncertainty. In addition, we will look at how the top management controls those resources and decision making to develop their lobbying.

2.10 CORPORATE POLITICAL LOBBYING IN THE AVIATION INDUSTRY

As already seen, governments represent major sources of uncertainty for firms because they often control critical resources and opportunities that shape firms' industry and competitive environments (Jacobson *et al.* 1993; Baron, 1995). As a result, many firms engage in 'political strategies': proactive or reactive actions to affect the public policy environment in a way favourable to the firm (Baysinger, 1984).

Despite the acknowledged importance of governments to airlines (Brown 1997; Lawton 2002), which is the industry focus of this study, the state of scholarly knowledge about airline lobbying processes remains scant when compared with research on strategies for the economic marketplace (Brown 1997). Grosse and Behrman (1992) argue that theories that fail to incorporate the political activities of organisations take the ''national'' out of ''international'' and leave the analysis ''as a simple extension of firm and market theories'' (1992, p97). On the other hand, management and public policy literature has focused on multinational enterprise (MNE) – host government negotiations regarding initial entry into a country (Coen and Héritier 2000), but little research is directed towards how companies develop these corporate lobbying capabilities.

The European airline industry has traditionally had a strong natural relationship with national governments (Pedler and Van Schendelen 1994; Staniland 2003).

This close link has been a direct consequence of the traditional ownership by national governments of airline companies. Airlines are only allowed to operate on the basis of a strictly regulated system of licenses, provision of which is determined under technical, economic and aviation politics criteria. For instance, even with the coming into effect of the European internal market on 1st January 1993, possession of a technical and economic license to operate remains a necessity within the EU (Pedler and Van Schendelen 1994). For international air routes outside the EU, in addition to possession of a license from the country of destination, the mutual granting of licenses is regulated internationally by means of bilateral agreements with other countries. Almost every airline of any size has a Public Affairs department, a Foreign Relations department or an Aeropolitical Affairs department. The operations carried out within these departments are public affairs activities and were so even before the term existed within management processes, although they were exclusively directed at the preservation and expansion of airlines and traffic rights (De Figueiredo and Emerson 2001).

Until a few years ago, systematic cultivation of government contacts by airlines was principally undertaken with a view to the acquisition and maintenance of traffic rights. The promotion of other international, political interests was the responsibility of government and in the case of most countries was looked after by a Ministry of Transport (Lawton 1999). However, much of this changed in the mid-1980s, when a number of national governments in Europe relinquished their majority holdings in their national airlines and European airlines were consequently forced to adopt a more efficient and market-oriented policy, involving increased competition throughout the world. The liberalisation of the European aviation industry, which gradually came about after 1987, acted as a catalyst for this process (Kyrou 2000). Airlines started acting more and more like normal commercial undertakings, having to promote their political interests as part of their corporate strategy and conduct their own public affairs. They soon became aware that there were many other areas where, in their own interest, government relations had to be maintained, and especially that a systematic approach can in time deliver advantages for the operation of the business.

2.11 CONTRASTING POLICY CONTEXT AND CONDITIONS

Contextual conditions establish the parameters under which a theory may be considered valid or false (Popper 1968; Bacharach 1989; Whetten 1989; King *et al.* 1994). They identify the contingencies under which bodies of strategy knowledge may be more or less actionable (Priem and Butler 2001). In a knowledge economy, existing theory is posited to be irrelevant due to increasingly high velocity business environments (D'Aveni 1994; Prahalad and Hamel 1994) and the rise of strategic decision making as a key source of competitive advantage (Courtney *et al.* 1997; Nahapiet and Ghoshal 1998). This thesis therefore draws together the various challenges for the application of strategy theory into two key non-market contextual conditions: endogenous and exogenous policy contexts. These types of policy environments have specific implications for the practical relevance of the resource-based view of strategy theory. As such they constitute important contextual conditions with which to formulate falsifiable propositions about the practical validity of strategy theory in a knowledge economy (Bacharach 1989; Priem and Butler 2001; Whetten 1989).

Bearing in mind the condition types, Baum and Singh (1994) and Eisenhardt and Martin (2000) propose a co-evolutionary approach to the analysis of change. It assumes that organisations, industries (populations), and environments (institutional and extra institutional) co-evolve and their rate, pace and patterns of change are distinct and interdependent. Co-evolutionary approach aims to inquire into how the structure of direct interactions and feedback within organisation-environment system gives rise to the dynamic behaviour of that system. This approach can also benefit the non-market policy environment.

The non-market policy environment has two types of categorisations, which we define as an endogenous or exogenous policy context. The endogenous context is one in which the organisation is expectedly confronted by policy decisions, stakeholders or actions within a non-market political system i.e. a deregulation context (Kim and Prescott 2005). On the other hand the exogenous policy context is one which the organisation is unexpectedly confronted by policy decisions or stakeholders within a non-market political system. The reason for

this choice will be explained in more detail in the methodology chapter, but it was mainly because of the highly influential nature of recent events, allowing us to really capture development. These contrasting policy contexts are shown below.

- **Endogenous policy-Deregulation (1985-1997)**
- **Exogenous policy- Post 9/11 terrorist attacks policy issues (2001-2005)**

Other examples of endogenous policy contexts include environmental policy issues like cutting carbon dioxide, noise pollution policy, lost luggage replacement policies and so forth. While examples of exogenous policy contexts could include the likes of unexpected policy issues from SARs flu (pandemics) or wars. As such, our perspective on policy contexts is built on Brink (2004, p23) who describes a policy context as "the basic set of policies forming the foundation of public laws".

These two contrasting policy context types recognise strategy process and time process issues. These process approaches recognise that the world changes fast and that there is much about the policy environment in which one is operating that is not known. Given this, policy processes cannot be a simple matter of designing and implementing definitive blueprints. 'Policymakers' need to admit that they are dealing with provisional knowledge, and aims and methods need to be tested and re-evaluated along the way. What looked like the right policy goal and method a year or a month ago may not be so further down the line. Therefore new voices and influences may emerge to align the policy with the current non-market environment.

The two contrasting policy contexts suggest that the spaces in which engagement in the policy process is likely to happen will vary due to the dynamic nature of the policy type. Different balances will need to be struck between building voice and decisions in lobbying at the bottom, and increasing responsiveness at the top. This depends on whether there is bureaucratic capacity, lobbying capabilities and political resources. In one place supporting the government may be possible and

an option, in another it may be that there exist more subtle ways of creating voice for personal interest with the government.

The two policy contexts will be looked at more closely in the next literature review chapter that will investigate the industry dynamics in more detail. However, let us look at policy theory more closely.

2.11.1 THE POLITICAL ECONOMY PERSPECTIVE ON POLICY

Political Economy (PE) scholars have already recognised this potential and leveraged their knowledge of the policymaking process to make significant contributions to the study of non-market strategy. Consistent with their disciplinary orientation, these scholars begin with the assumption that policymakers are rational actors who pursue their own self-interest and are capable of making complex, sophisticated calculations using all available data. The interest group politics perspective in PE (Olson 1965; Wilson 1980; Denzau and Munger 1986; Snyder 1992; Baron 1994, 2001) focuses on the demand for policy. An interest group seeking a specific policy may 'purchase' that policy by supplying a policymaker with a greater level of electoral support in the form of campaign contributions and votes than do the interest groups that oppose the policy. More concentrated interest groups win out over less concentrated ones because members of the former receive higher net benefits per head from attaining their preferred policy and also suffer from a lower incidence of free-riding. As a result, business interests typically prevail over consumers, who are relatively diffuse and poorly organised (Peltzman 1976; Stigler 1971).

The literature on structure-induced equilibrium focuses on the supply of policy. Scholars working in this area accept the tenets of the interest group politics perspective but use game-theoretic analysis to combine to it the role that political structures such as the executive, legislative and judicial branches of government play in the formal policymaking process (McNoll 1987). Subsequently, Gilligan *et al.* (1989) explain that specific features of these structures, such as voting rules, partisan composition, committee and agency jurisdiction, and veto

thresholds, determine the range of feasible policy outcomes that can result from the process.

Together, structure-induced equilibrium literature has shaped much of the existing thinking on non-market strategy. The outcome of non-market competition among interest groups, including firms, is viewed as depending exclusively on the configuration of economic interests and formal political institutions. That unorganised groups, the public at large, are weak to affect policy on their own frequently assumes the status of a stylised fact (Denzau and Munger, 1986). But firms assess the range of feasible policy options, identify pivotal political actors to support (i.e. those with the greatest ability to influence policy outcomes) and determine optimal campaign donation levels (Holburn and Vanden Bergh 2002), presumably by undertaking equilibrium analysis based on information about the derived policy preferences of individual policymakers and the structure of formal policymaking institutions.

A third body of literature builds on these insights to consider more traditional choices of interest in the study of organisational strategy. Specifically, this literature examines how cross-sectional variation in formal political institutions affects the location of investment (Henisz and Delios 2001), entry mode (Henisz 2000; Oxley 1999) and investment sequencing (Delios and Henisz 2003). Even though this nascent body of work does not fall strictly into the field of non-market strategy under the definition that we have adopted above, it is clearly of relevance to strategic management scholars. Of particular interest is recent work examining the differential impact of formal political institutional configurations on firms possessing varying levels of experience with specific types of configurations (Delios and Henisz 2003).

2.12 CONCLUDING REMARKS

To summarise from the above literature review, we have gone on a quest to understand the current literature that has looked at the notions of dynamic resource-based view, capability development, performance enhancement and heterogeneity (Barney 1991; Peteraf 1993; Eisenhardt and Martin 2000). An attempt has been made to 'critically' evaluate some of the most influential

theories, explaining the holy grail of competitive advantage. We try to draw from the RBV, cross fertilised with corporate political activity and lobbying literature, to conceptualise political resources and lobbying capabilities. Moreover, we highlight implicitly the importance of understanding the lobbying capability development process in two specific contrasting policy contexts.

Based on the sometimes neglected insights of corporate political activity theory and empirical research, we argue that a more realistic, theoretically valid, and empirically accurate view is needed to understand the foundations of competitive advantage. Moreover, a link between dynamic capabilities and corporate lobbying activity must be made. Recent literature on dynamic capabilities has included well-known organisational and strategic processes like alliances and product development whose strategic value lies in their ability to manipulate resources into value-creating strategies (Eisenhardt and Martin 2000), but we believe all these strategy scholars are missing specific types of dynamic capabilities and how they are developed, i.e. in our case developing lobbying capabilities in given policy contexts.

Correspondingly, lobbying capabilities are the foundations of how firms deploy and lever their political resources in the non-market. Their broad structural patterns vary with non-market dynamism, including the robust, grooved routines in dynamic non-market contexts that can be exogenous or endogenous. Dynamic capabilities encounter a boundary condition in non-markets where the duration of that specific capability is inherently unpredictable and depends on the context. These unpredictable phenomena are however socially complex and ambiguous in nature, thus a more prescriptive argument is needed for improving and extending dynamic capability view and more broadly the RBV (by understanding lobbying capabilities). It is hoped that this inductive conceived study will contribute to the dynamic theory of strategy. This study will be an incremental step towards this goal.

From the review of the theoretical and empirical work on dynamic capabilities and corporate lobbying, several important questions emerge that are in need of further theoretical development. First, we need to better understand the relative

importance of "what" types lobbying routines/processes are developed and more importantly "how and why" these lobbying routines/processes are developed in certain ways within specific contexts, where we need to examine systematically the relative importance of internal ("organisational push/proactive behaviour") versus external ("non-market pull/reactive behaviour") factors in developing lobbying capabilities. The latter will enable us to understand the degree to which a lobbying capability relies and develops in conjunction with the policy context. Second, we need to focus on the role of the senior management and their decision making in the development process of a lobbying capability in order to understand the micro-foundations of lobbying capability development. Finally, we focus on the connection between the capability development to the policy contexts.

To summarise, firstly our work attempts to contribute to the RBV and CPA, by marrying them together and then explicating the nature of dynamic lobbying capabilities in a way that is realistic, empirically valid, and non-tautological. Secondly, our work attempts to clarify the RBV's logic of the antecedents of lobbying capabilities, political resources, and competitive advantage. Thirdly, our work will aim to understand the micro attributes of lobbying capabilities which play an important role in the strategy process. Fourthly, dynamic capabilities are necessary, but we suggest a boundary condition is needed in all studies i.e. in our case we use the endogenous and exogenous policy context to capture the development of lobbying capabilities. We recognise that the RBV breaks down in changing markets, and moreover, that extant literature always misses the changing non-market environment, where time is an essential aspect of strategy. Finally, our work will aim to extend the future research agenda, and provide broader questions related to the impact of micro sources on organisational capabilities. Let us now look at the airline industry and the two chosen policy contexts in more detail.

Chapter

3

SETTING THE SCENE- THE AIRLINE INDUSTRY

Before discussing our empirical approach, we will briefly outline the chosen industry for this investigation. Thereafter we will aim to look at the two selected policy contexts of our chosen industry. From here we will seek to look at some of the reasons why the industry focus provides a beneficial setting for examining non-market strategy and lobbying capability development. We will present this chapter chronologically to allow the reader to understand and appreciate the dynamics and history of this fascinating industry and the two chosen contexts for study.

3.1 INTRODUCTION

Travel has existed since the start of time. Ancient history speaks of a time when people travelled for trade, migration, religion, economic benefits or war. Moreover, travel has grown continually since World War 2 and recorded history demonstrates traits that can still be observed nowadays, especially in light of developments of air transport. Nonetheless, air travel and policy are very distinct twentieth century issues (Sochor 1991; Williams 1993). The real rise in international development of countries started after the creation of commercial airlines during World War 2 and the emergence of the jet aircraft in the 1950's (Theobald 1998).

The airline industry, the focus sector of this study, is a fascinating and complex industry. Airlines have traditionally had a strong natural relationship with their own national governments (Pedler and Van Schendelen 1994).[1] This close link has been a direct consequence of the traditional involvement of national governments in the aviation industry. As a result, air transport became intrinsically linked with foreign policy considerations. Commonly, one of the first actions of newly de-colonised states was the establishment of a publicly subsidised, national airline. The creation of a "flag carrier" airline was seen, and continues to be seen by many states as a crucial element in creating a national identity.

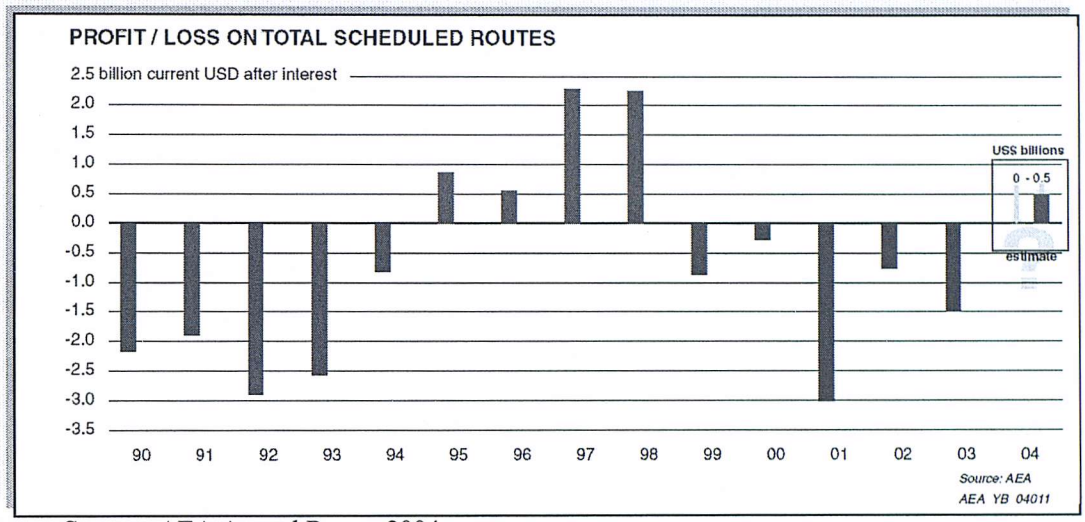
In short, for decades flag carrier airlines have been engaged in government affairs as part of their long-term strategy. Forecasts are made of what new licenses are necessary, based on long-term expansion plans, and what existing licenses will be retained at all costs (Pedler and Van Schendelen 1994). Networks of contacts and coalition partners have therefore been systematically maintained by flag carriers. Moreover, these networks are developed in the various countries that form part of the desired route net. Political developments have been followed closely, and opportunities created, with the object of ensuring political domain advantage, domain defense or political domain maintenance.

Notwithstanding the fact that governments impact upon airlines, this industry is also viewed to be cyclical in nature with times of high and low profits due to political and economics factors. Indeed, this industry has faced a severe decline over the last 15 years (Doganis 2001). During early 1990's, the first Gulf War and the economic recession indubitably had a negative impact on air travel (Hanlon 1999). Thereafter it returned to profits between 1994 and 1998 due to deregulation, when lots of people started flying with cheaper fares, before the industry returned again to hard challenges from 1999-2005. The problems in Asia in late 90's, the 9/11 attacks, the fear of subsequent terrorist attacks, the

[1] Apart from the issue of the granting of licences, their relationship with government has also been important for national airlines because of the majority holding which most national governments have held in the share capital of their flag carriers.

Afghanistan war, the SARS phenomenon, the second Gulf War and the slump in the world economy all had a negative effect on the air travel industry (Harrington *et al.* 2005), as shown below in Figure 4.[2] A significant upturn occurred in the third and fourth quarters in 2003 (AEA Annual Report 2004).

Figure 4: Profit/Loss on total scheduled routes

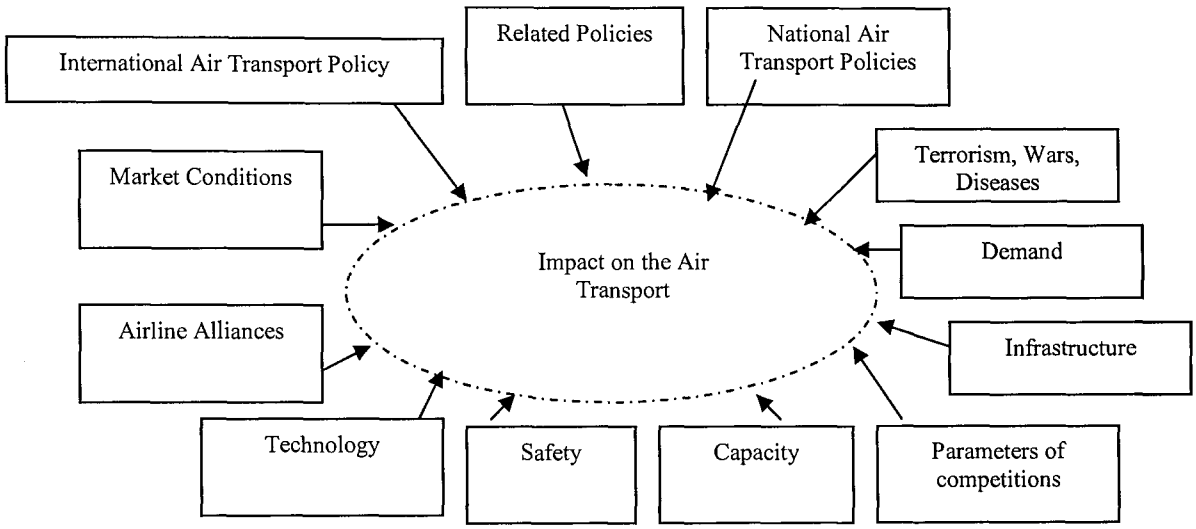


Source: AEA Annual Report 2004

The airline industry has changed immensely over the last 15 years with deregulation in Europe allowing the emergence of low cost airlines in the short haul sector. This dramatic change is due to several variables like cost, capacity, demand and legislation, which can be seen in Figure 5 (adapted from Forsyth *et al.* 2005). This research will focus on two air transport policy contexts that affected "flag airlines" instead of the other factors, mainly because there is a lack of empirical studies conducted from a RBV perspective that look at policy and lobbying capabilities.

[2] The outcome of 9/11 has been a severe financial crisis for most major European carriers with Sabena and Swiss Air going bankrupt.

Figure 5: Most important factors influencing Air Travel



Source: Adapted from Forsyth *et al.* (2005)

All the above factors have been detrimental to the airline industry, which is now going through a major phase for transformation (Harrington *et al.* 2005).[3] Declining profits and passenger numbers have forced many large airline companies to reduce costs by slashing their workforce and eliminating unprofitable routes. Additional factors have included the recent increase in oil prices that have caused further troubles for the airline sector.[4]

3.2 SETTING THE SCENE: AIRLINE INDUSTRY-PAST AND PRESENT

Air transport is a major industry that is vital for maintaining a healthy economy. It is the fastest growing mode of transport for both passengers and freight. It is also the largest employer of labour and at the forefront of many technological developments, and is often a pioneer in adopting such innovations. It is the source of important economic stimuli for local economic developments and it often provides essential long distance access for more peripheral areas. It is

[3] Carriers such as Swiss Air went from being bankrupt to being saved from the brink of closure by being acquired by Lufthansa, whereas other national airlines such as Aer Lingus have now adopted the low cost model (Harington *et al.* 2005). Airlines such as British Airways, KLM, Air France and Austrianair have done well. On the contrary, the low cost carriers such as Ryanair and Easyjet have been quite profitable with healthy growth margins all the way (Easyjet 2005 Annual Report). Amongst the other entrants in the low cost carriers, many have not reported their results. Airlines like Flybe, German wings, Air Berlin, and BMI baby have all experienced losses (Lawton 2002).

[4] For further expansion please visit http://www.cranfield.ac.uk/soe/cpd/atm-finance.htm.

therefore central to the globalisation taking place in many other industries (Doganis 2001), its role being that of a facilitator to the economic system. At the same time it is a maturing industry. It is by most measures the safest way to travel and there are continual technological and managerial developments to reduce any adverse environmental effects.

Travel for both business and leisure purposes grew strongly worldwide. Scheduled airlines carried 1.5 billion passengers last year (AEA Annual report 2005). In the leisure market, the availability of large aircraft such as the Boeing 747 made it convenient and affordable for people to travel further to new and exotic destinations (AEA Annual report 2004). Governments in developing countries realised the benefits of tourism to their national economies and spurred the development of resorts and infrastructure to lure tourists from the prosperous countries in Western Europe and North America. As the economies of developing countries grow, their own citizens are already becoming the new international tourists of the future.[5]

Airlines' profitability is closely tied to economic growth and trade respectively. However, during the first half of the 1990's, the industry suffered not only from world recession but was further depressed by the Gulf War. In 1991 the number of international passengers dropped for the first time. The financial difficulties were exacerbated by airlines over-ordering aircraft in the boom years of the late 1980's, leading to significant excess capacity in the market. IATA's member airlines suffered cumulative net losses of $20.4bn from 1990 to 1994 (AEA Annual Report 2004).[6]

The International Air Transport Association (IATA Annual report 2005), forecasts international air travel to grow by an average of 6.6% a year to the end

[5] Business travel has also grown as companies become increasingly international in terms of their investments, supply and production chains and customers. The rapid growth of world trade in goods and services and international direct investment has also contributed to growth in business travel.

[6] IATA airlines' profits were $5bn in 1996, less than 2% of total revenues (IATA Annual report 2000). This is below the level IATA believes is necessary for airlines to reduce their debt, build reserves and sustain investment levels.

of the decade. In Europe and North America, where the air travel market is already highly developed, slower growth of 4%-6% is expected. The most dynamic growth is centred on the Asia/Pacific region, where fast-growing trade and investment are coupled with rising domestic prosperity. Air travel for the region has been rising by up to 9% a year and is forecast to continue to grow rapidly till 2015. In terms of total passenger trips, however, the main air travel markets of the future will continue to be in and between Europe, North America and Asia.

3.3 EUROPEAN AIRLINE INDUSTRY-PAST AND PRESENT

The European airlines have had a very remarkable past. The European Union (EU) was initially slow to embody air transport in its Common Transport Policy (CTP). This in part reflected the still relatively small role it played in economic interactions in Europe in the 1950's and 1960's (Hanlon 1999; Kyrou 2000). That situation changed significantly in the late 1980's and 1990's when increasingly national policies for air transport were brought within the broader framework of EU policy. The need for a coordinated infrastructure policy, especially regarding air traffic control, furthered the role of the EU. This process is an on-going one as matters of authority over external EU policy continue to be debated. The aim of this part is to look at the past and current state of European airlines – mainly but not exclusively those within the EU and the European Economic Area (EEA). It seeks in particular to see the institutional structures provided as a basis for the continued vitality of air transport as a facilitator of economic developments and an input into wider matters involving political decisions within Europe.

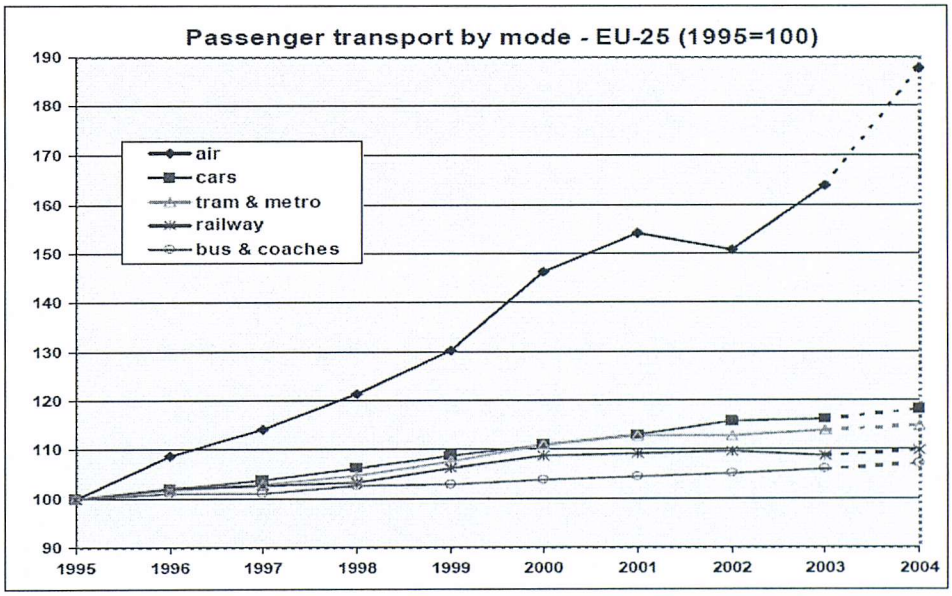
Deregulation was viewed by many EU political decision-makers and some specific airlines as the main solution to make this high cost industry more efficient (Williams 1993). The US led the way in 1978 and Europe followed suit in 1988 by introducing a three packages system to liberalise their industry (Brown 1987). The EU's final stage of deregulation took effect in April 1997, allowing an airline from one member state to fly passengers within another member's domestic market. Beyond Europe too, 'open skies' agreements are beginning to dismantle some of the regulations governing which carriers can fly

on certain routes. Nevertheless, the EU aviation industry is characterised by strong nationalist sentiments towards domestic ''flag carriers''.[7]

Despite this, the EU airline industry has proceeded along the path towards globalisation and consolidation (i.e. KLM and Air France), characteristics associated with the normal development of many other industries. It has done this through the establishment of alliances and partnerships between airlines, linking their networks to expand access to their customers (Doganis 2001). Hundreds of airlines have entered into alliances, ranging from marketing agreements and code-shares to franchises and equity transfers.

The Transport industry accounts for over 10% of the EU's GDP and employs around 10 million people (Doganis 2005). In the past decade, air travel has grown exponentially, as shown in Figure 6.

Figure 6: Passenger transport by Air within EU



Source: European commission (1995), white paper on the European transport policy, p45

According to the AEA Annual Report (2004, p.3), "the air traffic in Europe has increased by five times since 1970, but the EU air travel market is now highly saturated with fierce competition from low cost airlines". Previously, the

[7] In many parts of the world, airlines will therefore continue to face limitations on where they can fly and restrictions on their ownership of foreign carriers.

European short haul airline sector was dominated by national airlines such as Air France, British Airways and Lufthansa where they accounted for over 70% of the civilian passenger traffic (Sheehan 2003). However, these national airlines are no longer dominant as the free market forces are changing the European short haul airline market (Doganis 2005). The low cost airlines model is successful and the low cost airlines such as Ryanair and Easyjet are the new breed of airlines that offer value for money (Lawton 2003). Also a number of factors are forcing airlines to become more efficient. The European Union (EU) has ruled that governments should not be allowed to subsidise their loss-making airlines. Governments' concerns over their own finances and recognition of the benefits of privatisation have led to a gradual transfer of ownership of airlines from the state to the private sector (Pedler & Van Schendelen 1994). In order to appeal to prospective shareholders, the airlines have to become more efficient and competitive.

3.3.1 EUROPEAN AIRLINE SCALE EFFECTS

European airlines differ in terms of their sizes and the extent to which they engage in services outside of Europe. European airlines are also small compared to their US counterparts. The US has the world's four largest airlines (American, United, Delta and Northwest) in terms of passengers carried with Continental and US Airways also in the top 10 (Doganis 2005). All of them are active on transatlantic routes. Only British Airways, KLM/Air France and Lufthansa are in this grouping. This is important because there are debates about the effects of scale on airline costs and revenues and while the broad consensus is that while pure size is not important beyond a threshold, economies of scope and density – and on the revenue side, market presence – have relevance. This implies that within the overall network served by a carrier there may be significant differences in unit costs for individual routes or sub-markets.

According Basso and Jara-Diaz (2006), although economies of scale in a narrow economic sense may not be large, size may be important in other ways. Bigger airlines usually have greater reserves and easier access to finance that can be important during downturns in their markets, and scale can be of political

importance. The extent to which this is important depends on the temporal context and the institutional structure of the country. Evidence suggests that airlines' unit costs do not fall by a great amount as they expand (Doganis 2005). Strictly the evidence indicates that within any city pair market there are rapidly declining costs of service but that there are approximately constant returns to scale for airline systems that have reached the size of the major carriers. Savings come from attracting more traffic rather than expanding the network to cover additional origin/destinations.

Regulatory reforms have seen airlines seeking diversity of service, primarily via hub-and-spoke operations. The empirical evidence is not conclusive that this generates significant economies of scope. The main difficulties have been in isolating scope and scale effects from other aspects of airlines' cost functions. Further, a major rationale for hubbing comes from marketing advances (i.e. on the demand side). Providing a diverse range of services leads to market visibility and makes frequent flyer programs more attractive, thus enhancing customer loyalty. These attributes are features of network value or ''value of presence and utility to [the] customer'' (Sheehan 2003). Smaller operators and new market entrants can, however, also enjoy some marketing benefits of diversity by forming alliances – British Midland vigorously pursued this approach in the past.

3.4 POLICY CONTEXT

Consideration of the endogenous (expected/proactive) and exogenous (unexpected/reactive) policy contexts in the non-market environment are important to an analysis of firm lobbying capabilities development since different environments imply different valuations of resources and capabilities (Penrose 1959). However, little work has been done to assess the effects of firm-specific lobbying capabilities in helping the firm manage its resources in a given policy context (Ethiraj *et al.* 2005; Hillman *et al.* 2004). As explained earlier, although firms in any given industry are likely to face similar types of policy forces, the differences in their accumulated political resources and lobbying capability endowments (e.g. skills, propensity for learning, specialised assets) could become important factors that may influence the development of sources of

competitive advantages. Therefore within the framework of our study, we define our chosen policy contexts as the following:

- *Policy context:* Our perspective on policy contexts is built on Brink (2004, p.23): *"The basic policy or set of policies forming the foundation of public laws"*.

The chosen exogenous and endogenous policy contexts are "polar types", which allow for themes and notions to be better formulated for within case and across case analysis (Pettigrew 1997). Furthermore, the time frames for both contexts were chosen based on the interviewees who proclaimed that *"those dates best represented the period in which lobbying was developed"* (KLM Government Affairs Executive).[8] The next part will look more closely at the two chosen policy contexts and their definitions.

3.4.1 ENDOGENOUS POLICY CONTEXT-DEREGULATION (1985-1997)[9]

The types of policy contexts are important in understanding lobbying capability development. The endogenous policy context is a context where organisations have time to react and be proactive in the policy formulation process. There is also less uncertainty in this emerging policy context type compared to an exogenous policy context type. To be more precise, in this study we define an "endogenous policy context" as (adapted from Brink 2004):

> *A policy context where the firm has an expected understanding of stakeholders, decisions or actions within a political system. As a result, the firm lobbies proactively to advance its interests.*

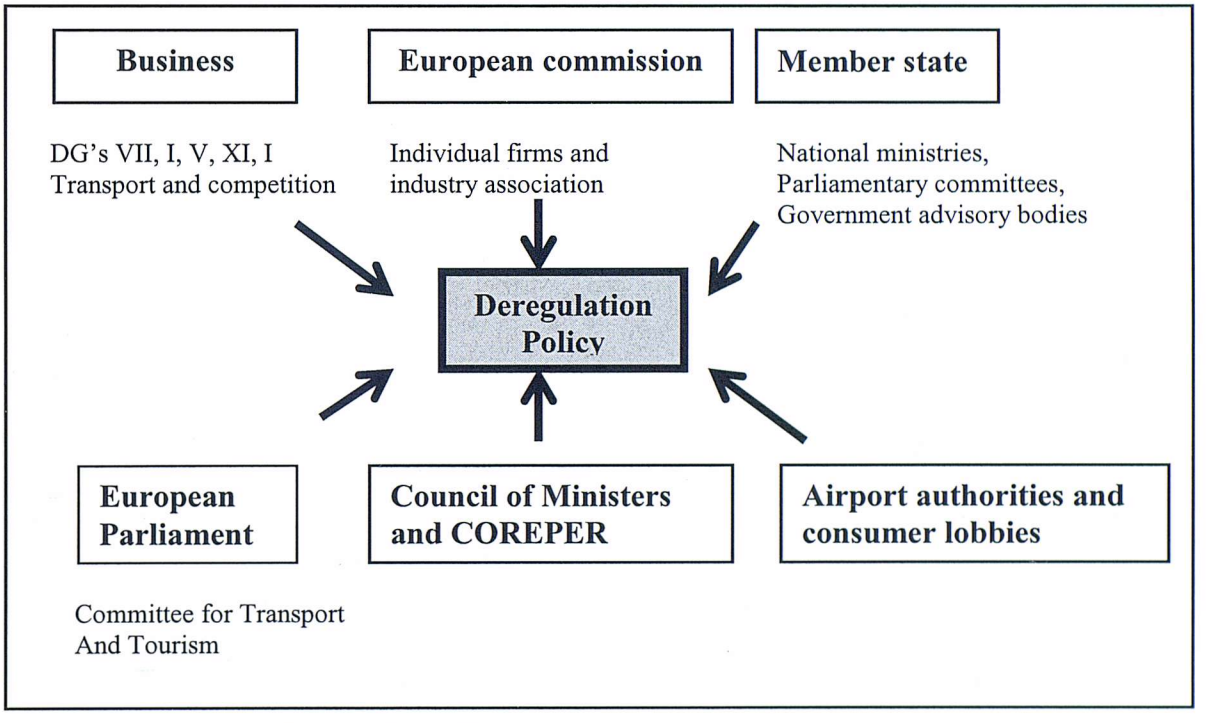
Hence, our chosen endogenous context is the air transport market deregulation period, which is viewed as a subset of broader regulatory reform and refers to complete or partial elimination of regulation in a sector with the objective of improved economic performance (Kim and Prescott 2005). Bearing in mind our

[8] Interview code E020.
[9] The time frame for the contexts were chosen based on the interviewees who proclaimed that "those dates best represented the period in which lobbying was developed".

definition of an endogenous policy context, the twin objectives of air transport deregulation (in Europe) were fair and open competition (Barrett 1990).

Air transport deregulation was viewed by many, as a means to integrate Europe (Barrett 1990; Lawton 1999). There were several interest-coalition actors that played a vital role in deregulating the airline industry, as shown in Figure 7 below. This policy context was very complex and airlines had to deal not only with their national government but also the EU level supranational institutions (see Appendix 3 for further expansion). To add to this complexity the airlines had to deal with a shift in power from the national to EU level (Lawton 1999).

Figure 7: Interest-coalition actors for European Airline liberalisation



Source: Adapted from Lawton 1999, p99

There are also many studies that have looked at the extent to which integration has produced a cumulative and irreversible transfer of policy competencies from nation states to the European Union level (Wallace 1996; Schmidt 1998). The chosen endogenous policy context looks at the deregulation process in conjunction with "Europeanisation". The concept of Europeanisation can be

understood as the transfer of power from national governments to supranational institutions (Cram 1993; Nugent 1995). This shift in authority from the national to the EU level signifies a merging, rather then a convergence of European policy styles.

The outcome of the legal challenges and the implicit move to a Single European Market forced the Council of Ministers in Europe to take the helm on the deregulation policy process, although there were differences between Members on the desirability of competition. The Commission decided to increase pressure and to instigate proceedings against certain airlines. But, the Council decided that the best way to regain control was to agree to introduce deregulation but of a kind, and at a pace, of its own choosing (Lawton 1999).

Hence in 1987 the 'First Package' of three packages was implemented in Europe to liberalise air transport. The basic philosophy of these measures was that deregulation would take place in stages, evolution rather than revolution being the watchword and workable competition being the objective. In December 1987 the first 'Package' was agreed by the European Council of Transport Ministers. However prior to this date, airlines heard that deregulation was planned, therefore many airlines began lobbying government decision makers to make their interest heard (Pedler & Van Schendelen 1994). The outcome was the first package that introduced more liberal fares into the market and forced the abandonment of equal sharing of capacity on routes served by airlines of two states at either end of such routes. It also began steps for the entry of new airlines by opening up market access (Stasinopoulos 1992). This package acknowledged competition articles from the Treaty of Rome, which meant that a large proportion of inter-airline agreements were deemed to be anticompetitive and hence illegal (Doganis 2001).

In December 1989 the Council of Transport Ministers returned to the issue of deregulation. A 'Second Package' involving more deregulation was entered into by the Union. In June 1990 a 'Second Package' of air transport liberalisation measures were introduced by the council. This time they loosened the previous constraints on price, capacity restrictions and market access (Stasinopoulos

1992). On routes above a certain traffic density more flights and airlines were permitted. But it was not just the changes in regulation that occurred at this time. Immigration and customs controls were lifted and in 1993 a single 'domestic' European market was created (Stasinopoulos 1992). This was developed with the third 'Package' which created an 'open skies' system whereby airlines from any member state could freely operate anywhere in the EU with full traffic rights. The main objective of the European Commission was to introduce competitiveness, eliminate barriers that could limit entry, and limit government aid to carriers.[10]

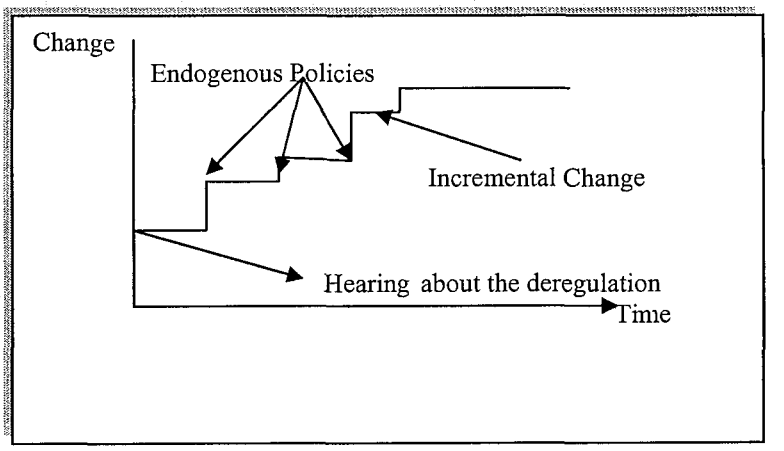
The 'Third Liberalisation Package' was introduced by the European Union (EU) on 1 January 1993 and the process of implementation lasted until 1 April 1997 (Stasinopoulos 1993). With the exception of cabotage rights on purely domestic routes (which became available in April 1997), EU airlines gained access to other EU markets under its provision (See Appendix 3). Any EU airline could operate domestic services within another EU state, so long as domestic routes forming part of such services follow on from a flight from the member state in which the airline is licensed and so long as passengers on the domestic route do not exceed 75% of the airline's capacity on the linked international route (Barrett 1990). For example, Lufthansa was able to fly Frankfurt-Milan-Rome, provided it did not sell more than 50% of its capacity in Milan, but it was not able to fly Milan-Rome until after April 1997 (Doganis 2001). Hence, this third 'Package' went further than any of the previous measures to liberalise the European skies because it was not merely a bilateral agreement and for the first time allowed cross-border majority ownership (Doganis 2001).[11]

[10] However, the crisis in the early 1990's was particularly acute in the European airline industry. Most companies were owned by governments and subject to public policies. Therefore, they were not able to compete in an open market. The handicaps of flag carriers were covered by public funds during this period. Government aid was subject to certain conditions; for example, aid might be provided as part of a restructuring program to restore the long-term viability of a company, and aid could not be used to increase capacity. It might be self contained, so aid might be granted once. Companies such as Iberia, Sabena, Air Lingus, Tap, Air France, Olympic and Alitalia received subsidies from their governments.

[11] The third package was fully implemented between January 1993 and April 1997. This package fully opened aerospace to cabotage in April 1997 for European airlines (Pedler & Van Schendelen 1994). It also gave companies complete freedom to establish fares and opened doors to purchase ownership of other European carriers. Carriers responded to the new market conditions with three main strategies: first, mergers and acquisitions, either in domestic or external markets; second, setting up low cost carriers; and third, airline alliances (Barrett 1990).

Consequently, when the packages were going to be introduced, airlines had time to adapt incrementally to the manifestation of this endogenous event by lobbying and preparing, as shown in Figure 8. EU Airlines had time to use corporate political activities to influence the right people to allow them to develop routes in cities like Milan-Rome before other airlines could affect them (Doganis 2005). They had time to use different types of influencing routines with their national governments and at the EU level to have their needs aligned with their corporate strategy. Most national airlines managed to negotiate important routes within the EU linking cities that were either national capitals or flag-carrier bases (Barrett 1990). Thus the lobbying capabilities that airlines had developed during this expected period were important in leveraging firm-specific political resources to create influence.

Figure 8: Patterns of Path Development of European Long Haul Airlines



Source: Adapted from Johnson and Scholes (2002)

Subsequently in examining the impact of the 'Third Package', the Commission of the European Communities found evidence of important consumer benefits. These included a rise in the number of routes flown within the EU from 490 to 520 between 1993 and 1995. Additionally, some 30% of EU routes were served by 2 operators and 6% by 3 operators or more. Eighty new airlines had been created while only 60 disappeared; fares had fallen on routes where there are at least three operators. Overall, after allowance was made for charter operations, 90%–95% of passengers on intra-Union routes were travelling on reduced fares, a caveat being that there were quite significant variations in the patterns of fares

charged across routes. Mandel (1999) found that on routes with three or more competing airlines (about a third of the total in terms of passengers carried) fares fell.

In this context, the reduction in EU regulation was designed to introduce more openness into markets. Initial documents laying the foundations of reform brought up issues of contestability and the initiation of low cost point-to-point services by new entrants. In many ways these objectives have been met in the short term, although not always in the ways that might have been envisaged in the late 1980's when reform was initiated. They have also been met by carriers that have not had a tradition of market competition but have had to rethink their approach to service provision as well as restructure their operations. These changes have been more challenging within the EU than those that confronted the US domestic carriers after 1978 because of extensive public ownership of many flag carriers.

Let us now look at the exogenous policy context that was one of the most critical events in aviation history.

3.4.2 EXOGENOUS POLICY CONTEXT –POST SEPTEMBER 11TH (2001-2005)

This perspective on policy context type is built on Brink's (2004, p23) view of a type of policy where firms have to react to reduce political uncertainty. We develop some of his views by describing an exogenous policy context, within the framework of our study, as the following:

> *An exogenous policy context is the context where the firm is unexpectedly confronted by policy decisions, stakeholders or actions within a political system. As a result, the firm must react to this policy context to advance its interests.*

The chosen context is one in which exogenous policy outcomes came as a result of post September 11th terrorist attacks (2001-2005). It was within this context that the airlines came to learn that lobbying the European Commission or European Parliament or national government in a reactive manner was vital to

sustaining their competitive positions. These lobbying paths were seen to be vital, in order to get the compensation to support their growing debts, exacerbated by a fall in demand and extra costs associated with new government security policies (Kim and Prescott 2005). If the airlines would not lobby, they risked receiving less aid which would hinder their competitive positions.

This policy context is chosen due to our aim of identifying lobbying capability development using Pettigrews (1997) ''polar type'' idea, and also because governments forecast that terrorism activity will not disappear in the near future but rather escalate (Glasser 2005). Firms in any given industry are likely to face the same types of exogenous (unexpected) environmental policy forces. Research shows that firms facing unexpected environments can establish joint ventures as a means of reducing uncertainty and sharing the risk (Pfeffer and Novak 1976). However, past studies on business-environment relationships neglect the political arena and it is important to explore further how organisations develop their lobbying capabilities in these uncertain contexts.

According to Harrington *et al.* (2005) the impact of September 11th, was unquestionably one of the most influential events in the history of air travel (see Appendix 5 for an expansion on costs incurred by airlines). Passengers abandoned airports in the weeks following the tragedy. The attacks on New York City and Washington D.C. extended beyond U.S. borders with grave ramifications for many European Airlines (Lawton 2003). Soon after 9/11, a number of airlines collapsed, many of which had been in existence for decades i.e. United, Sabena and Swiss Air. As this unexpected event unfolded it brought heavy financial losses for most airlines around the world ($10 billion loss for the airline industry in 2002, IATA Annual report 2001), especially the European cohort of airlines, (see Table 3). The generic path of most flag carrier airlines and how most of these types of airlines were hit is illustrated by Figure 9. The impact of this event was mainly commercial but it also had many emerging policy implications i.e. security policy, insurance coverage and large issues revolved around the compensation package.

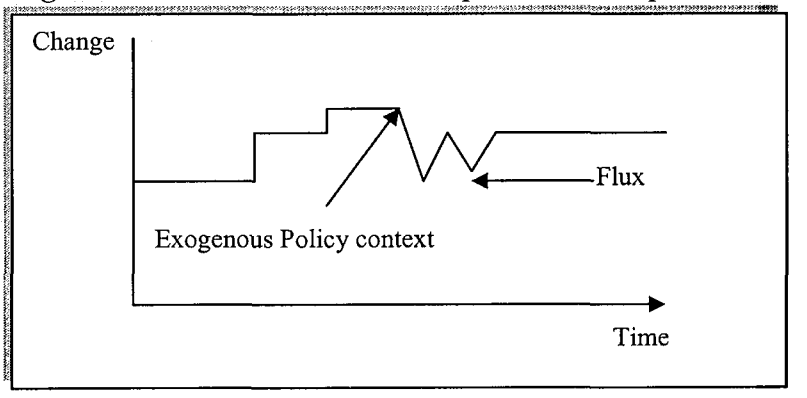
Table 3: 2002 Operating Profits €

Lufthansa	-226
Swiss	-353
ALitalia	-314
BA	-423
KLM	-238
Olympic	-158
Air France	-146
SAS	-70

Source: Annual reports

This context had caused complications that could not be dealt with using the expected domain capabilities. In management literature, various extensions of unexpected hazard planning have been proposed and explored, such as strategising under uncertainty (Lawrence and Lorsch 1969), with the intention of moving planning towards more realistic application to domains. At this stage we believe that the dynamic capability extension in the political context is important for representing and expressing the notion of continuous processes and expressing how firms use lobbying capabilities in responses to these exogenous/unexpected situations.

Figure 9: Patterns for Path Development of European Airlines



Source: Adapted from Johnson and Scholes (2002)

Firms in any given industry are likely to face similar types of exogenous (unexpected/reactive) and endogenous (expected/proactive) environmental policy forces. Research shows that firms facing an unexpected environment usually

seek to enhance competitive advantage by leveraging critical capabilities (i.e. technology related and marketing-related capabilities) and by improving flexibility in response to unexpected technological change. Other authors, like Kogut and Zander (1992) and Prahalad and Hamel (1990), have shown that the notions of learning, expertise and skill development have only recently been considered in the context of developing firm-level competencies that take advantage of differences in firm resources and assets to enact the business environment.

3.5 CONCLUDING REMARKS

This study comes at a time when many European airlines, like numerous carriers in other markets, are experiencing severe downturns in their financial performance. This chapter has combined evidence to paint a picture of two contrasting policy contexts, where one was an expected policy context that gave advance warning of changes to come and the other was a consequence of the more immediate repercussions of the attacks on the World Trade Centre in New York and the Pentagon in Washington. However, we are primarily concerned with European air transport and, whilst recognising those periodic shocks and no shocks from policy to the airlines, the study will focus on the more conventional lobbying capability development process in these two divergent context types.

The impact on individual European airlines has varied considerably. Differences can to some extent be explained by the particular markets they serve; a strong North Atlantic presence has not for example been helpful. But the research shows that airlines have themselves responded in different ways in their efforts to cut costs, influence legislators and to attract traffic (Doganis 2005). Unlike US carriers, there was very limited public funding to compensate EU airlines for the immediate impact of the closure of US markets, and no form of guarantee system to assist in overcoming cash flow problems in the intermediate term.

The next part will look at the methodology in more detail.

Chapter

4

METHODOLOGY

The previous two chapters looked at the notion of lobbying capabilities and then the contrasting policy contexts in the European flag carrier sector. Moreover, the bodies of literature highlighted that corporate lobbying activities and dynamic resource-based view were the backwater of the intellectual effort. The aim of this research methodology chapter is to explain how we captured the knowledge to explicate the development of the lobbying process as a strategic capability, in two contrasting policy contexts, using the airline industry as our setting. Given that this area has not been previously researched and that we want to encapsulate the historical policy contexts and extend theory, we employed a qualitative methodology, specifically a case study method, to make the task more manageable and to be able to better elaborate on theory.

4.1 RESEARCH QUESTIONS

This study examined European flag carrier airlines in an endogenous and exogenous policy context. Within these polarised contexts, the government affairs office within the airlines may have built their lobbying capabilities in a specific way to allow their organisations to sustain a competitive position. However, as seen in the literature review, no previous study has really tried to explore this development process in real detail. Therefore this study will focus on specific research questions and broader theoretical questions to meet the knowledge gaps. A combination of the gaps highlighted in the literature review,

the nature of the phenomena and theoretical perspectives provide three key questions that need to be addressed:

"What" lobbying capabilities does the firm develop to selectively leverage and deploy its political resources in an exogenous and endogenous policy context?

Utilising a political science and strategic management perspective, this study will extend existing knowledge of corporate lobbying activity, specifically using five European Flag carrier airlines. While the business politics theories and strategy scholars have looked extensively at corporate lobbying activity, they have largely ignored routine and process concepts within actual organisations. This study will utilise theories from dynamic resource-based scholars (Eisenhard and Martin 2000; Ethiraj *et al.* 2005), corporate political (lobbying) activity scholars (Gertz 1997; Hillman and Hitt 1999; Hillman *et al.* 2005), and decision-based scholars (Bass 1983; Bourgeois 1985), as discussed in Chapter 3 and 4, as a guide for understanding how lobbying capability development operates within flag carrier airlines.

"How" does a firm develop lobbying capabilities to selectively leverage and deploy its political resources in an exogenous and endogenous policy context? And "why" does a firm develop lobbying capabilities to selectively leverage and deploy its political resources in these specific ways in an exogenous and endogenous policy context?

The study will further explore evidence for interaction effects in the development process of a lobbying capability. Much literature assumes an absolute movement in capability development (Helfat and Peteraf 2003). However, more recent studies are looking at micro level sources in the development of capabilities, suggesting a more nuanced model whereby multiple, and sometimes hybrid modes of development co-exist (Dutta *et al.* 2003). This research will also examine whether the dynamic capability life cycle model represents a genuine shift towards a post dynamic capability life cycle model. Stemming from the themes for analysis, which will be outlined later, this thesis will further study

whether management decision aspects have the capacity to operate alongside the development phase of lobbying. The cognitive aspects of decision making emerged as a significant theme during data collection for lobbying capability development, and will thus be considered in more detail with the addition of network, structure and human capital resources in the remaining chapters.

The analysis will then consider more theoretically how these empirical findings on lobbying development can be conceptualised within a broader framework of change in dynamic resource base. Moreover, research questions above (using both RBV and CPA theoretical focal lenses) aim to guide our analysis of the data and design of enquiry to target knowledge to fill in the gaps. We adopted a looser research design than a precise hypothesis-testing one, but we did not adopt a "*pure grounded theory strategy*". Induction was balanced against early structure in the research questions (Langley 1999) to avoid the peril of ''drowning in data'' (Ferlie *et al.* 2005). The next part will explore further ''how and why'' our research design was chosen, with a further explanation into our chosen mode of analysis of data.

4.2 RESEACH PARADIGM

The term ''paradigm'' is used here to represent the conceptual foundation for this research. Guba and Lincoln (1998) describe a paradigm as a set of beliefs and a view of the world. Consequently, they state that proponents of any given paradigm need to realise three important questions to serve the choice of the paradigm. These questions are (Guba and Lincoln 1998, p.36):

1. *The ontological questions:* These are based on assumptions that concern the nature and form of the phenomena under investigation, whether reality is internal or external (either in one's mind or out there).

2. *The epistemological questions:* These are based on assumptions about grounds of knowledge; what forms of knowledge can be obtained and whether knowledge can be acquired or has to be personally experienced.

In other words, the relationship between the researcher and the researched.

3. *The methodological questions:* These are based on how one can attempt to gain knowledge about what can be known.

The following section will aim to explain the position of our paradigm with respect to the three types of question, where we aim to identify each dimension of the paradigm in order to justify the choice of our methodological approach.

4.3 RESEARCH DESIGN: QUALITATIVE VERSUS QUANTITATIVE PARADIGMS

An unapparent 'paradigm war' exists in the social science arena, with qualitative and quantitative research paradigms traditionally opposed (Silverman 1993; Flick 2002). This battle is rooted in competing epistemological assumptions; how diverse paradigms understand the nature of knowledge and habits of knowing (Addicott 2006). The quantitative epistemological view has by tradition been strong in social and scientific research, however qualitative epistemology (usually associated with interpretivism) is establishing itself as a suitable mode for exploring social phenomena (Oakley 2000; Gephart 2004).

The quantitative epistemology normally spawns a research design that allows for generalisation of findings and the creation of general laws, with an emphasis on causality and measurement (Denzin and Lincoln 2000). This method is typically associated with positivism (Addicott 2006). Under positivist paradigm ontology, one would believe that there is one truth; one objective reality that is completely and correctly structured in terms of entities, properties and relations (Guba and Lincoln 1998; Bowling 1999). In our case, however, we believe there is no objective material reality independent from, and external to, individuals' subjective perceptions (Bryman and Bell 2003). It is the governing philosophy in quantitative research and presumes that all phenomena are measurable using deductive principles (developing a theory and testing it).

A positivist methodology proposes that the same experiences will be experienced in the same way, as most people share the same mental meaning scheme

(Addicott 2006). Positivism assumes that "rational people who independently observe facts will agree on them" (Neuman 1991, p.63). This view does not allow for individual perceptions and meanings and supposes that people search for precise rules to organise their social world, which neglects the intricacy and deep richness of social interactions.

In stark contrast to positivism, the application of a dynamic capability theory, or more widely the RBV, its influence and perspective, places this study within a broadly interpretivist (qualitative) paradigm. This paradigm focuses on the ways in which people make sense of the world through constructing meaning (Easterby-Smith *et al.* 2002). However, this view is far too simplistic, as the nature of the interpretivist paradigm is rooted in ontological, epistemological and methodological questions and these have implications for the way in which the research can be designed (Addicott 2006).

The interpretivist ontological issues revolve around the nature of the phenomenon we seek to understand. The ontological view in this research is that realities exist in the form of multiple, intangible mental constructions and are specific in nature (Guba and Lincoln 1998). Moreover, reality is constructed as one perceives and interprets the nature. From this perspective, we view lobbying capability development as having no ultimate shared reality, but maintain that reality is the outcome of constructive processes and paths in individual firms (Oakley 2000).

From ontology to epistemology, this research will be exploratory, given that there is no existing data on the research question. The epistemology will therefore take the observer and the observed as inseparable, so the findings are created as the investigation proceeds. Bearing in mind the epistemology and the subjective nature of the interpretivism paradigm, we will use a qualitative research approach (Yegidis and Weinbach 2002). The qualitative research design will be constructed of inductive logic and will emphasise the specific experience of the participant (Yegidis and Weinbach 2002). The qualitative research will aim to study the phenomena and context in which they naturally occur and use the social actor's meanings to understand the phenomena (Denzin and Lincoln,

2000).[1] Beyond this, qualitative research is particularly difficult to pin down because of its evolving character (Denzin and Lincoln, 2000).

Oakley (2000) composed different perspectives to explain the various characteristics of the quantitative and qualitative epistemologies. Table 4 contrasts these different paradigms and their conceptualisations.

Table 4: Qualitative vs Quantitative epistemology

	Qualitative epistemology	Quantitative epistemology
Aims	Generating hypotheses/describing	Testing hypotheses/generalising
Purpose	Discovery	Verification
Approach	Bottom-up	Top-down
Preferred technique	Qualitative	Quantitative
Research strategy	Unstructured	Structured
Stance	Reductionism/inductive	Expansionism/deductive
Method	Observing (interviewing, case studies, life history methods, focus groups, action research)	Counting (Surveys, experiments, statistical records)
Implementation of method	Decided in field setting	Decided a priori
Values	Value-bound	Value-free
Instrument	The researcher	Physical device
Research's stance	Insider	Outsider
Relationship of researcher and subject	Close/interactive and inseparable	Distant/independent
Setting	"Nature"	"Laboratory"
Data	Rich, deep, valid	Hard, reliable, replicable
Data Type	Feeling, behaviour, thoughts	Reports of attitudes & actions
Data analysis	Worked out during the study	Specified in advance

[1] Sherman and Reid (1994) state that the qualitative approach promotes a pluralistic view and aims to produce descriptive data based upon spoken or written words.

Analytic units	Patterns and natural events	Predefined variables
Quality criterion	Relevance/plausibility/illustrativeness	Rigour/proof/evidence
Source of theory	Grounded	A priori
Relationship between theory and research	Emergent	Confirmation
Image of reality	Multiple/holistic/socially constructed	Singular/tangible/static
Research product	Stresses meaningfulness of research findings to scholarly communities	Stresses validity of research findings for scholarly community

Source: Adapted from Oakley 2000, p. 26-27

Oakley (2000) offers that qualitative paradigm questions the perception of truth. He goes on to explain that there is nothing that can be truly known but that we can try to understand the truth as closely as possible.

4.4 TOWARDS QUALITATIVE RESEARCH: A LONGITUDINAL CASE STUDY APPROACH

Political behaviours are often difficult to evaluate in quantitative terms, unless studied in the context of questionnaires completed by managers. It can be assumed that even then managers may be reluctant to disclose political strategies or micro lobbying development processes (Frynas *et al.* 2006). However, this thesis is not aimed at analysing just the managerial decisions but also determining the actual sources in developing a strategic capability that can help a firm in creating a competitive edge. Therefore, a longitudinal qualitative case study methodology lends itself better to understanding the significance of process, formation and context. Moreover, we adopted this approach to gain a richer understanding of the complex processes by which firms develop their lobbying capabilities and adapt to both certain and uncertain environments.

Indeed, as seen previously in the literature review of RBV studies, lobbying capability formation and development still presents scholars with an under-investigated puzzle, especially in the context of competitive advantage creation. Hence, a further reason for adopting a qualitative approach is that it is especially appropriate in new topic areas (Eisenhardt 1989) to extend theories and find links

not previously researched. Bearing in mind the notion of 'linkages', this thesis is best described as theory elaboration (Lee 1999; Lee, Mitchell, & Sablynski 1999), in that it elaborates on a theoretical links not previously addressed satisfactorily through the RBV in corporate political activity literature and decision making literature (and vice versa CPA disregarding RBV and decision-making theory). Previous studies show that corporate lobbying has not been looked at on an organisations level in conjunction with specific policy contexts, or at a micro level, especially using a dynamic capabilities view. At the same time, the dynamic capabilities literature has only recently started to look at the non-market environment (Holburn 2001; McWilliams *et al.* 2002). As a result, we attempt in this thesis to "reconnect and redirect dynamic capability theory", more broadly RBV, in an inductive way (Lee *et al.* 1999, p.166), relating to the development of lobbying capabilities in a way that is related to the actual policy context and time frames (Pettigrew 1992).[2]

The concept of lobbying capabilities and its development within firms is still unexplored in the management field. The lack of theoretical understanding might be caused by the fact that these relations are very complex phenomena with no clear boundaries to its context. Hence, a qualitative approach will help to answer the proposed research questions, where we hope to understand the complex phenomenon of capabilities and relevant decision-making for capability development. However, the design of the actual qualitative study is important.

It is important to bear in mind that qualitative research contains many variants, therefore our stance was that of process researchers.[3] Bearing in mind the general qualitative nature of our research, the aim was to incorporate a historical case study methodology into the research. In their opening essay to a "Special Research Forum" in the Academy of Management Journal, Harrison and Freeman (1999) draw a distinction between case studies "designed with a purpose" and those that "just happened", in the sense that the researcher chanced

[2] We feel that qualitative research can provide rich data that can extend the dynamic RBV theory by highlighting human interactions, decision-making within a setting where uncertainty is inherent, and relationships among variables that are not often addressed in the field (Gephart 2004).

[3] Process research is the dynamic study of behaviour within organisations, focusing on the organisational context, activity, and actions that unfold over time (Pettigrew 1997).

to observe an interesting situation and decided to write it up. They believe that the former type of study is most likely to contribute new knowledge, and cite Eisenhardt (1989) and Yin (1994) as providing guidelines for conducting case research with a purpose. Therefore, this study will follow Lees (1999) ideas on theory elaboration and extension,[4] following Yin's (1993, 1994, 2003) and Eisenhardt's (1989) extensive guidelines on designing case study research. Thereafter it will use Miles and Huberman's (1994) visual analysis suggestions and Langley's (1999) suggestions on narrative analysis, constructing a story from data using quotes to reflect the interviewees' reality.[5] The following sections expand on Yin's (1994) ideas, in the chronological order in which they are executed in the current study. Each section begins with the procedures recommended in the literature, followed by the application of the recommended procedure in the current study. The following sections go from design to data sources to analysis.

4.5 CASE STUDY RESEARCH DESIGN

This study is not aimed at analysing the managerial decisions in isolation but also in determining the actual sources in developing a strategic capability that may help a firm in creating a competitive edge. Therefore, a case study methodology lends itself better to understanding the significance of process, formation and context. Many scholars explain that case study is an ideal methodology when in-depth investigation is needed (Feagin *et al.* 1991). Case studies have been used in varied investigations, particularly in sociological studies, but increasingly, in instruction. Yin, Eisenhardt, and others who have wide experience in this methodology, have developed rigorous procedures. When these procedures are followed, the researcher will be following methods which are well developed and tested in the social science field.

With regards to designing the case study, many people believe that crafting and interpreting case studies is relatively easy. However, several authors stress that it

[4] Interpretative methods are adapted to the description, interpretation, and explanation of a phenomenon rather then to estimation of its prevalence (Lee 1999).
[5] It was these contributions that allowed case study research to gain acceptance in and importance to the management research arena.

is in fact very hard to do good case study research (Stake 1995; Yin 2003). In fact some authors believe that performing case studies is so difficult that it is not suitable for all researchers (Hakim 1987; Feagin *et al.* 1991; Stake 1995). Nevertheless, highlighting the difficulty and special features of case study methodology, Yin (1994) states that the main objective of a case study is to:

- cope with a technically distinctive situation in which there will be many more variables of interest than data points.
- function on multiple sources of evidence, with data converging in a triangulating fashion.
- benefit from the prior development of theoretical propositions to guide data collection and analysis.

A case study research strategy may be adopted when one wants to investigate a contemporary phenomenon within its context, especially when the boundaries between phenomenon and context are not clearly evident (Yin 1994). This is assumed to be the case in our research, where we want to investigate lobbying capabilities development in two policy contexts, and their boundaries are not very clearly defined with regard to the development process and the changing environment Thus a case study can be a powerful approach that captures the essence of the contemporary phenomenon, which is a benefit that many other methodologies overlook, neglect or fail to capture. Stake (1995), finds other benefits of using case studies:

- It is rich in detail and may therefore lead to a more complete understanding of some aspect of a person, group, event or situation. Case studies can satisfy the three parts of a qualitative method: describing, understanding and explaining.
- By using exploratory case studies the researcher may identify hypotheses that may be tested, and aid in finding a more precise research question.
- Case studies should preferably be multi-perspective analyses, which consider the voice of many actors, including e.g. the powerless.
- It may aid in getting affective information that cannot otherwise be collected.

However, there are reasons why case studies have sometimes been viewed with scepticism (Yin 1994):

- Many case studies have been careless and the results have been formed by biases (the same however goes for surveys, for example). Perhaps this was partly due to the fact that there is a limited body of literature on case study research.
- It has been argued that case studies provide poor foundations for scientific generalisation.
- It has been highlighted that case studies are generalisable to theoretical propositions and not to populations or universes.
- Often, case study research is considered as flawed because it involves less rigorous methods than in 'hard' sciences.
- It also been suggested that only one researcher conducts it, thus it is very much exposed to researcher bias.
- Finally case studies take too long and result in massive documents. This has often been the case, but does not have to be.

Bearing in mind the case study sceptics, a rigorous research design is needed that will be a comprehensive research strategy, with a logic of design that incorporates specific approaches to data collection and analysis. Yin (1994) is quick to elaborate that in order to have a rigorous case study one must have five components of research design.

The first component is a study question, in which questions framed as ''who'', ''what'', ''where'', ''how'', and ''why'' determine the relevant strategy to be used. He suggests ''how'' and ''why'' questions are likely to a favour case studies approach (hence their use at start of this chapter), because they aid the researcher in getting a holistic view of an event, including the context as well as the details. The next four components are its propositions (our questions), its unit(s) of analysis, the logic linking the data to the propositions, and the criteria for interpreting the findings. These are elaborated on more thoroughly in the next few sections.

4.5.1 SINGLE CASE VS MULTIPLE CASE

A choice has to be made between one case or several cases of study. The single-case has the advantage that a phenomenon can be studied in depth, while the multiple-case approach looks at the phenomenon in a much more compelling way, as it offers the possibility of comparing the findings of the different cases with each other. The rationale underlying the two approaches varies a lot. The single-case approach is especially appropriate for testing a well-formulated theory by studying a critical case or studying an extreme or unique case, and/or analysing a previously inaccessible phenomenon resulting in a revelatory case (Yin 1994).

The rationale for a multiple-case design is either to test results across the cases for a comparison or to produce contradicting results, which can be explained, based on predicted reasons (Yin 2003). Therefore, in this study, we adopted the multiple-case design to facilitate a cross-case comparison which helped to make the results more generally applicable to theory. Moreover, our design facet permitted "replication" of logic (Yin 1994), by which the cases were treated as a series of independent experiments that confirmed or disconfirmed emerging conceptual insights.

4.5.2 HOLISTIC VS EMBEDDED DESIGN

Yin (1994, p.38) postulates that there are "four types of designs for the case study strategy, (a) single-case (holistic) designs, (b) single-case (embedded) designs, (c) multiple-case (holistic) designs, and (d) multiple-case (embedded) designs". For this study we used a multiple-case approach as stipulated earlier. We focused thereby on individual European flag carrier airlines that were exposed to those chosen contexts and that participated in corporate political activities. However, a choice had to be made between an holistic or embedded research design.

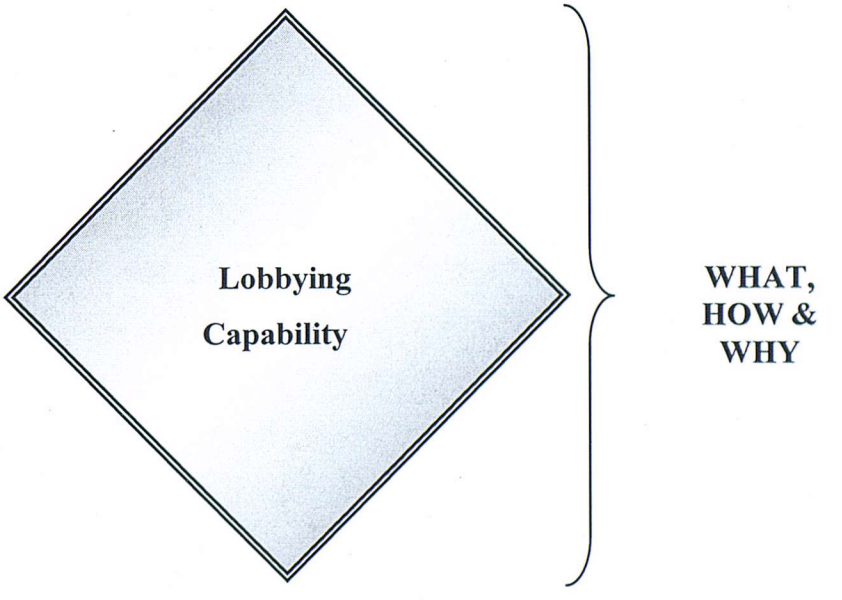
The choice between an holistic and an embedded research design is influenced by one or more "units of analysis" (Yin 2003, p.42). The holistic approach chooses a single unit of analysis; if that is the case, then one will view the

phenomenon in its entirety. By contrast, in an embedded approach, attention is given to multiple units of analysis. In this case study research design, we used the holistic design. The reason for this was to facilitate the identification of the phenomenon, which is the lobbying capability (and its developments). Furthermore we believed that the subunit of analysis could not be logically identified, making an holistic design was more favourable.

4.5.3 UNIT OF ANALYSIS

The choice of the key units of analysis for a study can have significant implications both for the substantive content and research time (Hakim 1987; Yin 2003). Relating back to our research question, it followed that the chosen unit of analysis in this research was the lobbying capability. Therefore, the reason for using a single unit of analysis in our design was to understand and explore the unique and complex contemporary phenomenon. In our case it will be the development process of "lobbying processes and routines" (lobbying capability), which was identified by an industry informant as a means to change some aspect of the firm's "political influence to react to a political stimulus" as shown in Figure 10.

Figure 10: Unit of Analysis



The use of a single unit of analysis in each case study permitted the construction of a more robust case that allowed us to understand the company and industrial

level forces. We gathered information on the unit of analysis by interviewing specific people i.e. Directors of Government Affairs who were responsible for corporate political activities and some aspects of strategy-making within their firms, as well as relevant experts in the policy-making process and airline industry experts (Stake 1995).

4.5.3.1 IDENTIFYING AND OPERATIONALISING A "LOBBYING CAPABILITY"

We faced challenges in operationalising and identifying a lobbying capability using existing definitions that rely on a firm's routines. For example, Winter (2003) defined a capability as a ''high-level routine'' or collection of routines that, together with implementing resource inflows, gives an organisation's management a set of decision options for producing significant outputs of a particular type. These high-level routines can be either generic or idiosyncratic in nature (Winter 2003). We were aware of the possibility that non-market lobbying activities may not be repeated again in the same form, sequence or combination and, therefore, might fail to meet this widely-used definition of a routine. On the other hand, some scholars suggest that firms *deliberately intend* to develop a capability and a *planned outcome* (goal) to capture the effectiveness from deploying and leveraging a resource is a clear sign of this (George 2005). This portrayal of purpose or goal-directed behaviour in organisational activities may not be accurate. Therefore, we did not assign *a priori* intent as a condition in the development of a lobbying capability, as firms may develop lobbying capabilities accidentally or without a convincing sequence of pre-planned actions, especially in contrasting policy contexts where situational uncertainty varies in degree from firm to firm.

Although our data revealed high degree of repetition in activities, a substantive subset of activities were not repeated. This observation indicated to us that the execution of activities may have depended upon the cognitive archetype of cause-effect relationships. Non-repeated processes may have served as interventions to achieve the desired goals. For example, state owned airline used different processes for lobbying to private airlines (e.g. using AEA more in exogenous policy context then the endogenous policy context), depending on the

perceived appropriateness of these processes in each non-market. Therefore, we adopted a working definition of a lobbying capability as *a combination or sequence of processes/routines and its enabling resource commitments that have the potential to consistently achieve outputs matching organisational strategic intent.*[6]

While a process could also be a routine, by using a broader lens, we were able to observe new, ancillary, modified, and non-repetitive processes that might be built into a lobbying capability. Also, we inferred that airlines' use of a variety of processes in a variety of combinations or sequences implied that it has a repertoire of processes, such that not all processes are used at all times or in the same sequence. Yet such processes may still be a constituent element of a lobbying capability.

4.5.4 REPLICATION LOGIC VS SAMPLING LOGIC

A single case is usually used when one wants to investigate a unique case, while a multiple case study is usually used when one wants to replicate logic. Yin (1994, p52) reminds us that in a multiple case study, each case is considered as an individual experiment and thus "*multiple cases are treated as a series of individual experiments*". From there he explains that when using multiple case studies, each case must be carefully selected so that it either predicts similar results (literal replication) or predicts contrasting results but for predictable reasons (theoretical replication). He goes on to explain that this replication logic used within multiple-case studies must be distinguished from the sampling logic commonly used on surveys. The sampling logic requires defining a pool of potential respondents, then selecting a subset from that pool of potential respondents, then selecting a subset from that pool using a statistical procedure. Sampling logic was not be used in this case, as we do not wish to determine the frequency of a particular phenomenon. Instead we used replication logic in order to elaborate on theory.

[6] Adapted from our definition in the literature review.

4.5.5 VALIDITY AND RELIABILITY

The quality and rigour of the case study may be judged by certain tests which can be applied to the design of the case study. Such perspectives are usually applied to quantitative studies, however, with regard to qualitative studies, they suggest that we should concentrate effort on reliability and validity. This becomes a key concern at this stage, and many case study researchers go to great lengths to ensure that their interpretations of the data are both reliable and valid (Denzin and Lincoln 2000; Bryman and Bell 2003; Yin 2003). This is because issues of validity and reliability are an important part of any attempt in the social sciences to find the "truth". Thus it is important to identify some ways of dealing with results. The four common tests used in social science research were incorporated in our case study (Yin 1994). They are outlined in Table 5 below:

Table 5: Criteria Matrix for judging the quality of research designs

Tests	Case study tactic	Phase of research in which tactic occurs
Construct validity	-use multiple sources of evidence	Data collection
	-establish a chain of evidence	Data collection
	-have key informants review draft case study report	Composition
Internal validity	-do pattern-matching	Data analysis
	-do explanation-building	Data analysis
External validity	-use replication logic in multiple-case studies	Research design
Reliability	-use case study protocol	Data collection
	-develop a case study database	Data collection

Reliability is associated with the "degree of consistency" and replicability of the study (Silverman 1993, p.144) which, in a qualitative study, would be concerned with whether the researcher is observing what they say they are. To satisfy both the requirements of reliability and replicability (Bryman and Bell 2003), the current study clearly outlines the various social roles that we adopted within our research framework. Indubitably, we tried our best to adhere to these reliability guidelines in the most stringent and strictest way possible.

The assumed validity of the research is another area for consideration. In quantitative studies, validity is normally concerned with measurement validity, which entails questioning whether the measures being used really reflect what they are measuring. By contrast, in qualitative research validity represents the truth; in other words, it involves the extent to which an account accurately represents the social phenomena to which it refers (Silverman 1993, p.149). Validity can be divided into both internal and external concepts, the former concerned with issues of causality, whilst the latter considers the ability for generalisation beyond the specific research setting. For qualitative research, internal validity is more closely related with the identification of a high level of congruence between observations and concepts (Bryman and Bell 2003). On the other hand, external validity is seen as difficult, as qualitative research slants towards small scale research (Bryman and Bell 2003, p.288). One suggested way to address issues of generalisation would be the use of a survey to 'test' the research findings among a broader audience (Silverman, 1993). Indeed within this study, we also considered reliability as important in further developing the research design. We tried our best to adhere to these guidelines in the strictest way possible.

4.6 RESEARCH SAMPLE AND CASE STUDY BOUNDARIES

The number of cases chosen for this multiple case study was important for theory elaboration and extension. The number of cases that should be used for a multiple case study approach is between 4 and 10 (Eisenhardt 1989; Pettigrew and Whipp 1991; Brown and Eisenhardt 1997). Eisenthardt (1989) explains that where there are fewer than 4 cases, theory replication is problematical and with more than 10 cases, it becomes far too complicated to manage. Brown and Eisenhardt (1997) show in their complexity theory study that a multiple case study between 4 and 10 cases can consider the "factors that contribute to competitive success" and to understanding the "art of continuous change". In this thesis we have 5 case studies that focus on both the exogenous and endogenous policy contexts.

On the case study boundary front, this research focused on the development of a lobbying capability by European airlines in two contrasting policy contexts (endogenous and exogenous policy contexts). The government affairs office develops its lobbying provision over a period of time. The research focused on two contrasting policy contexts because such distinct contexts give the study more scope to understand influence building. According to Pettigrew (1992) it is important to choose a ''polar type'' context that allows one to see things more clearly as a result of the extremity of the situation. Therefore, the two chosen context were the *exogenous policy context (chosen time frames of study were 2000-2005)* and the *endogenous policy context* (*chosen time frames of study were 1985-1997*), as they had important consequences for the allocation of political resources by European carrier flag airlines.

The choice of time frame came from interviews, where informers felt that these time frames represented the main lobbying capability development efforts. Thus, the time frame is as follows:

- Begins as the government affairs office becomes aware of the potential policy introduction.
- Continues as the government affairs office starts to lobby the micro targets using specific lobbying processes.
- Ends when the policy is introduced.

As the research questions imply, this research focused on lobbying capability development. The lobbying development process is determined by the core micro level sources (not previously investigated). The rationale for focusing on the chosen time frame was that the chosen policy issues were determined by the policy stakeholders. Once the policy had been commissioned, this being the end, the government affairs office took subsequent decisions on new policy issues i.e. negotiating with other governments about new routes, airports or simply monitoring the political landscape.

Based on this context and time frames, we selected airlines that were affected by government policy issues from these two periods. The selection of the case sites

was based on theoretical sampling, necessary so that the phenomenon of interest can be readily observed (Yin 1994). In the European airline industry we identified several firms that met out initial criteria by being a fully-functioning business in the chosen contrasting policy contexts, including firms that: (a) had history over the two chosen contexts (i.e. were not recent start-ups); (b) had made statements in press releases or the media that they were in the process of reconfiguring some important aspect of their lobbying during the two chosen contexts; (c) allowed a reasonable amount of access to the senior people within government affairs office. We contacted the relevant firms and selected for the study five organisations (seven cases used at start of the study, however two cases were used for the pilot study), which agreed to participate by giving us good interview access to members of their top management team within their government affairs offices or related departments that dealt with government issues. All five participating airlines expressed a high level of interest in the potential findings of the study, which ensured a high degree of cooperation during the interviewing process.

Table 6 describes the five critical case companies of similar contextual time spans for the exogenous policy context (2000-2005) and the endogenous policy context (1985-1997).[7] The five cases are global European flag carrier airlines that fly to many parts of the world. In addition, we used two categories for the European flag carrier airlines, Private vs State owned airlines. "Private" in this thesis refers to the airline in which a majority of shares are held by private investors, compared to a minority shareholding i.e. KLM, Lufthansa, SAS. Conversely, "state" owned airlines here means that the government has a majority shareholding in the company in comparison with the private shareholding i.e. TAP Air and Alitalia. Indeed, in Europe we found there to be only "one" fully privately owned flag carrier airline: KLM (from 2001). However, we found only two other European long haul airlines (non flag carrier airlines) that were totally privately owned, Virgin Atlantic and BMI. Nonetheless, after choosing our sample airlines, we conducted a pilot study on two airlines that were not included in the final sample cases. We used the pilot

[7] The time span reflects the number of years to allow us to critically evaluate the lobbying capability development process.

interviews to test questions with Virgin Atlantic (entirely privately owned airline during both contexts) and Swiss Air (privately/state owned during both contexts), interviewing government affairs directors. However we decided not to include these two cases in case study sample due to lack of full access.

Table 6: Description of the Five Airlines Studied

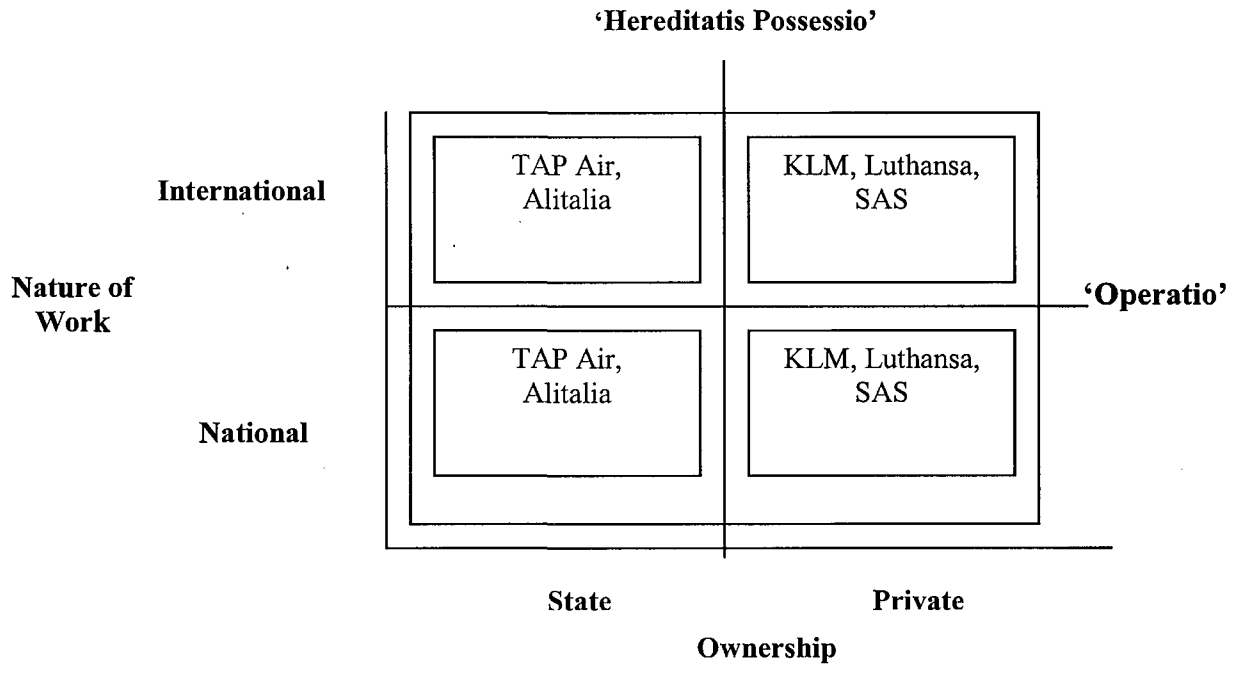
Airlines	Snap shot of ownership in 1999 and 2004	Airline typology[8]	Number of employees in 2004	Country of origin during the two contexts
SAS	21.4% Swedish State 14.3% Danish State 14.3% Norwegian State 50% Private interests	Majority private shareholding	13528	Norway Sweden Denmark
Alitalia	62.4% State ownership 35.7% Private ownership 2% Air France	Majority state shareholding	20575	Italy
TAP Air Portugal	100% State ownership	Majority state shareholding	5750	Portugal
Lufthansa	91.4% Free Float 8.6% Block Ownership	Majority private shareholding	90673	Germany
KLM	100% Public quoted company (2001) 96% KLM/Air France (2004)	Majority private shareholding	37487	Netherlands

The government affairs offices,[9] the point where the lobbying usually begins, were located in each of the organisations headquarters with some additional offices next to the European Commission in Brussels and Association of European Airlines (AEA). This complex structure of government affairs operations allowed for what the organisations believed would cause maximum influence based on "who owned the airlines" and "what it wanted to achieve".

[8] This typology will be used in our analysis chapters.
[9] Some airlines call their government affairs offices by other names like institutional relations, aeropolitical, public or industrial affairs. However, all these departments had nearly the same functions even though they had different names.

The directors or presidents of these government affairs departments have been selected to maximise influence in legal regimes at national and international levels, to negotiate with airport officials on route formation and to monitor the political arena at both national and international levels (Figure 11). As shown in the Matrix in Figure 11, this combination helps in isolating the effects of national and international political risk exposure on the airlines, which helps in sustaining a competitive edge (Kobrin 1978). In order to get a representative sample, our design has encapsulated the private and state owned European airlines. The state owned airlines are characterised as being majority government owned while the others more mixed with government having a minor shareholding.

Figure 11: Matrix of chosen holistic cases



The 'hereditatis possessio' being either state or private represents the opposite ends of the spectrum of competence, scope of activity, and professional values. The 'operatio' allows one to understand the interaction level of focus in the lobbying process between the principal and agent and the policy level.

4.7 DATA COLLECTION

The next stage of the methodology recommended by Yin (1994), which will be used in our study, is the "conduct of the case study". There are two tasks in this stage that must be carried out for a successful study: *Preparation for Data Collection*, and *Conducting Interviews*. Nevertheless, in our case studies, data collection was treated as a design, enhanced by the introduction of rigorous construct and internal validity, as well as by the external validity and reliability of ideas (Yin, 1994).

Yin (1994) suggested three principles of data collection for case studies:

1. Use multiple sources of data
2. Create a case study database
3. Maintain a chain of evidence

These are all elaborated on in the next few sections.

4.7.1 MULTIPLE SOURCES OF DATA-TRIANGULATION

Yin (1994) identified six primary sources of evidence for case study research. The use of each of these might require different skills from the researcher. Not all sources are essential in every case study, but the importance of multiple sources of data to the reliability of the study is well established (Stake 1995; Yin 1994). The six sources identified by Yin (1994) are, documentation, archival records, interviews, direct observation, participant observation, and physical artifacts.

The rationale for using multiple sources of data is the triangulation of evidence (Yin 2003). Triangulation increases the reliability of the data and the process of gathering it. In the context of data collection, triangulation serves to corroborate the data gathered from other sources (Silverman 1993). As opposed to relying on one single form of evidence or perspective as the basis for findings, multiple forms of diverse and redundant types of evidence are used to check the validity and reliability of the findings (Jacob 1990). Over-relying on any one form of evidence may impact on the validity of the findings.

Case studies are likely to be much more convincing and accurate if they are based on several different sources of information, following a corroborating mode (Yin 2003). This conclusion is echoed among many composition researchers (Hakim 1987; Silverman 1993; Stake 1995). We will use mainly interviews, documentation and archive data as these will allow us to focus on the case study topic. Moreover this provides perceived causal inferences and further provides corroborative evidence. The next part will look at this in more detail by looking at both interviews and documents.

4.7.1.1 INTERVIEWS AND DESIGN

The main actors lobbying in the aviation industry are the government affairs offices and the trade association groups. The government affairs offices do not normally have complete influence over decisions taken on the policy design front. Instead, they guide the policy development by structuring the procurement process and by issuing documentation and white papers. We firstly conducted pilot interviews with directors of government affairs at both Swiss Air and Virgin Atlantic, but then we decided not to include these two cases in our study due to the lack of access. However, the pilot studies allowed us to try and test various questions before using them on our actual representatives. In the end, five case studies were chosen and their senior management interviewed.

The interview could take one of several forms: open-ended, semi-structured, or structured. We opted for a semi-structured and open-ended form. As such, we conducted in total *42 interviews*, ranging from 40 to 100 minutes, by telephone and in person (see Appendix 8 for expansion on the questions).[10] The interviews were with a CEO and government affairs directors, information directors, institutional affairs directors, industrial relations directors, several government affairs managers and leading experts on the airline industry (see Appendix 7 for interview summary). The names of the individuals were kept anonymous but organisations' names were allowed to be transparent. We wanted a true sample

[10] Each government affairs office had between 4 and 15 people in both contexts. The exact information could not be obtained, as it was lost or uncertain. However, the numbers were based on the memories of executives.

of senior management who were involved in the lobbying capability development process from mainly within the government affairs office. The interview questions explored the forces in lobbying capability development that affected policy formation in the two contrasting policy contexts. All interviews were recorded and transcribed.

A list of core questions was prepared to address the relevant issues. A sample of the core questions can be found below:

- What decisions and routines did the firm develop to deploy and leverage its resources in each context?
- Why were these routines and decisions made and what influenced the development in each context?
- How were these decisions and routines brought about and developed in each context?
- How did decisions and routines influence the process of capability development in each context?

As such, the interview had three sections. The first section began with asking respondents open-ended questions that let them relate their stories of what their position entailed at their firm during the chosen periods. The second part used semi-structured questions that focused on the first policy context, which was the deregulation context. This allowed us to depict the strategic issues of processes and the evolution the lobbying capabilities. In the third part of the interview, the questions focused on strategic issues of processes and development of the lobbying capability in the post 9/11 context. The ideas of capability attributes were looked at in depth.

4.7.1.2 DOCUMENTATION

We located and researched many rich documents that depicted the interaction effects in the lobbying capability development process. The documentation found on lobbying efforts can be classified into national government, EU level and

government affairs offices issued documentation. The government issued documentation includes the European Commission documentation, Invitation to Negotiate Documentation (ITND), Full Business Case (FBC), the Minutes documents and so forth. It was anticipated that once working relationships with the case study firms had been established, it would be possible to gain access to some of the archival documentation. As a result, we gathered some important documents such as letters to the EU supranational institutions, study reports, and media items that were added to the data base.[11] The validity of the documents was carefully reviewed so as to avoid incorrect data being included in the data base (Yin, 1994).

In designing the case study data collection strategy, it was also assumed that access to any important National government, EU level and government affairs offices issued documentation could not be obtained easily. At the time, it was acknowledged that there were likely to be categories of data that would be impossible to obtain, namely lobbying cost data. Furthermore, it was acknowledged that the previous lobbying data might not necessarily exist or they might not contain a great level of detail. Thus, the research was not designed to be reliant on the lobbying cost data to understand the lobbying capability development process.

4.7.2 CASE STUDY DATABASE

As seen previously, the researcher must gather and store multiple sources of evidence systematically and comprehensively, in formats that can be acknowledged and sorted so that converging lines of inquiry and patterns can be revealed (Stake 1995, Yin 2003). Reconfiguring of arrangements with the objects of the study or addition of questions to interviews may be necessary as the study progresses (Yin 1994). Case study research is flexible, but when changes are made, they are documented systematically.

Our case studies used interview transcripts and databases to categorise and reference data so that it could be readily available for subsequent reinterpretation.

[11] We triangulated in every possible way.

On top of the transcribed interviews, the notes from the interviews were recorded onto a word document with notes on feelings, intuitive hunches, posed questions, and work in progress (Yin 2003). Furthermore, we also recorded ideas, variables and illustrations, which subsequently were all added to our database. The database helped to reduce any impending bias and helped to give an early signal of the emerging patterns from our analysis (analysis will be discussed latter in this chapter).

Maintaining the relationship between the themes and evidence is mandatory. We entered data into our database and physically stored other types of data which we classified, and cross-referenced with all evidence so that it could be efficiently recalled for sorting and examination over the course of the study.

4.7.3 MAINTAINING A CHAIN OF EVIDENCE

Yin (1994) recommends that a chain of evidence be maintained, this will provide an avenue for the researcher to increase the reliability and construct validity of the study (Yin 2003). We adopted this procedure and maintained a clear trail of evidence from initial research questions to ultimate case study conclusions.

4.7.4 ADDITIONAL INFORMATION FOR THE CASE STUDY

- **Duration of field research:** It was intended that the field research last between five and six months on the selected settings and not go beyond September 2005. However, we had some interviews after this date due to executives being extremely busy and the need for clarification.
- **Accessing the settings:** The attempt to get in the settings relied on letters addressed to key senior staffs that deal with government affairs of the chosen airlines and association groups. We also employed direct phone calls to senior people and used personal connections to gain access.
- **Covering letter:** A covering letter was sent to the identified interviewees with a brief resume of the interviewer, the purpose, how their names were obtained, the importance of their response, confidentiality assurance, use of results, likely duration of the interview and a request for an appointment date at their convenience, in order to gain trust and with the

intent of establishing rapport. In order to confirm the time for appointments or any arising modification, telephone calls and emails were used.

- **Tape recording:** A tape recorder was used to help capture and collect the information in individual interviews, as far as possible. We used a good quality miniature tape recorder in order to minimise the possibility of frightening the interviewees, and then transcribed before analysis. In addition to taping interviews, notes of important and unimportant matters were to be taken as discretely as possible.
- **Transcription:** Transcription was done after every interview in order to capture as much as possible from the ideas of interviewees. This permitted early analysis and categorisation of the data, and this strategy made it possible to build up or improve some of the original questionnaire material.

4.8 DATA ANALYSIS

Tesch (1991) outlines three approaches to analysing qualitative data. These are language based analysis, descriptive or interpretive analysis, and theory building. The language based analysis looks at how language is used in the source data and is sometimes called discourse analysis. It also focuses on the meaning that is attached to the use of language. On the other hand, descriptive or interpretive analysis (or what other authors call theory elaboration) seeks to formulate a real view of the process being studied, alter/improve theory and to find theoretical links not previously addressed in literature. This is done from the viewpoint of the people involved in the process. Theory building, as the term indicates, is an attempt to develop a new theory based on the collected data. *Therefore, this research chose to use the theory elaboration to improve current dynamic RBV theory by linking it to CPA and cognitive theory (Lee 1999; Lee, Mitchel & Sablynski 1999; Gilbert 2005) through an interpretative approach to analyse the interview data over two time periods (Pettigrew 1992), as its main purpose was to clarify the concept of lobbying capability and its development in two contrasting policy contexts.* By elaboration, we mean the process of refining

theory, thus an attempt to "reconnect and redirect theory" (Lee *et al.* 1999, p166).

While information is collected, researchers strive to make sense of their data. Generally, researchers interpret their data in one of two ways: holistically or through coding. Holistic analysis does not attempt to break the evidence into parts, but rather to draw conclusions based on the text as a whole. However, composition researchers commonly interpret their data by coding (Miles and Huberman 1994). That is by systematically searching data to identify and/or categorise specific observable actions or characteristics. These observable actions then become the key variables in the study. This part will provide a breakdown of how data analysis was approached within this research.

As such, the case studies were analysed in a way which provided insight into the mechanisms of lobbying capability developments. These developments were seen as longitudinal sequences of events over a period of time that was based on path dependencies. The time frames used were evaluated mainly from "before" the policy environment emerged and the "after" the policy environment emerged (deregulation vs post 9/11 policy issues).[12][13] These developments were influenced in a gradual way by a set of driving and buffering forces. In the case of each case study, which was considered as an evolving institution, the driving and buffering forces were analysed along several dimensions of development by asking the questions around the several dimensions (see Appendix 8 for those questions). They show a firm's reality in the flight and can be derived from an integrated view of strategic management and corporate political activity. We used a rigorous narrative and visual analysis that produced not only chronology, but also concepts, understanding, and theory closely linked to data (Golden-Biddle and Locke 1997).

[12] The ''before'' perspective will be looked at more closely in this thesis because lobbying process tends to begin before the policy is implemented.
[13] Outcome is less important in this thesis as explained earlier, but process is fundamental.

The main modus operandi for analysis that we incorporated was that proposed by Miles and Huberman (1994). Miles & Huberman (1994) perceived qualitative analysis as having three stages, as shown in Table 7.

Table 7: Procedures of Qualitative Data Analysis

1. Data Reduction
2. Data Display
3. Conclusion Drawing and Verification

The way they presented the procedures was in the form of a logical sequence of steps. Miles and Huberman (1994) provided further guidelines for analysis into steps which should be carried both during and after the full case data has been collected. They are arranged roughly from earlier to later in data collection and from simple to complex. Please see table 8 that depicts the sequential analysis that we used in our analysis illustrating how methods of this sort flow over time.

Table 8: Procedures of Case Analyses

Method for case analyses	**Reasoning**
Contact Summary form	It is a simple way to summarise time limited data that is gained from interviewing.
Codes and Coding	Codes are especially useful tools for data reduction purposes and having a coding scheme helps to facilitate replication of a given study and allows the reader to see the logical link between the theoretical model and the codes. There are several approaches one can use to create a coding scheme (also called a "code manual") to serve as a template for organising the data. The coding will attach meaningful labels to data chunks.
Pattern Coding	This is when the researcher starts coding the codes that are formed in the previous coding phase.
Memoing	This is when the researcher starts to derive and comments on what he sees via annotations and memos.
Interim case summary	This is when researcher tries to write what is currently known and what gaps need to be filled.
Vignettes	This is a method to produce focused or extended reports.

After carrying out the early stages of analysis from the pilot studies, which served to organise the data for later and deeper analysis, a within-case data display was started (Miles and Huberman 1994). The within-case analysis was a technique used with each case study airline. We studied each firm using interview response data as a separate case to identify unique patterns within the data for that single organisation. Thereafter, we prepared detailed case study write-ups for each organisation, categorising interview questions and answers and examining the data for within-group similarities and differences. Visual and matrix displays were used to look at similarities and differences within each case studies (Miles and Huberman 1994).[14] Miles and Humberman (1994) suggest different types of displays that can be incorporated within-case analysis. These are: *partially ordered displays*, which are useful in exploratory work (p.102); *time-ordered displays*, essential in understanding the flow and sequence of events and processes (p.110); *role-ordered displays,* which sort people out according to their position-related experiences (p.122); and *conceptually ordered displays*, which emphasise well-defined variables and their interaction (p.127). We used mainly partially ordered displays and conceptually ordered displays to capture lobbying capability development.

The selection and building of displays within-case was undertaken. Thereafter, on completion of the within-case analyses, we conducted a cross-case analysis. We examined pairs of cases, categorizing the similarities and differences in each pair (Miles and Huberman 1994). We then examined similar pairs for differences, and dissimilar pairs for similarities. As patterns began to emerge, certain evidence stood out as being in conflict with the patterns. In those cases, we conducted follow-up interviews to confirm or correct the initial data in order to tie the evidence to the findings and to state relationships in answer to the research questions.

The strategy was to produce "rich" primary data from a subset of cases so that conclusions drawn evidently link back to data and theory (Langley 2001). We used the following strategies: compiling narrative quotes for all cases as well as

[14] Moreover, the visual graphical representation will allow the simultaneous representation of a large number of dimensions and the passage of time (Langley 1999).

diagrams to add vividness, and exploring cases in depth in order to construct a story from data (Langley 1999). The "best fit quotes" were chosen to reflect the true patterns and reality, and were not modified in any way in order to capture the meaning intended by the interviewees. Therefore, direct quotes might contain some syntax errors due to senior executives interviewed not being native English speakers.

4.8.1 SOFTWARE

In order to support the analysis of all the data collected during the various steps of the research process we used a specific software tool. After an evaluation of various programs, the NVIVO program was chosen as the prime software for computer-aided qualitative data analysis of the five case studies. The reasons were as following:

- NVIVO was a powerful workbench for the qualitative analysis of large bodies of textual, graphical, audio and video data.
- It offered a variety of tools for accomplishing the tasks associated with any systematic approach to "soft" data, i.e. material which could not be analyzed by formal, statistical approaches in meaningful ways.
- It helped to uncover the complex phenomena hidden in the data in an exploratory way.
- NVIVO helped to build typologies and taxonomies by identifying differences in data and helped to make relationships among concepts.

Thus, bearing in mind Yins (2003) case study design framework and Miles and Huberman (1993) case study analysis framework, we will look at theory elaboration and proposition building using a qualitative methodology. The next section will look at how we elaborated on theory and built different propositions from the case studies.

4.9 THEORY ELABORATION AND PROPOSITION BUILDING

The present research might best be described as *theory elaboration* (Lee 1999); in that it elaborates theoretical links not previously addressed in RBV by using

CPA and cognitive studies. It demonstrates how to induce and elaborate theory, arguing that that theory elaboration from case study research can often be novel, as well as testable and empirically valid (Ferlie *et al.* 2005). Lee (1999) draws on previous work on case study research, grounded theory (Glaser and Strauss, 1967), and qualitative data analysis (Miles and Huberman, 1984), suggesting ways for explaining the phenomenon. Eisenhardt (1989, p.533), defines a roadmap as summarized in Table 9 to get propositions, where we followed her recommendations on "shaping propositions", "enfolding literature" and "reaching closure".

Table 9: Process Theory from Case Study Research

Step	Activity	Reason
Getting started	Definition of research question.	Focuses efforts.
	Possibly a priori constructs	Provides better grounding of construct measures.
Selecting cases	Neither theory nor hypothesis.	Retains theoretical flexibility.
	Specified population	Constrains extraneous variation and sharpens external validity.
	Theoretical, not random sampling	Focuses efforts of theoretically useful cases – i.e. those that replicate or extend theory by filling conceptual categories
Crafting instruments and protocols	Multiple data collection methods	Strengthens grounding of theory by triangulation of evidence
	Qualitative and quantitative data combined	Synergistic view of evidence
	Multiple investigators	Fosters divergent perspectives and strengthens grounding.
Entering the field	Overlap data collection and analysis, including field notes.	Speeds analyses and reveals helpful adjustments to data collection.
	Flexible and opportunistic data collection methods.	Allows investigators to take advantage of emergent themes and unique case features.
Analyzing data	Within-case analysis	Gains familiarity with data and preliminary theory generation
	Cross-case pattern search using divergent techniques	Forces investigators to look beyond initial impressions and see evidence through multiple lenses.
Shaping propositions	Iterative tabulation of evidence for each construct.	Sharpens construct definition, validity, and measurability
	Replication, not sampling, logic across cases.	Confirms, extends and sharpens theory.
	Cross-case pattern search using divergent techniques.	Forces investigators to look beyond initial impressions and see evidence through multiple lenses.
Enfolding literature	Comparison with conflicting literature	Builds internal validity, raises theoretical level, and sharpens construct definitions
	Comparison with similar literature	Sharpens potential for generalisation, improves construct definition, and raises theoretical level
Reaching closure	Theoretical saturation when possible	Ends process when marginal improvement becomes small

Source: Adapted from Eisenhardt (1989, p.533)

Thus, we elaborated theory from the case studies by following criteria to build testable propositions (Gilbert 2005). A number of issues emerged from following Lee's (1999) and Eisenhardt's (1989) guidelines of theory elaboration and proposition building from a case study research. Firstly, theory elaboration from a case study is likely to have an important strength, like empirical validity and testability, which arises from a close association with empirical evidence. Secondly, given the strengths of this theory-elaboration strategy and its dependence on past empirical observation, it is particularly suited to new research areas for which there is insufficient literature. Finally, Eisenhardt's (1989) approach complements our idea of incremental theory elaboration of the dynamic capability (broadly RBV) literature by providing fresh re-linked perspectives and knowledge into lobbying capability development.

By means of an interactive process of data reduction and data display, final conclusions developed and became more apparent. As highlighted earlier, data was verified through a process of coding. Thereafter the author showed these themes back to the people interviewed to see their views on the interpretation of the context and derived codes. There was only a minimal discrepancy between interpretations. Where there were disparate interpretations, the author discussed these variables with other researchers at Imperial College, conferences and seminars in an effort to gain a better understanding of the concepts and themes, as a means of reflecting upon the stance of the author and any biases developed.

4.10 RESEARCH NARRATIVE

Thus far we have tried to depict the logic in the research design, data collection and data analysis to capture the true reality and knowledge by means of being the "mirror". This section will try to give an account of our practical research experience attained from conducting this research. It intends to balance the theory aspects in this chapter by highlighting the "nuts and bolts" of the research progression, in other words the research experience gained in understanding the lobbying capability development process. This part will look at the problems encountered and the solutions used to reduce these perplexities.

As such, given the range of possible qualitative studies suggested by Marshall and Rossman (1995), including case studies, life histories, in-depth interview studies and field studies, and the review of the appropriateness of the case study method, it was decided that the appropriate strategy for this thesis was an exploratory longitudinal case study methodology, using mainly an in-depth interview study and documents study as the method to capture to true "process". This strategy was however reviewed in the light of the practical implications of accessibility to the respondents, the nature of the phenomenon and the time implications for this methodology.

Respectively, we started by designing our questionnaire based on three research questions (as shown in the start of this chapter). We tested our pilot questionnaire on Virgin Atlantic and Swiss Air interviewees, which worked well for us in organising the micro level questions on the design aspects of lobbying. The senior people helped in providing vital information to improve our questionnaire, but we soon realised that they tended to answer questions very quickly and to the point. Therefore, in order to really understand the lobbying capability phenomenon, we organised the next sets of questions in a way to allow the interviewee to really answer the questions without deviating off track. These executives helped in answering the questions framed in the two contrasting policy contexts. After each interview, we would code the themes.

We were aware of not losing sight of the full cases and the rich data provided by the interviews and documents. We were also wary of coding in general and the use of the computer software to help analysis. The author was conscious of not allowing individual transcripts or cases to become incoherent through re-categorising and comparing data in the aforementioned manner. Therefore, while coding data, the author continued to read through individual transcripts and other material as a whole, to avoid losing sight of the policy contexts.

Conversely, we also came to learn that organising these interviews was not easy, as the interviewees were always on the move. Therefore, we had to exert our own influence by telling them that other senior people from different airlines had participated and helped complete this study on time. This did help in some ways

moving things onwards but the managers and executives would often reschedule meetings. An example of this irritation was when we organised an interview with a Lufthansa government affairs executive who at the end cancelled his interview 4 times before giving up his time (it took 4 months to interview him). As a result, a large number of our interviews were conducted by phone; this did not in anyway affect the quality of narrative, but it could have made it less relaxed and more formal.

The next part will look at the experiences and the weaknesses of our research in more detail.

4.11 RESEARCH WEAKNESSES

As was highlighted earlier in this chapter, this was an exploratory study in the area of lobbying capability development. Very little previous work has been done in this area and hence there was a general lack of authoritative literature arising from past studies. Apart from the limited research material, the research methodology relied on 42 interviews and lots of document analysis. The document analysis was useful in situations where data accessibility was a problem (Holsti 1969). In this particular study, there was difficulty in gaining access to all respondents within the companies within the time allocated for the study. The decision to use a non-obtrusive method like document analysis (mainly EU level and company documents) was thus taken. The fact that two methods of data collection were used means that it is possible to gain more clarity through triangulation, but caution must be given to the fact that not all airlines provided internal documentation for each context. Hence, our research using additional methods of data collection like all airlines providing "full" access to past documents maybe could have been useful to gain additional insights.

Given that the aim of this study was primarily theory-elaboration, we used the sample of 5 European flag carrier airlines. An improper or inadequate sampling population may provide spurious conclusions, but we did not see evidence of routines or processes being confounded because of the nature of the sample. The

senior government affairs managers we interviewed to capture the knowledge to understand the lobbying capability process, were familiar with lobbying development and the standards, strategies, resources and routines adopted by their departments. We tried to reduce the process of potential misinterpretation and other halo-effect biases. Although we have tried to limit this bias by checking accounts with the top managers themselves and triangulating with other sources of information, it cannot be completely removed and there is also the danger of placing too much reliance on the perceptions of those involved.

We were also aware that 42 interviews looked like a small number of interviews, but we were guiding the selection of the interviewees based on their participations in the two policy contexts. Moreover, the people chosen for the interviews were all very senior people within the designated offices, therefore their views had added weight compared to less senior people. We also were at times constrained by the government affairs units having a small number of people to interview, usually between 5 to 18 people would work in these units, of which 5 people were senior people who actually were in the two chosen policy contexts[15]. However, while a larger sample is potentially advantageous to any study, we reached theoretical saturation with the patterns that these high status interviewees revealed.

4.12 CONCLUDING REMARKS

The methodological framework that we used for the purposes of our research was based on a case studies (process strategy) approach. The case study approach has already been comprehensively reviewed elsewhere and its effectiveness assessed (Eisenthardt 1989, Miles and Huberman 1993, and Yin 1994, Lee 1999). The literature clearly suggests that case studies are an appropriate method of looking at "how" and "why" questions. So why has it not been used more to look at the dynamic capabilities (in conditions of expected and unexpected uncertain environmental contexts), when case studies offer a convenient framework to understand the complex issues of development? This may well be due to the

[15] It was more about getting quality of people instead of a large number of people.

amount of criticism that has been levelled at case studies, both because of the lack of clear demonstration of validity and reliability of the results and because of methodological inadequacies in the past by other management authors.

We believe that the case study methodology has a role to play in evaluating complex, multifaceted phenomena and practice models underlying process based interventions. Traditional quantitative analyses are not able to offer the flexibility to cope with such tasks. The case study design provides a contemporary framework, which extends beyond the traditional descriptive case study, enabling this case to be used with greater rigour in research as a tool to develop hypotheses and to build theory. Practical applications of this approach have been limited in strategic management literature. However, research to date provides a critical step in the instrumentation of this methodology.

As seen earlier, our case studies looked at the process of lobbying capabilities development in two contrasting policy contexts. Subsequently, the investigation was done through multiple case studies, which had many advantages. This technique provided a comprehensive and dynamic analysis of the strategy process of dynamic developments. These developments were seen as sequences of events over a period of time, which were based on path dependencies. They were influenced in a gradual way by a set of driving and buffering forces. However, the perpetual weakness of case studies was the problem of generalisation. Another limitation of the framework is that it does not explicitly assess whether the lobbying capabilities have been effective or not in creating competitive advantages (which was not the aim of this study).

The next part will show some interesting findings that support some aspects of the literature review.

Chapter

5

EMPIRICAL FINDINGS PART 1: LOBBYING CAPABILITY DEVELOPMENT IN AN ENDOGENOUS POLICY CONTEXT (1985-1997)

This empirical chapter will provide an analytical overview of five European flag carrier airlines in conjunction with a detailed examination of each airline in relation to the deregulation context and lobbying issues: price, state aid and routes. It will look at the longitudinal analysis of lobbying capability development before the introduction of the deregulation policy (using Miles & Huberman's 1994 and Langley's 1999 suggestions). It will investigate how the five airlines have individually developed their lobbying capability, with particular focus on the deregulation issues: price, routes and state aid. We will show, through the inductive study, that a range of non-market environment responsiveness strategies were adopted by the chosen case organisations in the form of a lobbying capability to create organisational alignment with the non-market deregulation environment. Finally, the data analysis will show the main micro level sources that are playing a role in the development of a lobbying process as a strategic capability and the interactions between each micro level source that may help to create a competitive benefit. This chapter will be structured chronologically; it approaches each European airline individually with a cross case analysis in Chapter 7. In addition, some emergent themes relating to lobbying process development suggest labels from the resource-based literature, which will again be discussed in Chapter 7.

5.1 INTRODUCTION

The introduction of European airline deregulation policy, our endogenous policy context, implemented in phases from 1988-1997, was managed by the government affairs office within most European airlines. Before the introduction of deregulation, the function of this department was mainly helping to facilitate communication of information with government decision-makers at a national level with the international level coming into play mainly after 1985 (Pedler and Van Schendelen 1994). During this period, we found from the 'within' case analysis that the majority of government affairs departments had to influence and make organisational interests heard on several issues, chiefly the following:

- ☐ Route license
- ☐ State aid
- ☐ Prices

The three issues that airlines mainly lobbied for emerged from the interviews, where respondents highlighted that these three issues were to be pivotal for them in either creating new opportunities or hindering their competitive positions.[1] On the other hand, the question of whether and to what extent specific outcomes of lobbying for the liberalisation of aviation in Europe are the result of concerted campaigns to influence (through, for instance, AEA, governments and individual campaigns) is certainly not easy to measure, and not the aim of this section. This part will aim to look at "what, how and why" each airline developed their lobbying in a specific way in this endogenous policy context, using their strategic 'blueprint' decision-making processes to develop a lobbying capability to form a beneficial policy for governments, airlines and consumers.

The variable of time was important within this endogenous policy context with regards to the lobbying development process, and this will be elaborated on in this chapter, Chapter 6 and Chapter 7. We also found that the organisational

[1] Also see commission of the European communities, 'Report by the commission to the council and the European Parliament on the evaluation of aid schemes established in favour of community air carriers', Document. SEC, 431 final, 19 March, 1992.

lobbying function was frequently associated with each management executive's 'blueprint' decisions in investing effort into 'network', 'human' and 'organisational' resources, in order to integrate and reconfigure their lobbying capability to then leverage on political resources and exercise influence. Subsequently, we found that while the deregulation process was unfolding package by package, these senior executives within these departments were also simultaneously monitoring the political landscape for 'future' policy issues.

Indeed we have also found that developing a lobbying capability was important in all the case organisations studied. Though it was more important in some organisations than others, it was nevertheless still a vital function in achieving their strategic intents. The flag carrier airlines that did not develop their lobbying capability in same manner like other flag carrier airlines were the two majority government owned airlines TAP Air and Alitalia. The reasons for this will be explained in more detail later in this chapter, but it relates to their ownership structure.

To achieve the aim of answering the research questions, the people interviewed within each case were typically comprised of government affairs directors with/or institutional affairs directors, industrial relations directors, and a couple of government affairs managers, combined with expert opinions.[2] It is evident from our findings that the government affairs office was created with the view that its services will improve or sustain the competitive position of the organisation by reducing the political uncertainty created by government policy. Let us now recap deregulation from the interviewees, documents and archival data.

[2] The "best fit quotes" were chosen to reflect the true patterns and reality and were not modified in any way in order to capture the meaning intended by the interviewees. Therefore, the direct quotes might contain some syntax malfunctions due to senior executives interviewed not being native English speakers.

5.2 OVERVIEW OF DEREGULATION FROM CASES

From the literature review, we know that most airlines have traditionally had a strong natural relationship with their own national governments. This close link had been a direct consequence of the traditional involvement of national governments in the aviation industry. Indeed, within Europe, the Single European Act was an important catalyst in moving the European airline industry forward (Sochor 1991). Airlines were only allowed to operate on the basis of a strictly regulated system of license provisions, determined under technical, economic, and aviation politics criteria (Sheehan 2003).

After the signing of the Single European Act, which provided for the completion of the internal market, the council of transport ministers decided on 7 December 1987 that European air transport would be liberalised in three phases (McGowan and Seabright 1989).[3] The first phase involved various measures laid down in two regulations, one directive and one decision (Button 1992). These applied only to internationally controlled traffic within the EC and concerned access to the market, rules of competition, tariff setting and allocation of passenger capacity. In summary, they dealt the following areas (European Commission 1994):

- introduction of zoning system for tariffs, with automatic approval by member states;
- a limited opportunity for relaxing the capacity restriction (from 50%/50% to 60%/40%);
- widening access to the market;
- group exemptions for concerted practices or agreements between airlines, which in principle would fall within the ambit of Article 85, Section 1, of the EC Treaty, but which contribute in such a way to improved productivity or to the improvement of technical and economic progress that the Commission will grant the airlines exemption for them on the grounds of Article 85, Section 3. This covers, for instance, agreements on

[3] Communication and proposals by the commission to the council, civil aviation memorandum No.2- Progress towards the development of a community air transport policy, COM (1984), 72.

joint planning and co-ordination of capacity, sharing of revenues, consultation on tariffs, and the assignment of landing and take-off times ('slots') in airports.

The first phase proceeded until 1st November 1990. Thereafter phase 2 came into effect. The most important elements of the second phase, which lasted until 1 January 1993, were (European Commission 1994):

- Expansion of the zone system for tariffs with automatic approval by the member states, which involves both member states having to approve the tariff before it can come into operation. In addition it would be obligatory for governments to approve tariffs which are fairly related to costs;
- Expansion of capacity from 60/40% to 75/25%;
- Freeing routes between regional airports;
- A limited adjustment of the group exemptions.

The transport ministers of the EC reached agreement on the third aviation liberalisation package on Monday 22 June 1992, consisting of new regulations, all of which came into effect on 1 January 1993 (European Commission 1996). Although for a number of key issues, including the competence of the European Commission to conduct external negotiations, the rules of the game still had to be decided, in particular the criteria employed for allocation and the supporting policy to be followed. Nevertheless, it can with appropriate modesty be concluded that EU airlines, in co-operation with its partners such as other EU airlines and the industry organisations like AEA, had achieved a favourable provision-outcome from its Euro-lobbying for liberalisation of aviation.[4] Some instances of these positive results were (European Commission 1996):

- The achievement of freedom of capacity and access to the market gave airlines the opportunity to grow faster than before in the EU, beyond the frontiers of its natural hinterland. The expansion of traffic rights and the

[4] Several informants highlighted this in the interviews i.e. mainly senior management within KLM and Lufthansa.

capacity to be deployed for flights within the EU was then no longer dependent on an airline's own domestic market.

- The almost complete freedom of airlines to set tariffs offered airlines the opportunity to show that they were efficient airlines supplying high quality level of service at competitive prices.
- The merger policy pursued by the European Commission had made it possible for airlines to acquire holdings-some of them majority holdings-in other airlines.
- Duty-free shopping for travellers had been extended within the EU until 1 July 1999.

Besides these positive outcomes there were, of course, certain sticking points, disappointments and differences of opinion, when the airlines lobbying activities were unable to achieve any better result in the end. For instance, KLM, together with the government of the Netherlands, made several attempts, right up to the final decision in the Council of Transport Ministers, to keep the bureaucratic content of some of the measures in the third package as limited as possible. As a Senior KLM executive postulated:

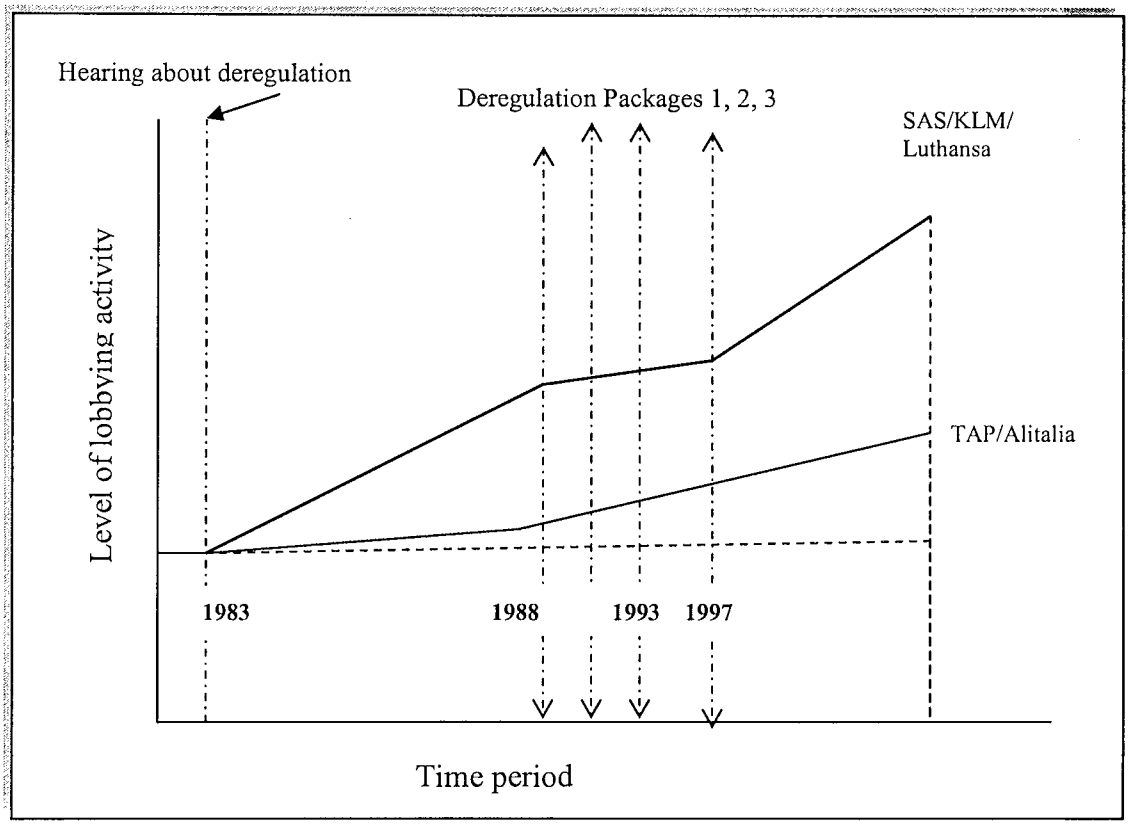
> *KLM and the Netherlands' government tried on many occasions to influence people right up to the final decision in the Council in the Transport Ministers. We especially wanted to keep the bureaucratic content of some of the measures in the third package as limited as possible but sadly that did not happen [E014]*[5]

The commission's first proposal on the subject of granting licenses to airlines is an example of this added bureaucratic content. The first text included a regulation which would have required existing airlines to add a single extra route to their route network and, among other things, submit audited costs and business plans for three years. Airlines argued against the financial checks by the authorities, in order to treat in airlines the same way as other commercial undertakings, and maintained that interference by the authorities should be kept

[5] **All the code references can be found in Appendix 7.**

to a minimum. Although in their final proposals the Commission relaxed some of their requirements for existing airlines, they stood by their opinion that, in this field, intervention by the European level authorities was desirable. Bearing the outcomes in mind, Figure 12 below describes the dynamic lobbying patterns before, during and after the endogenous policy context, based on the interviews conducted:

Figure 12: The lobbying capability development patterns



From Figure 12, we can see that the lobbying activity increased over time. We found that some European flag airlines were advocating a free European market for aviation, in other words, a market within which "*European airlines fly their aircraft on all European routes without any regulatory constraints*" (Senior Lufthansa Executive-A005). There were divergent lobbying patterns between both private airlines (majority private ownership rather than government ownership) and state airlines (majority state ownership rather than private ownership). Let us look at one of the main issues that three out of (KLM,

Lufthansa and SAS) five case airlines were advocating in the deregulation debate using their specific lobbying processes.

5.2.1 ROUTE LICENCES AND TRAFFIC RIGHTS

A route license has always been important to airlines, and it was one of the main issues that many airlines wanted changed during deregulation (Brueckner *et al.* 1992). The route building and granting of licenses before deregulation was complicated as governments would negotiate on the behalf of airlines with other governments. The mutual granting of licenses was regulated internationally by means of bilateral agreements (Sheehan 2003). However, we found that most case airlines wanted the regulation of routes licenses to change (SAS, KLM and Lufthansa). Moreover, most of the interviewed firms explained that they wanted all European airlines to fly their own aircrafts on all European routes without any restrictions. Therefore, most airlines were keen to see route licenses modified, and lobbied heavily on this issue. However, two wholly government-backed flag airlines, Alitalia and TAP Air Portugal, both declared that they did not spend too much time advocating this issue, as they were taking the back seat and focusing their efforts on other areas. For instance TAP was focusing their efforts mainly on "building routes to Brazil" while Alitalia was also focusing on South America. However, those two airlines did agree that AEA did a large part of their lobbying during this time. Where they felt they wanted most influence, they spoke directly to their national government targets.

Nevertheless, even with the coming into effect of the internal market on 1 January 1993, possession of a technical and economic license to operate remained a necessity within the European Union (Doganis 2001). For international air routes outside the EU, in addition to possession of a license from the government-owned airlines, another was required from the country of destination. The mutual granting of licences was regulated internationally by means of bilateral agreements at the EU level before the deregulation packages (European Commission 2003). Almost every airline of any size therefore had a government affairs department. The operations carried out within these departments were public and government affairs activities and were so even

before the term existed, although they were exclusively directed at the preservation and expansion of airlines traffic rights (Pedler and Van Schendelen 1994). Indeed, this department played a large role in lobbying for route licenses and traffic rights pre deregulation packages.

However, after deregulation came into place, EU airlines got routes and traffic rights deregulated. As a result, the airline route planners within the government affairs departments started to meet face-to-face with airport marketing executives to discuss new business opportunities. In those challenging times, the meetings were seen to offer an ideal opportunity to review the performance of established routes and services, and stimulate joint ideas to increase revenue and reduce costs.[6]

Post deregulation, the airports became recognised as a vital part of the route development process and routes were the key annual opportunity for the global airport community to showcase their market potential to the airlines. There were three types of meetings that flag carrier airlines were having after the implementation of the third package:[7]

- **Airline-to-Airport Meetings**: Airports were helping with airline network planning by providing key information such as catchment area characteristics, traffic forecasts, competitive pricing arrangements and, full route viability studies. Meetings also provided airlines with the opportunity to review the performance of existing routes and to discuss the levels of capacity presently offered, together with any marketing support opportunities that may be available.
- **Airline-to-Airline Meetings**: In addition to meetings with airports, the routes team within most of government affairs departments arranged for airlines to meet other airlines to discuss commercial opportunities such as code-sharing, schedule co-ordination, interline agreements, alliance synergies and spare aircraft availability.

[6] Interview with D017.
[7] Three category types came from interviews with F015, F008, C009, E023, B024 and E020.

- **Airline-to-Slot Co-ordinator Meetings**: After deregulation, 1997, many of the European Slot Co-ordinators started to be available to help airlines understand any capacity limitations and constraints at the airports which could make a difference to any airline network expansion plans.

After 1997, certain bilateral air agreements in the EU contained provisions on slot allocation in order to create more transparency in the relationship between slots and traffic rights. Nonetheless, there was another issue that flag carrier airlines were heavily lobbying for in the run up to deregulation. This was the tariff issue.

5.2.2 TARIFF

We found from our research that many airlines "*were lobbying for tariffs that could be freely set by the airlines*" (B028). The freedom to charge a tariff without any bureaucratic pressure was an issue that some airlines wanted to see introduced in the packages, while other airlines opposed this issue. The reason for opposition was that the flexible tariffs would mean that some airlines would have had to change their tariffs due to competition, which would cascade to hinder bottom line profits. Therefore, the lobbying activity for some airlines was in the favour of such legislation while others tried to restrict it.[8]

Nonetheless, after deregulation, the overwhelming majority of the travelling public enjoyed lower fares (Dempsey and Gesell 1997). The benefits of the tariff competition unleashed by deregulation, however, were unevenly distributed among travellers. That was because the intensity of competition varied from one market to another. Prices per mile were usually much higher on thinly travelled than on densely travelled routes (Dempsey and Gesell 1997). They also were higher for the minority of travellers who had to pay full fares because they were unwilling or unable to meet the typical conditions for discounts (advance purchase, non-refundable tickets and staying over a weekend). Conversely, there was another issue that flag carrier airlines were also heavily lobbying for in the run up to deregulation. This was the state aid issue.

[8] Interviews with F019 and F015

5.2.3 STATE AID AND SUBSIDIES

We found from our research that the majority of airlines were lobbying for competition that would not be distorted by forms of state aid, while other airlines were lobbying for some sort of state aid, mainly to allow for re-structuring. Indeed, the state aid issue has always been a vexed, as injection of state aid into government-owned airlines was viewed to disrupt markets, and the issue has important spatial repercussions because of its capacity to inhibit competition (European Commission 1994). In 1993, as a result of deregulation, the EC appointed a *Comite des Sages (sometimes called "the wise committee")* to investigate methods of enhancing the competitiveness of EU air transport (Lawton 1999). In identifying continuing state ownership and subsidies as a crucial factor impeding and distorting the implementation of a more competitive aviation environment, the *Comite* advocated a 'onetime/ last-time' policy of aid packages for restructuring (European Commission 1994). Since then, a number of flag-carriers, including Air France, Aer Lingus, Iberia, Olympic and TAP Air Portugal, have received substantial infusions of state aid (albeit with substantial conditions attached), while Alitalia's case was still being heard in 1997 (Lawton 1999).

Although much of the debate on this issue is intensely hypocritical, not least on the part of BA, which was financially restructured at public expense prior to its privatisation in 1987, the continued prevalence of state intervention ensures that the concept of a 'level playing field' in the EU airline industry remains an unattainable ideal (Button 1996). Furthermore, all flag-carriers retained three major and permanent hidden subsidies:[9]

- The historical advantage of an extensive and specific route network, combined with market dominance of core hub airports
- The continuing subsidy of bilateral agreements negotiated with extra-EU governments.
- Less tax or no tax on petrol for the airlines.

[9] Three points came from the interview with F038.

Thus, the real 'victims' of state aid are not other flag carriers, but the entrant, private-sector airlines on which effective competition primarily depends (CAA 1995). Although few of these, in turn, have not benefited in some way from government protection and encouragement, subsidies and other manifestations of Member State policies, past and present continue to underpin incumbency and the interests of the major airlines.

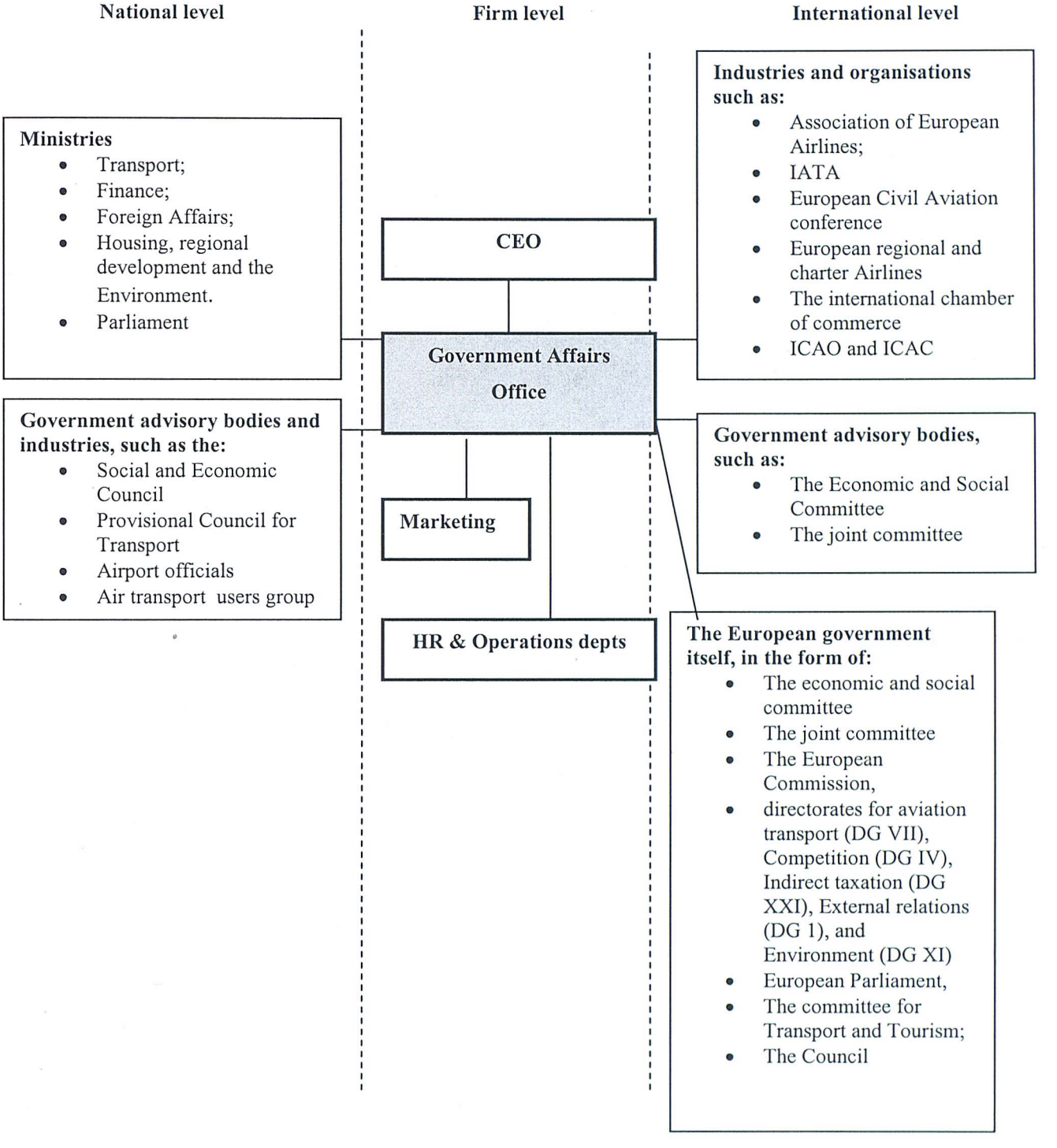
5.3 GENERAL STAKEHOLDER TARGETS IN THE LOBBYING PROCESS

Before discussing lobbying capability development, in order to create the content of the legislation which was introduced in the first, second and third phases, it is worth listing the most important stakeholders who have been active in the legislative and lobbying micro targets. Figure 13 is created without claiming to be completely comprehensive but as accurate as possible from the interviews,[10] archival data and EU commission documents:[11]

[10] From all interviewees from KLM, Lufthansa, TAP, SAS and Alitalia.

[11] European Commission (1994). Report on expanding Horizons-Civil Aviation in Europe. An Aviation programme for the Future & European Commission (1995) white paper on the European transport policy, 1-475.

Figure 13: Initial organisation of key lobbying micro targets for all airlines before and during the endogenous policy context



Although it is tempting to portray these stakeholders, possibly in some kind of matrix, as either supporters or opponents of deregulation, to do so would not give the true picture. The establishment of an internal liberalised market for aviation within the EU involved a fairly complicated and lengthy decision-making

process in which the stakeholders appeared in changing roles as protagonists in the different phases of the process, and the complexity of some issues was to an extent dependent on the information provided by each protagonist and influenced by the mutual positions they took up. Also the process of liberalisation and harmonisation had taken place at the same time as the transfer of powers from the national to the European level (for example, from the Ministry of Transport to the European Commission), although the formal decision-making about regulations and directives took place in the council of ministers, consisting of government ministers of all twelve member states, this also contributed to the problem.

The position with regards to competing airlines was also subject to continual change. Although industry organisations such as the AEA or IATA outwardly worked in the interests of their associated airlines as a whole, and as such were considered by the national and European governments as respectable interlocutors, it was not unknown for the various airlines to have played competing roles in their individual lobbying with respect to the competition policy to be adopted by the European authorities (for example, the question of whether or to what extent state aids should have been allowed).[12]

Ultimately, most of the stakeholders had many partially overlapping interests, in which there were only slight differences in the individual goals for which they were striving.[13] Because of the great number of stakeholders it is obvious that the decision-forming process, and consequently the process of influencing those decisions, was fairly complicated (Pedler and Schendelen 1994). It was important for airlines that they were able to play their own direct role vis-à vis a number of stakeholders in their individual internal decision-making process.

Taking the chairmanship of one of the AEA's standing committees as an example, it could be seen that the opinion of the AEA on important subjects such as, for example, the imposition of VAT on passenger air traffic within the EU was important.[14] The AEA could draw on the specific knowledge from within its

[12] Interview with D021
[13] Interview with F015
[14] Interviews with C011 and E012

organisation to offer solutions for the many technical taxation problems which would be involved in such as issue. National authorities, which also determined the voting in the Council, and the European Parliament, which could disrupt the European Commission by passing amendments, often paid attention to the AEA's views.[15] During the negotiations on the regulations for the third liberalisation package, representatives of the AEA were invited by, among others, the European Parliament and ECOSOC to give their reactions to the European Commission's proposals, although without any formal obligation to do so.[16] It is perhaps superfluous to mention that the position taken up by an industry organisation such as the AEA was determined by its members; in other words, by the twenty-six European airlines belonging to it, which included a large number of non-EU carriers, such as Swissair, Finnair, Turkish Airlines, and so on (AEA Annual report 1993). It is obvious that the associated members could have conflicting as well as common interests, which were promoted as much as possible by the airlines themselves, either individually or jointly with other partners, either vis-à-vis the Brussels institutions or their national authorities.[17]

5.4 CASE STUDY ONE: KLM

5.4.1 KLM OVERVIEW

KLM, founded in 1919, is the oldest airline in continuous operation. Its head office is located in Amstelveen, close to both Amsterdam, the capital of the Netherlands, and to Schiphol airport. KLM is the primary Dutch airline, as it has been granted a so-called open license by the Minister of Transport, which means that KLM may operate any route stipulated in the international air service agreements, concluded by the Netherlands (KLM company web-site 2006).

Soon after its establishment in 1919, the founders of the airline had to admit that their initial financial calculations had been incorrect and as a result they turned to the Dutch government for financial assistance (Paape 1993). During the following years, due to increasing losses, it became clear that the long-term

[15] F008
[16] D021, A026 and B004.
[17] F015

future of the airline depended on additional government funds and the airline was transformed from a private company into a semi-state enterprise (see Appendix 11 for expansion on Dutch government's general views on airline policy). In 1929, the Dutch state acquired the majority of the shares (KLM company web-site 2006).

Many years latter, KLM Airlines, through its partnerships (including a long-time code share agreement with Northwest), the airline started providing passenger and cargo services to some 350 destinations in almost 75 countries. With its primary hub located in Amsterdam, the airline nowadays carries nearly 16 million passengers and about 490,000 tons of cargo annually. KLM operates a fleet of more than 210 aircraft, mostly Boeings. KLM also operates regional carrier KLM cityhopper (KLM company web-site 2006). Recently, the company merged with European competitor Air France in 2004 (see Appendix 6 for expansion on KLM's financial position and for a snap shot of the economy).

5.4.2 THE GOVERNMENT AFFAIRS FUNCTION IN KLM

A large part of the government affairs function within KLM was carried out by the company's foreign relations and co-operation department until the end of 1990's, whose main objective was the preservation and acquisition of traffic rights.[18] External factors, such as environmental and conservation pressures, the development of an adequate infrastructure and the ongoing development of the single market led to the establishment on 1 January 1991 of KLM's public affairs department. It was part of the corporate development Bureau which was responsible for the development of KLM's long-term strategy.[19]

All KLM public affairs planning derived from the airlines long term strategy. The organisational components of this planning consisted of:[20]

- a clear organisational structure;

[18] Interview with E014
[19] Interviews with E014 and E022
[20] Interviews with E014, E012 and E031

- ❖ monitoring the relevant political fields;
- ❖ developing the network of stakeholder;
- ❖ systematic communication with different stakeholders.

In addition to a number of societal and in particular political developments which actually or potentially influenced the position of KLM and its profitability, the position of the business was determined to an important extent by factors such as access to markets, relations with suppliers, relations with competitors, and the possibility of cooperation[21]. In the long term these factors, taken together, determined the profitability of the business.

To protect and strengthen its commercial position before the introduction of deregulation, KLM followed a corporate political strategy by lobbying. It implemented this by participation in public debate and by attempting to exert influence by means of both formal and informal exchanges of ideas with prominent figures in politics and the governments and with representatives from various sections of society. As one respondent said:

> *We also have a corporate centre which is basically, the, we call ourselves consultants to the board of the managing directors here at KLM. We would be talking about departments, financial, legal, strategic and government and industry as well. Now, within government and industry as well. Now within government and industry, there are two main issues that we deal with. One are the bilateral air service agreements, the bilateral negotiations, so trying to acquire as many traffic rights as possible in the world. And the other part of what we do in government and industry is public affairs, which covers industry affairs and government affairs in a broad sense so we see ourselves as the counter parts of all sorts of government officials at all kinds of levels and politicians. Both in the Netherlands, as well as outside, especially in Brussels and also due to our special relationship with the United States, with our joint venture with North West Airlines [E012]*

The main activity of the public affairs function was:[22]

- ➢ to locate as early as possible any social and political developments which could affect the position of KLM and its future;

[21] Interview with F015
[22] E014, E012 and E031

- within the social and political developments identified, to support the making of internal decisions relevant to the positions taken by KLM and to advise on the way in which these positions should have been followed through in the political and administrative decision making process.

From this definition of its function, it follows inexorably that public affairs was in principle a management responsibility. Only management could weigh up the relative importance of short- and long-term interests, of political, commercial and technical interests, and make judgments between those interests which were quantifiable and those which were not. Only to management and its representatives did politicians and administrators assign the authority to act on behalf of the business, whether as a whole or as one of its component parts.

Profitability and survival of airlines depended increasingly not only on a combination of strategic decisions, such as investments and entering into cooperation, but also on factors in the social environment, such as the acceptance of obligations to regulatory authorities.[23] For this reason, in KLM, public affairs were an integral part of the strategic planning process.[24]

KLM's lobby for influencing the EU and the relevant national organisations was based at the KLM head office in Amstelveen. Although KLM had a sales office in Brussels, it had a public affairs manager in the European capital.[25] This decision stemmed from KLM's view that public affairs were a management activity. The basing of a manager in Brussels, both within KLM and outside, was perceived as something which would have helped at the source of strategic decision making. The Brussels man was an external resource that could be used to create some form of value for KLM. It was not a common practice during the 1990's, especially in the airline industry.

Notwithstanding KLM's individual lobbying activities in the Hague and Brussels before the introduction of deregulation, political influence was then exerted

[23] E020
[24] Interviews with E014 and E022
[25] Interviews with E014, E031, E020 and E022

through various industry organisations, and through co-operative arrangement with other businesses and organisations. At the national level KLM was using the SER (Social and Economic Council in the Netherlands), ATAN (Netherlands Air Transport Association) and Schiphol Aiport.[26] At the European and global level, they were using the Association of European Airlines (AEA), the European Civil Aviation Conference (ECAC), IATA (International Air Transport Association), ICAO (International Civil Aviation Organisation), and the International Chamber of Commerce, as well as using collaboration with individual European airlines and the ACIE (Airports Council International Europe).[27]

Over the last twenty years, European air transport has increasingly been subject to an environment of liberalisation and harmonisation, as well as the many supporting regulations which were together designed to bring about the internal EU air transport market (Lawton 1999). KLM was closely involved from the start in the preliminary discussions on this and, as one of the many interested parties, had tried to make its contribution to the establishment of a liberalised European aviation market.[28]

KLM's lobbying activities for the liberalisation of European air traffic began well before the European Commission put forward concrete proposals in the early 1980's.[29] These lobbying activities cannot be described in terms of separate 'influencing campaigns'. The complexity and the duration of such an operation required an approach in which continuity and permanence were fundamental; continuity by holding office and membership in the relevant organisations for a longer period, and permanence by opting as far as possible for a problem-solving approach, to demonstrate one's worth as a reliable and useful debating partner.[30] In addition, KLM tried to maintain contacts with members of national governments, administrators and parliamentarians, with members and officials of the European Commission and with members of the European Parliament. These contacts had included periodic meetings with members of the KLM board,

[26] E012, E014, E031, E020, F019 and E022
[27] E031, E012, F019 and E014.
[28] E012, E014, E031, E020, F019 and E022.
[29] E012 and E014.
[30] E012

exchanges of correspondence on suggestions and positions taken up, organisation of industrial visits, presentations, and so on.

5.4.3 TYPES OF LOBBYING ROUTINES USED BY KLM

There were lots of different lobbying routines found to be used by the government affairs office before, during and after the endogenous policy context.[31] These lobbying routines were used to influence national and international political targets. We have managed to categorise the different lobbying routines according to generic and idiosyncratic lobbying routines. Table 10 shows the different illustrative quotes that are a categorisation of themes based on a listing of common concepts and ideas emerging from the interview transcripts. A response from one KLM senior management respondents encapsulates the essence of what was happening in this context:

> *Yes, we here at KLM tended to use the personal contact as the primary route to follow but we did not have a strict recipe, perhaps on a general level but then we had to customize it according to the different stimuli"... "We were then using a more direct routines method then indirect method of lobbying. Indirect meaning using the personal touch instead of just AEA or IATA. Because using a single path is not as effective as a combination in our view. [E020]*

Table 10: Direct KLM quotes to show lobbying processes types.[32]

Idiosyncratic Lobbying Routines	**Generic Lobbying Routines**
"Formal visit"	"Holding speeches at conferences"
"Personal letters"	"Outside lobbying consultants"
"One to one contact with politicians"	"Affiliated interest groups"
"Personal phone call"	"Cocktail parties"
"Meeting a friend"	

KLM used to have freedom to function how it wanted and the government was aligned with the KLM's vision. After the 1980's however, the vision had to change because the government had enough of pumping money into a sinking ship. With the addition of the EU single market coming into place in 1992, KLM

[31] *Routines and processes are viewed here synonymously.*
[32] Quotes from E020, E23, E014 and E031.

had to drastically change its approach to running an efficient organisation. One Senior KLM figure postulates:

> *So the need for very very strong lobbying within the Netherlands up to a number of years ago, was not as severe as it is now. Because in those days, I am talking about the 1970's and 80's. Even in the start of the 90's, the Dutch government, KLM and Skipo airport all had the exactly the same idea and vision of how they wanted to proceed, so it was latter in the last couple of years, in the last five to ten years that we have seen lobbying increase in intensity. [E031]*

The lobbying routines and combinations had to change during this context. Bearing in mind that Europe was gaining more power, KLM had to influence using a combination of individual and coalition influence. However, according to people interviewed, KLM used mainly individual influence routines, with AEA and the Dutch Authorities. Nevertheless, the actual lobbying routines that were used by KLM to leverage on political resources (in order to influence) in this context were important for KLM to respond to the type of policy context. The next part will look at the actual content of the political resources more carefully.

5.4.4 POLITICAL RESOURCES AND POLICY RESPONSIVENESS

The KLM respondents all agreed on the fact that the political resources were very important in developing their lobbying process in this context. The senior public affair management believed that their lobbying capability development processes would start from their political resources. They would then introduce new political resources or use existing ones to make new lobbying processes that would be used to build influence (a symbiotic relationship between resource and capability).[33]

Subsequently the KLM respondents explained that their thinking led them to believe that political resources were comprised of human (knowledge, experience), organisational structure and network. Moreover, political resources were needed to be reconfigured and deployed to create non-market change. We

[33] E020, E23 and E014

categorised all the themes found into three key variables that make up a political resource, these were human, organisational and network resources. The KLM public affairs management team thought from their previous experiences that these important resources were needed to develop their lobbying capability in order to effectively leverage on these political resources to create influence. Table 11 below shows the three main categories of emergent concepts that were important in the political resource composition.

Table 11: KLM political resources

Political capital resource	Illustrative quotes
Human	"Knowledge" and "experience obtained in areas such as law", "economics", "political and management were used", "People were used" [34]
Network	"Being a member of an association or committee", "it's all about contacts" and "friends within the political system". [35]
Organisational	"organisational formal structure", its "planning and coordinating systems"[36]

Bearing the idea of having the right political resources, one of the respondents believed that it was important to get involved in lobbying process earlier rather than later and that talking to lower down people in the policy-making process was the right way in this context. Therefore having the right political resources in place earlier then your competitors was important and where you lack the resources you "buy". This idea of early contact using political resources was important in this context. As this respondent says:

> *At KLM we try to get into the process as early as possible. And preferably at the lowest level possible, because if you get to the government level where you are talking about the director general or secretary generals etc. Our idea is that you are probably already a bit too late, when it has gone up to that level and that stage. Influencing becomes more and more difficult. So in this time period we got involved earlier in the process then some airlines, we thought this would make it easier to get your message and your interest across. We evaluated our political resources earlier then most airlines and then we decided the lobbying design. To*

[34] E020, E23 and E014
[35] E020 and E014
[36] E020 and E23

summarize we were using more indirect routines to communicate our interests. [E020]

The next part will aim to understand in more detail how KLM devised its lobbying capability and political resources within this office. In addition, as shown by the illustrative quotes in Table 3, KLM had several variables that were key to the development of a lobbying capability in the endogenous context. Moreover, we came to learn that the government affairs management used some form of templates or what we term a "cognitive blueprints" to modify political resources in order to develop a lobbying capability. This department reconfigured and deployed human, organisational and network resources to develop their lobbying capability proactively with the intent of making non-market change. The next part will look at the core elements of the lobbying capability process in more detail.

5.4.5 COGNITIVE BLUEPRINT AND TOP MANAGEMENT ATTENTION IN DEVELOPING A LOBBYING PROCESS

The decisions taken by senior management at KLM's government affairs office played a vital role in developing what they believed to be a strong lobbying capability for this period. The decision-making templates that the senior executives created over time, "the cognitive blueprint", were what we found to be at the core of the lobbying development process. The attention given by senior management to meeting their overall strategic intent was important in the lobbying process and creating the blueprint.[37]

Nonetheless, where did these blueprints come from? As we found from several informants, the cognitive blueprint came mainly from their previous experiences, their current learning and a weighing on future potential policy impacts. As one respondent put it:

My lobbying thinking comes from my previous experiences...Of course I believe that the patterns of thinking in lobbying are important...I read lots and lots while at work or at home...we also need to monitor the

[37] E020, E23 and E014

> *future policy issues...we don't get formal training like other employees, as we are hired on the expectation that we have the expertise [E031]*

We found that the decision making blueprints of the government affairs management was fairly flexible and it had a lot of support from its owners. Furthermore, we found that the top management teams within the KLM government affairs office needed their cognitive blueprints to be improved every so often. In this context, after hearing that deregulation may be introduced; the KLM government affairs executives started to develop their lobbying capability by firstly looking at their own cognitive blueprints, and where they lacked knowledge they looked outside the organisation or within their networks or they learned by reading. As one senior informant put it:

> *Well during that time we would talk to the legal office and attend the conferences to build our expertise in the deregulation area. We also would meet with AEA to build new thinking and approach to understanding deregulation... and of course lots of reading [E022]*

As explained earlier, the senior management within the government affairs office would learn by doing, instead of getting formal training to develop their lobbying capability. However, another question that we posed was how did the lobbying cognitive blueprint process affect the decision-making flow and where did the decision making originate for this context? We found that within this period the actual decision-making went from the government affairs office to the CEO level. As one informant put it:

> *I would say honestly that the knowledge flowed from the department like ours, upwards. That is because I think that the experience and knowledge of the people in departments like ours, is very much focused on international regulatory setting, it was very much focused on what are the developments in the United States, in Europe, in the far east and we tend to be a bit closer to the fire as we would say in Holland, than the board of directors. We have a very close link to them. [E023]*

The cognitive blueprint was also influenced to a certain degree by the organisational stakeholders like the CEO; Ministries, such as those of transport, finance, foreign affairs housing, regional development and the environment; parliament; government advisory bodies and industries, such as the social and

economic council, provisional council for transport and NV Schiphol Airport.[38] The international stakeholders that affected the cognitive blueprint were industries and organisations such as the Association of European Airlines (AEA), IATA, European Civil Aviation conference, European regional and charter Airlines and the International Chamber of Commerce. In addition, government advisory bodies, such as the Economic and Social Committee and the joint committee. The final stakeholder was the European government itself, in the form of: the European Commission, the most important directorates for aviation being of Transport (DG VII), Competition (DG IV), Indirect Taxation (DG XXI), External Relations (DG 1), and Environment (DG XI); European Parliament, the most important committee for aviation being the committee for Transport and Tourism; and lastly, the European Council.[39]

We found that senior executive's "blueprints" decided the targets and sequence to lobby at both national and international levels. From 1984-1992, the lobbying was conducted chiefly at a national level with the shift taking place from 1992-1997 towards the EU level.[40] As a respondent put it:

> *Our decision on lobby targets also depended on who we previously targeted. Therefore lobbying targets very much depended on our previous experiences and formal and informal relations [E023]*

As seen in this part, rather than jumping in and using a *laissez-faire* path-creating strategy, directors of government affairs used their cognitive blueprint from previous experience and current learning to channel and fuel their decisions on the lobbying process. The way in which top management thought played a very important role in developing the architecture and design for the lobbying processes. As one respondent put it:

> *The sequence of thinking in lobbying is structured at most times and could be fluctuating at other times in my opinion. We knew how to communicate with targets at national level in the 80's. Well that was my case in that time, where we chose to lobby early who we believed to be*

[38] E012, E014, E031, E020, F019 and E022.

[39] E012, E014, E031, E020, F019 and E022.

[40] E023

> *the right people in the Netherlands. It was a time where we had national lobbying knowledge but Brussels was fast entering the picture, so we had to change our lobbying design. Overall the good thing was that we put our efforts in lobbying early because our CEO thought communicating our interests quickly was very important. [E014]*

As the illustrative quote shows, who to target in the lobbying process was based on mental schema and time. Moreover, we found that management cognition and attention played a role in reconfiguring and leveraging human resources, organisational resources, networks resources, and competence to develop an effective lobbying capability. However, ownership and stakeholders were thought to have influenced the decision-making aspects of the public affairs management team.[41]

5.4.5.1 ORGANISATIONAL STRUCTURAL MODIFICATIONS IN THE DEVELOPMENT PROCESS

One of the ways found in KLM through which the lobbying capability was developed, was by "adapting the lobbying capability of the firm".[42] We use the term "adapting" because it was used by one of our informants and adequately reflects the notion. Informants expressed that they were working towards bringing lobbying process to "the following stage" in the endogenous policy context. Developing their lobbying capability was associated with adapting the department's organisational structure.

There was a lesser level of transference of responsibility for strategic decision-making to interest group representation in the endogenous policy context where there was more of an attempt for an "influence to make an impact alone"[43]. Furthermore, lobbying activities in this challenging policy context changed, leading to structural reorganisation and formal redefinitions of the responsibilities of new units and substructures with the government affairs office. As one respondent said:

[41] E030 and E021.
[42] E014
[43] E030

> *Our office had to become more EU and US orientated after the third package was introduced [E031]*

Our observations suggested that organisational structure was used to reconfigure the lobbying capability. However we found that lobbying network relationship resources had been used by KLM to develop their lobbying capability and also a way to influence specific people. The next part will aim to better explore the relationship between network resources and the lobbying capability.

5.4.5.2 NETWORK RELATIONSHIP INVESTMENTS IN LOBBYING PROCESSES

Networks were viewed to be another core resource in creating a lobbying capability. From our analysis of KLM, we found that networks played an important role in developing KLM's lobbying capability because knowing the right political actors was paramount in the influencing game. As one of our respondents said:

> *Knowing the right people is one of the most important things in our office. It's key to lobbying development [E031]*

While another respondent said:

> *Yes we hired new people after the first package that had EU level networks. These people were important in targeting and influencing the right political people [E023]*

At KLM, during the deregulation period, especially during the introduction of the first package, the government affairs office again had to modify its network base to incorporate new people, after hiring some people in 1987. As one respondent postulates:

> *We had to lose some people but that is inevitable in any large company to make space for new networks...*
>
> *...When we were lobbying, we did not have a network order but we did have a pre-determined selected group of targets in our heads. We*

> *arranged these lobbying targets according to who was available to meet first [E022]*

KLM were using people within the office that had specific networks to create influence during this period but when the shift from national to EU level power was taking place, KLM started to hire some more people that had EU level networks. The lobbying network targets were pre-determined by the individuals but the sequence of whom to target was based on access and time. AEA was another network that KLM used to a certain degree.

> *AEA was another group that we used to influence political actors at the European Commission. [E031]*

As seen from the quote above, KLM was also using their indirect network resources by using AEA which is placed outside the KLM office but is a paid resource because KLM pays a fee every year to belong to this common interest coalition group. KLM went to work along these lines, and after 1997 they had a relatively large number of chairmanships, memberships and advisory functions filled by KLM in international industry and umbrella organisations, and this certainly strengthened its arguments in Brussels, helping KLM to become a fully qualified partner in discussion and consultation.

5.4.5.3 HUMAN CAPITAL INVESTMENT IN DEVELOPING LOBBYING PROCESSES

From our observations of KLM, we found there to be great importance attributed to the role of human capital in the process of developing lobbying capabilities. As one informant said:

> *Of course designing a fast and effective lobbying track is dependent on the right people. So we hired some EU people with EU specific level competence during the deregulation period. [E018]*

Network relationship capital is generally considered an attribute of the individual people, whereas human capital is considered an attribute of individuals and comprises a stock of skills, qualifications and knowledge. There is an overlap between human resources and network resources but they differ on the level of

organisational networks like trade associations which are more generic to the organisation. The next part will explore the overlap between lobbying competence and human capital investment in the lobbying development process.

5.4.5.4 LOBBYING COMPETENCIES IN THE LOBBYING DEVELOPMENT PROCESS

Reconfiguring lobbying competencies is the forth core process we observed through which senior managers evolve their lobbying capabilities. We use the term "lobbying competencies" to refer here to technical subject matter (hard for competitors to duplicate) that enable firms to influence policy makers. Senior executives in the KLM government affairs office explicitly related the development of the lobbying capabilities of their firm to a change in lobbying competencies, which were expected to enable them to influence new decision-makers. Either of these strategies, or a combination of them, was viewed as the means for reaching "the following stage". KLM pursued a policy of fetching new people that had EU and national level technical knowledge which was expected to give them access to new and better networks that they believed could not have been accessed or grown quickly organically. As one KLM respondent said:

> *Yes, we were definitely bringing in new human resources and getting rid of some old resources. This was important for our overall strategy to become an international player. Lobbying was important with a shift taking place from national governments to EU level. However, we also did try to keep any important knowledge or networks from leaving. [E014]*

Underlying the diversity was an effort to gain access to specialised expertise, embodied in individuals that were viewed as being among the top in their fields of expertise. Hiring top experts in areas targeted for developing new lobbying competencies and supporting them through developed management cognitive blueprints appeared to be the underlying model for the evolving KLM's lobbying capability.

An interesting question with regard to developing new lobbying competencies is not only what processes enable firms to configure them effectively, but also how firms select lobbying competencies for further progress towards developing lobbying capabilities. Several informants describe the process through which

new lobbying competencies were targeted, tagging them as "important" during regular managerial meetings, and integrating them into strategic planning efforts. Furthermore, the greater the interactions among top managers with the board, as determined by the management cognitive blueprints, the more confident managers were in the effectiveness of their lobbying competence discovery process.

> *We were empowered to take major decisions before deregulation to do what it took. Deregulation was a big opportunity for us to grow into a large player. We had to have a strong lobbying strategy and we had the support of the CEO [E014]*

We can see that the lobbying capability development played an important role in the endogenous policy context where KLM had time to manoeuvre to make their interest heard using both generic and idiosyncratic lobbying processes. From the micro level analysis of KLM'S government affairs office, we found that there were few variables that played a vital role in the lobbying capability construction. It was evident that political resources were comprised of human, organisational, network and competence resources. These existing resources were used and others were modified to develop their lobbying capability. Indeed, cognition played a role in building this symbiotic relationship between political resources and lobbying capability development. Once the lobby capability was developed satisfactorily, it was used to exert maximum influence (see Appendix 16 for KLM's overall storyline map cluster in the endogenous policy context).

5.5 CASE STUDY TWO: LUFTHANSA

5.5.1 LUFTHANSA OVERVIEW

The Weimar government created Deutsche Lufthansa (DLH) in 1926 by merging private German airlines Deutscher Aero Lloyd (founded 1919) and Junkers Luftverkehr (formed in 1921 by aircraft manufacturer Junkers Flugzeugwerke). DLH built what would become Europe's most comprehensive air route network by 1931 (see Appendix 12 for expansion on German government's general views on airline policy). It served the USSR through Deruluft (formed 1921; dissolved 1941), an airline jointly owned by DLH and the Soviet government. In 1930

DLH and the Chinese government formed Eurasia Aviation Corporation to develop air transport in China (Lufthansa company web-site 2006).[44]

In 1954 the Allies allowed the recapitalisation of Deutsche Lufthansa. The airline started with domestic routes, returned to London and Paris (1955), and then re-entered South America (1956). In 1958 it made its first nonstop flight between Germany and New York and initiated service to Tokyo and Cairo. Meanwhile, it started a charter airline with several partners in 1955. Lufthansa bought out its partners in 1959 and renamed the unit Condor two years later (Fisher 2003).

The carrier resumed service behind the Iron Curtain in 1966 with flights to Prague. The stable West German economy helped Lufthansa maintain profitability through most of the 1970s (Fisher 2003). The reunification of Germany in 1990 ended Allied control over Berlin airspace, allowing Lufthansa, which had bought Pan Am's Berlin routes, to fly there under its own colours for the first time since the end of WWII. The company began seeking international partners in 1991, but that year European air travel suffered it's first ever slowdown, forcing Lufthansa into the red for the first time since 1973 (Lufthansa company web-site 2006).

The company restructured in 1994 into a group of new business units: Lufthansa Technik, Lufthansa Cargo, and Lufthansa Systems. In 1995 the carrier began to face increased domestic competition from Deutsche BA, a British Airways affiliate. The airline formed a code-sharing agreement with Air Canada in 1996. In 1997 the Star Alliance was formed, and Lufthansa signed a pact with Singapore Airlines. That year the German government sold its remaining 38% stake in Lufthansa. In 1998 Lufthansa and All Nippon Airways formed a code-sharing alliance, and Condor was combined with Karstadt's tour company NUR Touristic to form C&N Touristic. (After buying UK-based travel operator

[44] DLH established the world's first transatlantic airmail service from Berlin to Buenos Aires in 1934 and went on to develop air transport throughout South America. The outbreak of WWII ended operations in Europe, and the Chinese government seized Eurasia Aviation in 1941. Klaus Bonhoeffer, head of DLH's legal department, led an unsuccessful coup against the Nazi leadership and was executed in 1945. Soon afterward all DLH operations ceased (Lufthansa web-site 2006).

Thomas Cook in 2000, C&N Touristic changed its name to Thomas Cook in 2001.)[45]

In early 2005 Swiss International Air Lines agreed to be acquired by Lufthansa. As the first step in a lengthy and complicated transition process, Lufthansa created a Swiss holding entity named AirTrust through which all Swiss International shares were held. Lufthansa then took an initial 11% stake in the newly created company. The Swiss government, which owns 20% of the airline, approved the $238 million deal (Lufthansa company web-site 2006). Once the merger is complete (maybe as late as 2007) Swiss International Air Lines will retain its name and Zurich will become an additional Lufthansa hub. Lufthansa will set up a holding company to manage the combined operations of the two airlines, similar to the one established by Air France and KLM (see Appendix 6 for expansion on Lufthansa's financial position and for a snap shot of the economy).

5.5.2 THE GOVERNMENT AFFAIRS FUNCTION IN LUFTHANSA

The government affairs office at Lufthansa was called the corporate policy department before deregulation (changing the name to government affairs in 1990).[46] Before deregulation came into place, they were much more about traffic rights and giving assistance to transport ministries who were in charge of negotiating traffic rights with foreign countries. This department would also provide strategic information to its CEO and other departments about expansion planning[47]. Lobbying for deregulation and for specific issues was new for this department because having a government sitting on the board always facilitated lobbying efforts.[48] However, this department quickly recognised that they needed to change their lobbying capabilities. They began this by targeting different people within the European Commission, instead of only focusing effort on their

[45] In a plan to gain more access to London's Heathrow Airport, Lufthansa took a 20% stake in British Midland, which was admitted into the Star Alliance in 2000 along with Mexicana Airlines. In 2001 the airline bought the 52% of Texas-based Sky Chefs it did not already own and formed a new unit, LSG Sky Chefs International, to hold its catering operations.

[46] A001, A002, A003 and A005.
[47] A026
[48] A001, A002, A003 and A005 and Fischer (2003).

national level authorities. Furthermore, they decided to bring in some new talent while retaining their best people, changed their departments design and started the process early.[49] As a Lufthansa senior respondent said:

> *This department decided to commence its lobbying for the packages around 1985 after the European civil aviation conference. It was important to us to start early to influence new people and old people within our networks. I recall us hiring new people that had specific EU commission knowledge. [A001]*

It was evident that Lufthansa was new to the international lobbying game and needed to build a lobbying capability that was going to change the policy environment. It seems from the research that this government affairs office was focused on attaining traffic rights but that they started to use more routines to influence political regulators to formulate a fair deregulation policy.

5.5.3 TYPES OF LOBBYING ROUTINES USED BY LUFTHANSA

There were lots of different lobbying routines found to be used by the Lufthansa's government affairs office. The categorisation of the different lobbying routines was made according to idiosyncratic and generic lobbying routines. Some illustrative quotes were chosen which exemplified themes that emerged from the interview transcripts, as shown in Table 12. As one Lufthansa senior management respondent sums up the essence of what was happening in this context:

> *I remember that that Lobbying was a new word in Lufthansa even though we were doing it indirectly for decades. Before deregulation, we had to change our structure and people. The people hired had to have national level relations and competence, but with the addition of new relations at an EU level with EU level competence [A002]*

[49] A001, A002, A003, A005, F008 and F016.

Table 12: Direct Lufthansa quotes to show lobbying processes types[50]

Idiosyncratic Lobbying Routines	Generic Lobbying Routines
"Visiting people"	"Holding speeches at conferences"
"Personal letters"	"Outside lobbying consultants"
"One to one contact with politicians"	"Affiliated interest groups"
"High frequency phone call"	"Cocktail parties"
"Meeting a friend"	

As seen from the illustrative quotes from the above, Lufthansa was using an array of individual lobbying routines that involved complicated targeting and sequences by using a combination of high frequency telephone routines, visiting friends, letters and one to one sessions with political contacts. They were also using generic lobbying routines that other airlines may tap into for a fee, including AEA and talks at conferences. Lufthansa was using many lobbying routines to influence policy makers before the introduction of the deregulation packages. The generic lobbying routines were not the best way to influence in their opinions, therefore they focused most efforts on their individual efforts. Indeed from 1988 most of the lobbying that Lufthansa did was through AEA. However, simultaneously the institutional relations office was slowly learning and influencing the European supranational institutions and the German authorities in the Brussels arena.

Lufthansa used to have freedom to function how it wanted and the government was aligned with the Lufthansa's vision. After the 1980's however, the vision had to change because the government had enough of pumping money into a sinking ship With the addition of EU single market coming into place in 1992, Lufthansa had to drastically change its approach to running an efficient organisation.[51] One Senior Lufthansa figure highlights:

> *Lobbying had to change at Lufthansa. We were monitoring the different shifts taking place on the EU politics front. We also knew that deregulation was an opportunity to move forward to becoming more*

[50] Quotes from A026, A002 and A030
[51] A001, A002, A003 and A030

efficient player. We had to proactively move forward by putting our interests in front of the aviation policy makers [A026]

The actual lobbying routines that were used by Lufthansa to leverage on their political resources in this context were important for Lufthansa. The next part will look at the actual content of the political resources more carefully.

5.5.4 POLITICAL RESOURCES AND POLICY RESPONSIVENESS

The respondents acknowledged the fact that the political resources were important in the lobbying capability development process. Subsequently the respondents explained that political resources were comprised of mainly organisational structural resources, human competence and networks. We categorised all the themes found into three key variables that make up a political resource; these were human, organisational and network resources. It is from these important resources that lobbying capabilities are formed and these capabilities are then used to deploy the political resources. Table 13 below shows the three main types of emergent concepts that are important in political resource composition.

Table 13: Lufthansa political resources

Political capital resource	Illustrative quotes
Human	"We starting hiring people with specific EU knowledge", "we were getting in specific people with EU level knowledge"[52]
Network	"Being a member of an association or committee" and having "friends within the political system" [53]
Organisational	"Our structure in the department", its "planning and coordinating systems"[54]

As shown in Table 13 from the illustrative quotes, Lufthansa had few variables that were key to the development of a lobbying capability in the endogenous context. On the other hand, Lufthansa believed that it was important to get

[52] A026 and A001
[53] A026, A002 and A001
[54] A026, A002 and A030

involved early in the lobbying process compared to later as it allowed more time to influence micro targets. As this respondent says:

> *In this context we had to respond proactively and try to inform policy makers of our position early because the later, the more complicated. The actors in the policy formulation had to see that tariffs and state aid had to change. Everyone had to play on the same level playing field. If anyone does not play the game right they should be out [A030]*

However, cognition was at the core of this development, as the senior management was found to have formed mental templates or what we term a "cognitive blueprints" to modify political resources in order to develop a lobbying capability. The Lufthansa government affairs department reconfigured their human, organisational and network resources to create a lobbying capability to deploy political resources and create influence. The next part will aim to understand how Lufthansa developed its lobbying capability and political resources within this office before and during deregulation. Moreover, the next parts will look at the core elements of the lobbying capability process in more detail.

5.5.5 COGNITIVE BLUEPRINT AND TOP MANAGEMENT ATTENTION IN DEVELOPING A LOBBYING PROCESS

The decisions taken by senior management at Lufthansa's government affairs office played a vital role in developing what they believed to be a strong lobbying capability for this period. The decision-making templates that the senior executives created over time, "the cognitive blueprint", were what we found to be at the core of the lobbying development process. Where did they come from? As one respondent put it:

> *Lobbying comes in general from my previous experiences from jobs and education. We read and learn by doing that forms our mental frames of thinking.....*
> *...Understanding the future policy impacts also help us to make calculated decisions on how to develop our lobbying [A026]*

As the illustrative quote above shows, the cognitive blueprint came mainly from their previous experiences, their current learning and a weighing on future potential policy impacts. Thereafter the government affairs management team would give attention to some specific routines/processes using their chosen blueprints to meet their strategic intents. Moreover, we found these decision making blueprints were fairly flexible and Lufthansa had a lot of support from its owners.[55] Furthermore, we found that the top management teams within the Lufthansa's government affairs office needed their cognitive blueprints to be improved every so often.

In this context, after hearing that deregulation may be introduced, the Lufthansa government affairs management started to develop their lobbying capability by firstly looking at their own cognitive blueprints, and where they lacked knowledge, they brought in new people to join their department, looked outside within their networks or learned by reading. As one senior informant put it:

> *We had various proactive decisions but we first got new people in with specific skill sets then we used AEA and then improved our thinking by learning from others. That was really my order of thinking. [A002]*

We can see here that the senior management within the government affairs office would learn by doing, instead of getting a formal training to develop their lobbying capability. Conversely, how did their lobbying cognitive blueprint process affect the decision-making flow and where did the decision-making originate? We believe that within this period the actual decision-making went from the government affairs office to the CEO level. As one senior informant put it:

> *We were the most important department then and we had I think the most power. I would say more then marketing and human resources. What we thought meant a lot to the board. So it did start from us where we informed the board and our CEO on how to proceed in this deregulation period. What we decided before on the lobbying side was our decisions and Ulrich was leading the way. [A026]*

Rather than jumping in and using a *laissez-faire*path to create strategy, directors of government affairs used their cognitive blueprints from previous experience

[55] A026, A002 and A001

and current learning to fuel their decisions on the lobbying capability development process. Furthermore, this facilitated investment decisions with regards to choice of political resources.[56] As one Lufthansa respondents said:

> *Before deregulation came to exist, we used to target people that we thought needed to be contacted. Then we would inform them on our position and what we thought needed to be done. We would organize meetings and send letters...*
> *... Our thinking came from the previous jobs, current job, people around us and education. [A030]*

However, ownership and stakeholders were also found to have influenced the cognitive aspects of the government affairs management team at Lufthansa. The quote below reflects Lufthansa's relationship with the government.

> *We were always very close to our government but they wanted us to be independent. The government wanted us to function like other industries. Our thinking led us to talk to the ministry of transport to move for liberalisation. I think we were talking to them about deregulation around 1982. I was at an IATA meeting where we fist discussed how we could manage liberalisation. Transport was on the agenda and Europe was trying to figure out how and what it could do and trying to obtain the legal right to introduce liberalisation to air transport. Not only to liberalise but also to harmonise existing regulation so it initially started the most important thing to come out in that period was something called the Compass report, competition on Intra-European air services in 1982, it was the European Civil Aviation conference that did that work and it was the first effort on the part of airlines and governments to sort of begin talking together, so you can see when you have a large number of governments and airlines who are interested in something like this, especially in Europe there is a limit to a number of people that can get involved. In the case of ICAC, IATA had AEA, so they set up a committee to follow what was going on in ICAC and the European commission. At that time this committee reported to a senior strategy group called in those days APAC, the Aeropolical advisory group. APAC like IATA, policy making groups had a membership of 24 airlines, and they met twice a year to endorse what IATA was putting forward as an international airline position as apposed to the European airline position through AEA. We were one of the 24 airlines that were pushing for liberalisation. [A026]*

[56] A026

Let us now look at organisational structural modifications in more detail to unbundle the lobbying capability development process.

5.5.5.1 ORGANISATIONAL STRUCTURAL MODIFICATIONS IN THE DEVELOPMENT PROCESS

One of the ways through which the lobbying capability was developed was by modifying the department's organisational structure. Informants expressed that they were working towards bringing lobbying process to "the following stage" in the endogenous policy context. Developing lobbying capability was associated with adapting the departments' structure to increase influence and align the deparments with what they believed to be the future.

Lufthansa did also use a combination lobbying structure in order to exercise influence, comprising individual lobbying and collective action (using AEA). This allowed EU level actors but pushed to be "better influenced instead of just being solo" [A002]. As one respondent said:

> *We did change our department's structure slightly for the purposes to influence in Europe. We had hired some EU level people for our Brussels office. However the Brussels office opened in 1989. However we used our national office to work closely with the EU. We were on the steering committee with KLM, Air France, BA which was very important to influence. AEA also played a large role and we were a resonant member. [A001]*

As seen from the above, organisational structure was used to reconfigure the lobbying capability. Synonymously the network relationship resources were also used by Lufthansa to develop their lobbying capability, as will be further explored in the next part.

5.5.5.2 NETWORK RELATIONSHIP INVESTMENTS IN LOBBYING PROCESSES

Network resources were seen as very important in the lobbying capability development. Senior executives' decision "blueprints" decided that the network targets for lobbying would be both national and international. Lufthansa was

found to have good national networks with their government, especially before the introduction of deregulation. However, the senior management team in the government affairs office knew that their network composition had to change by incorporating an EU frontier. According to the respondents, EU level network building began in 1985, where specific people were hired that had EU level network connections (and competence). These networks played an important role in developing their lobbying capability. As one of our respondents said:

> *We started to hire a few people in 1983 that had international law experience with a focus on airlines. They had to have friends in Europe and national government. They had to be familiar with US deregulation. We did not want a US style big bang as that did not work well. [A002]*

From the quote above, we can see that the senior management team in the government affairs office realised that they needed some new networks. Therefore the senior management team made decisions to hire new people with influencing policy in mind. Once three people were hired, they were contacting EU and national level targets. However, these senior individuals did not target EU and national level actors using a specific sequence, it was rather in flux. They were more concerned about securing access to those individuals that had power.

Lufthansa, during the deregulation period, especially in the introduction of the third package, decided to modify its network base using their cognitive blueprints. Their network base incorporated new people that had EU level networks. As one respondent's postulates:

> *At this time few airlines were buying in people with networks in mind. Maybe the big four, British Airways, KLM, SAS and Air France. We bought few people with some lobbying expertise, as we knew it was a matter before regulation would be deregulated. We were in the steering committee and we had to make sure nothing bad would happen to our airline. [A026]*

Indeed, Lufthansa was using extensive networks from individuals within the office to create influence, but the shift in power from national governments to Brussels meant that they had to play a new EU level game. Therefore, they also

decided to use their indirect network resources, AEA, which was placed outside their office.

AEA was very important before and during deregulation [A001]

The government affairs office perceived associations to be important network extension resources in developing their lobbying. The next part will look at human capital investment more closely, as this also played a vital role in developing their lobbying capability.

5.5.5.3 HUMAN CAPITAL INVESTMENT IN DEVELOPING LOBBYING PROCESSES

Through our interviews with Lufthansa, we found there to be great emphasis on human capital investment in the process of developing their lobbying capability, especially before deregulation. Bringing in new people was seen by senior management as a means to influence the deregulation policy process and to prepare for the next stage of the non-market policy environment. The reason for this was that senior management's intuitive perception was that new people would bring in new lobbying networks and lobbying competence. These new people would then better leverage the political resources to align them to the changed non-market environment, in order that it would not hinder the airlines market position, but actually advance them and protect them. As one informant said:

> *We hired some EU people with EU knowledge to improve our lobbying arm. We wanted deregulation to improve the airline industry and to reduce transaction costs. We wanted to be able to protect our airlines at the same time from any issues that would affect our profitability. Having seen the US airlines lobbying Washington, we knew that the next step would be to increase frequency in contact meeting at EU [A030]*

The next part will better explore the effects of interaction between human resources and competence in the lobbying capability process.

5.5.5.4 LOBBYING COMPETENCIES IN THE LOBBYING DEVELOPMENT PROCESS

Reconfiguring lobbying competencies was a very important way for Lufthansa to develop their lobbying capability. Senior managers in the Lufthansa government affairs office explicitly related the development of their lobbying capability hence change in their lobbying competencies, which was expected to enable them to influence new decision-makers. Lobbying at this time was to inform policy makers about the position of their airlines. Policy makers were not experts in the industry so they needed to be provided with information. Lufthansa pursued a tactic of fetching new people that had EU level knowledge which was expected to give them access to new knowledge that they believed they could not have accessed otherwise. As one Lufthansa respondent said:

> *We needed to inform policy makers at the EU level. Therefore, we had to get some of the best people that had worked in the EU commission. Our thinking then was about transferring knowledge to policy makers and educating policy makers. This was the key to good lobbying as political actors don't have all the information. Being transparent was always important to us. [A001]*

The underlying effort to gain access to specialised expertise was important to senior management in this office. Individuals that were viewed as being among the top in their fields of expertise were approached to work for this airline. In other words, hiring top experts in areas targeted for developing new lobbying competencies and supporting them through developed management cognitive blueprints appeared to be the underlying model for evolving the lobbying capability.

An interesting question with regard to developing new lobbying competencies is not only what processes enable firms to configure them effectively, but also how firms select lobbying competencies to build on their lobbying capability. Several informants describe the process through which new lobbying competencies were targeted, tagging them as "important" during regular managerial meetings, and integrating them into strategic planning efforts.

We can see that the lobbying capability development played an important role in the endogenous policy context where Lufthansa had time to manoeuvre to make their interest heard. From the micro level analysis of Lufthansa's government affairs office, we found that there were few variables that played a vital role in the lobbying capability construction. It was evident that political resources were comprised of human, organisational, network and competence resources. These resources were used to reconfigure their lobbying capability development process into generic and idiosyncratic platforms. The reason for all this was that cognition played a role in building this symbiotic relationship between political resources and lobbying capability development. Once senior management thought the lobby capability was developed satisfactorily, then it was used to deploy political resources to exert influence (see Appendix 17 for Lufthansa's overall storyline map cluster in the endogenous policy context).

5.6 CASE STUDY THREE: ALITALIA

5.6.1 ALITALIA OVERVIEW

Alitalia got off the ground in 1946 as Alitalia Aerolinee Italiane Internazionali. The airline was 40%-owned by BEA (British European Airways, later part of British Airways) and 60%-owned by the Italian government (see Appendix 13 for expansion on Italian government's general views on airline policy). Alitalia was intended to be an international carrier.

They began flying in 1947 with a Turin-Rome-Catania route, and services to Africa and Brazil were launched from Rome in 1948. To better compete with other European carriers, Alitalia and LAI merged in 1957 and took the name Alitalia - Linee Aeree Italiane. The government bought the shares held by BEA and TWA and assigned Alitalia to IRI, the Italian state holding company. The new airline's fleet boasted 37 aircraft (Dienel and Lyth 1998).[57]

In the early 1980's they diversified by creating Sigma (travel-related information systems) and Italiatour (tour operator). Diversification came, however, at the

[57] By 1960 Alitalia carried a million passengers and had introduced its first jets. By 1968 it had an all-jet fleet (Alitalia web-site 2006). The stylised "A" tailfm logo appeared a year later, and in 1970 Alitalia adopted use of the Boeing 747. Yet Alitalia began losing money in the 1970's. Facing rising fuel prices, inflation, and labour strikes, it responded by cutting underused routes and buying fuel-efficient Boeing 727s.

expense of the airline's expansion, and it began losing market share to rivals Air France and Lufthansa (Dienel and Lyth 1998). In 1988 they brought in Carlo Verri from the private sector to deal with labour and structural problems.[58] He secured labour contracts and developed aircraft financing, but his auspicious start ended with a fatal car crash in 1989. They limped through the early 1990's with losses, ageing equipment, and a reputation for poor service.[59]

Europe's air transportation market was opened to competition in 1996 (after a long process that began in 1983). Alitalia began low-fare carrier Alitalia Team, signed on Italian regional airline Azzurra as a code-share partner the next year, and set up its own regional carrier, Alitalia Express. In 1997 it also achieved its first annual profit since 1988 (Dienel and Lyth 1998).

IRI reduced its stake in Alitalia to 53% in 1998, and employees got their 20% stake. Alitalia began an alliance with Dutch carrier KLM, and in 1999 Alitalia and KLM completed a 'virtual merger' that unified their management structures for passenger and cargo joint ventures and allowed them to share profits. KLM ditched the partnership in 2000, however, and demanded Alitalia repay $91 million it had spent on upgrading an Italian airport. Alitalia protested KLM's termination of the alliance, and the dispute between the carriers ended up in arbitration proceedings (European commission web-site 2007). (Later, in 2002, a European court found KLM's reason for abandoning the deal insufficient and ordered the Dutch carrier to pay Alitalia 150 million euros.)[60]

[58] D017

[59] Thereafter Alitalia hired former IBM executive Renato Riverso as chairman in 1993. With deregulation fast approaching, Alitalia penned code-sharing partnerships with Continental (1994) and Canadian Airlines (1995). In 1995 several labour strikes flared up amid talk of restructuring and cost-cutting measures. After receiving little government support, Riverso resigned in 1996. His short-lived reign laid a foundation: labour tensions were eased with the promise of an employee-owned share in the company (Alitalia company web-site 2006).

[60] Alitalia was liquidated in 2000, and the state holding company's stake in Alitalia was transferred to the Treasury Ministry. Another chance at an alliance hatched when Alitalia signed partnership agreements with Delta and Air France, which led to full membership in the SkyTeam alliance near the end of 2001. Also in 2001 Alitalia said it would unload non-core assets, including its leisure division. The next year the company sold its reservation services unit, Sigma. That year the Italian government raised its stake in the airline from 53% to 62% (Alitalia company web-site 2006).

With the world's airlines struggling to regain passenger trust post-2001, cut costs and combat upstart low-fare carriers, in late 2003, Alitalia cut some 1,500 jobs from its workforce of 21,000. The Italian government denied direct aid to the airline in 2004, largely due to EU rules against such practices, but that did not stop Alitalia workers from initiating a costly strike in late April of that year that led to the cancellation of more than 1,500 flights. The strike was in protest at the lack of government assistance in conjunction with an announcement to cut a further 16% of it workforce on top of the cuts made in 2003. The government began transferring Alitalia employees to other state-controlled jobs.[61]

As European competition grew, Alitalia launched regional carrier Alitalia Express, which took over the operations of Gandalf, a previously independent regional carrier that it acquired for $8.6 million (Alitalia company web-site 2006). Alitalia also had low-cost carrier operations that it later spun off; the company is now known as Eurofly. Early in 2004, the company was plagued with labour disputes, facing several strikes within a period of a few weeks over a restructuring plan proposed by the board. The plan called for a reduction of 2,700 jobs, forcing it to cancel hundreds of flights and leading to long delays and dismayed passengers (Air transport World 2005). The crisis level was enough to force the government to intervene.

The Italian government received approval in 2004 from the EU to grant the carrier a bridge loan of up to €400 million, which could be supplemented by private banks (Air transport World 2005). One catch was that a restructuring or liquidation plan had to be ready by the end of 2004. Additionally, the carrier would never be allowed to receive aid from the Italian government, which would also have to reduce its stake from 62% to 49%.

[61] With airline deregulation and the subsequent arrival of low-cost European airlines, Alitalia's skies have been cloudy for some time. Once a monopoly, Alitalia - Linee Aeree Italiane now competes for the 22 million passengers that it carries each year. It operates a fleet of about 190 aircraft, has hubs in Rome and Milan, and, including codeshare flights, flies to about 500 destinations in more than 100 countries. Subsidiaries offer regional airline services. Since 2003 the carrier has struggled to keep financially afloat, battled with disgruntled employees, and undergone management shake-ups. The Italian government has reduced its stake to just under 50% (European union web-site 2006).

In 2005 Alitalia had plans to sell off 49% and control of its loss-making ground service unit, Alitalia Servizi, to holding company Fintecna for about $108 million in order to raise capital, but the company has put the sale on hold while it holds talks with its unions.[62] Alitalia also announced plans to issue new shares, more than half of which the Italian government, with the approval of the European Commission, has agreed to purchase to insure that the company remains afloat. (See Appendix 6 for expansion on Alitalia's financial position and for a snap shot of the economy.)

5.6.2 THE GOVERNMENT AFFAIRS FUNCTION IN ALITALIA

Historically a large part of the government affairs function within Alitalia was carried out by the institutional relations office.[63] It was not until the early 1990's that this department started to focus its efforts on national and EU affairs, instead of just national affairs. More precisely, it only started to slowly recognise the importance of EU level affairs after 1988.[64] After this period they were initially learning the process of dealing with the governments in Brussels and later directly with the commission from 1996 to 1997.[65] The increased contact with the commission got a foothold after Alitalia underwent its first re-structuring and re-capitalisation program in 1997, which had to be approved by the commission in Brussels (Flight International 2001). Nonetheless, this department had a role within Alitalia, and its main function consisted of the following:[66]

- providing a clear organisational structure;
- monitoring the relevant political fields;
- developing the network of stakeholder;
- systematic communication with different stakeholders;
- all relations with institutions at national and EU level

[62] D017 and D021.
[63] The name of the department is slightly different from government affairs but it has the same function.
[64] D017
[65] D017, D034, F032 and F037.
[66] D017, D027 and D034.

Until the end of 1980's, Alitalia's institutional relations department had an objective of preservation and acquisition of traffic rights. However, external factors, policy change pressures, the development of an adequate infrastructure and the ongoing development of the single market led to this department modifying its lobbying capability. As one Alitalia respondent put it:

> *We have always been lobbying using our national government but during this period we did not really influence our government like other airlines because they owned us. It's easy and great to arrange a meeting with your owner and ask them to speak to other important political actors... We did change our lobbying ways during the first deregulation package but I think slowly compared to other airlines. In my opinion we started a little too late lobbying EU level but we did not want changes because we were comfortable... I also think that AEA helped us a lot by lobbying using our views [D017]*

To illustrate, this department has been lobbying from the very beginning because of the political nature of the industry and its management. This department has always had constant interactions with the political arena in Italy and its governments. Pre 1988, lobbying at Alitalia focused very much on a national level. However, they only realised in the early 90's that they needed to lobby at EU level for the third package.

5.6.3 TYPES OF LOBBYING ROUTINES USED BY ALITALIA

From the interviews we found that different lobbying routines/processes were used by the institutional relations office at Alitalia before, during and after the endogenous policy context.[67] The categorisation of the different lobbying routines was made according to the terms idiosyncratic and generic, using Winters (2003) ideas. Some illustrative quotes were chosen, as shown in Table 14, which were exemplary of themes that emerged from the interview transcripts. One Alitalia senior management sums up the essence of decisions taken in this context in conjunction with the types of lobbying processes:

[67] Routines and processes are viewed synonymously here.

Before deregulation we were not lobbying like other airlines. We were owned by the government which complicated things a little. We did not have a robust lobbying arm because we could just talk routinely to government people. Some might say that this is a means of lobbying efficiently but in my opinion it's not a sophisticated mechanism when the policy environment is changing to a new one. But then, we realised in 1990 that Alitalia needed to be heard at EU level and that we had to change. Other airlines had modified their lobbying to meet the policy needs from the first two packages... We used AEA on most part I think to lobby. But we too hired new people to contact at an administrative and political counter part level at EU and national level on a daily basis around this time but I think it was too late. Sometimes we were more than just influencing on a daily basis at every level... We have to diffuse the knowledge somehow to inform policy makers... So the kind of relationship between authorities and Alitalia was so close for that time but questionable if it was efficient. [D017]

Table 14: Direct Alitalia quotes to show lobbying processes types

Idiosyncratic Lobbying Routines	**Generic Lobbying Routines**
"Visiting friends"	"Using our resources like interest groups like AEA that we pay to use"
"Personal letters"	"Some consultants"
"Talking to our owners"	"Conferences"
"Personal phone call"	"Cocktail parties"

As seen from the illustrative quotes from the above, Alitalia was using an array of individual lobbying that involved complicated targeting and sequences, using a combination of telephone calls, visiting friends, and letters. They were also using generic lobbying routines that other airlines may tap into for a fee, these included AEA and cocktail parties. The executive interviewed felt that Alitalia wanted to use a combination of lobbying routines to influence policy makers. Alitalia's institutional affairs office decided to put most effort on their generic lobbying routines before the implementation of the first package, as they felt constrained by their ownership. They believed that based on their limited financial resources and human resources they could exert influence mainly using AEA and the country which owned them. According to the respondents, from 1988 most of the lobbying that Alitalia did was through AEA. However,

simultaneously the institutional relations office was slowly learning that influencing the European supranational institutions and the Italian authorities in the Brussels arena was important.

> *The institutional affairs office was mainly lobbying through AEA but we had our eyes set on some specific people at the council, parliament and commission level. [D021]*

It was evident that Alitalia was late in the lobbying game, but they became very active in lobbying directly to the commission in 1996 and 1997, just after the adoption of third package. This was mainly due to Alitalia facing difficult financial and economic difficulties where the state decided to recapitalise the company together with an in-depth restructuring plan.

> *It was from financial distress moment that Alitalia started lobbying directly the commission in its own name using a more developed lobbying activity. [F008]*

Therefore the recapitalisation had to be approved by the commission in Brussels under the state aid rules. There were lots of interesting policy response techniques and political resources that Alitalia used within this endogenous policy context.

5.6.4 POLITICAL RESOURCES AND POLICY RESPONSIVENESS

From the analysis we found that the lobbying capability was developed from the political resources. Political resources are important in the lobbying process, especially in responding to policy needs. Subsequently the respondents explained that political resources are comprised mainly of people who have experience and networks, as well as actual organisational structure. We categorised all the themes found into three key variables that make up a political resource; human, organisational and network resources. It is from these important resources that lobbying capabilities are formed and these capabilities are then used to deploy the political resources. Table 15 below shows the three main categories of emergent concepts that are important in the political resource composition. Table 15 also shows the illustrative quotes.

Table 15: Alitalia political resources

Political capital resource	Observations
Human	"Knowledge" and "experience"
Network	"AEA" and "friends within the political system" "associates in EU level and national level"
Organisational	"organisational formal structure", its "planning and coordinating systems"

Alitalia developed its lobbying process from its political resources, but the rejuvenation of their lobbying capability happened later in comparison to other airlines ("around 1990"). This was mainly because they were very comfortable in their old ways. Nevertheless, they decided to develop their lobbying capability utilising people, their network and the institutional relations department structure. As one Alitalia senior respondent says:

> *Alitalia decided to develop its lobbying later compared to other airlines. The resources that we had in our office were limited because we did not have to lobby before the deregulation because of our governance structure...Aviation policy had changed forever and Alitalia required new resource collection. [D017]*

The illustrative quote shows that Alitalia had moved late in the game when compared to its competitors. They started developing their lobbying capability during the 2nd and 3rd package, mainly due to their being a government owned organisation. Moreover, this department felt that they did not have the right configuration of political resources to develop a robust lobbying capability before 1990. They started to focus on several factors to develop their lobbying capability.

The next part will aim to understand how Alitalia developed its lobbying capability and political resources within this office before and during deregulation. We came to learn that the institutional relations office used some form of decision templates or what we term a "cognitive blueprints" to modify political resources in order to develop a lobbying capability in their specific way. In other words, the Alitalia drew on its human, organisational and network resources to form a specific lobbying capability configuration to deploy political

resources based on how their executives interpreted this policy context. The next part will look at the core elements of the lobbying capability process in more detail. In other words, we will illustrate that Alitalia had micro level variables that were used significantly to develop lobbying in this endogenous policy context.

5.6.5 COGNITIVE BLUEPRINTS AND TOP MANAGEMENT ATTENTION IN DEVELOPING A LOBBYING PROCESS

The way in which lobbying development decisions were taken by the senior executives within the Alitalia institutional affairs office played a vital role in developing what they believed to be a strong lobbying capability. Similar to the other cases, we found the cognitive blueprints to be at the core of the lobbying process. However, the blueprint decisions made by the senior executives within the institutional affairs office were limited due to the majority government ownership. As an Alitalia senior member said:

> *The way we think is important....The way we were thinking in our office was mainly due to our ownership. We wanted to lobby the EU earlier before deregulation was introduced but we were constrained by our finances and having an old lobbying function meant that we were limited in many ways... We realized that we had to change our ways so around package two we hired in two EU experts that had EU networks to inform EU political actors... In my opinion, lobbying is about influencing through networks, this is important to our lobbying function. [D027]*

Building on the idea of a constrained capability, senior management members from the institutional affairs office found their decision blueprints constrained to a certain degree which affected their ability to renew their lobbying capability to match the new policy environment. As one senior informant put it:

> *Alitalia wanted to develop their lobbying thinking to make it efficient but they had limited resources for what was going to come. Don't get me wrong, they had great national lobbying abilities but they were not prepared that well in Brussels, so they were using AEA as their EU lobbying platform. This in my opinion was attributed due to their government ownership structure. [F008]*

Alitalia wanted to develop their lobbying capability after 1990 as they were very comfortable in their old ways before 1988. We can see here that the senior management within the institutional affairs office learned later that they had to change. They would start to work closely with the Association of European Airlines (AEA) to develop their thinking processes and blueprints.

However, another question is, how did the lobbying cognitive blueprint process affect the decision-making flow and where did the decision making originate in this context? We believe that within this period the actual decision-making went from the CEO level to the institutional affairs office. As one informant put it:

The knowledge flowed from our department to the CEO. [D027]

We also found that cognitive blueprints decide the targets to lobby at, both national and international. During the endogenous policy context, the lobbying was conducted chiefly at a national level between 1985-1997, with a shift taking place from 1987-1997 towards the EU level. Rather than jumping in and using a *laissez-faire*path in creating strategy, directors of institutional affairs used their cognitive blueprints from previous experience and learned to channel and fuel their decisions on the lobbying process. However, ownership and stakeholders also influenced the cognitive aspects of the top management team within the government affairs office.

> *Sometimes it's difficult to change lobbying patterns, as you feel stuck in the old ways. It was easy to just talk to our national contacts through our owners and they would influence on our behalf. [D027]*

Indeed the mix between human, organisational, and networks resources, as well as competence investments, played an important role in developing an Alitalias lobbying capability.

5.6.5.1 ORGANISATIONAL STRUCTURAL MODIFICATIONS IN THE DEVELOPMENT PROCESS

We found that in 1992 this department had to slightly modify their structure. The people interviewed explained how they were bringing lobbying process to "the following stage" in the endogenous policy context. Developing a lobbying capability was associated with greater levels of interaction among the top management teams from the institutional affairs office with the European level targets. Therefore the structure chosen was one which would allow the greatest interaction to take place between the institutional affairs office and the CEO.

Surprisingly enough a large level of responsibility for strategic decision-making was moved to interest group representation where there was more of an attempt to have an influence together in order to make an impact. Furthermore, lobbying activities in this challenging policy context changed, often leading to structural reorganisation and formal redefinitions of the responsibilities of substructures within the government affairs office. As one respondent said:

> *There was the addition of a specific focus on Brussels. There we had to slowly add another aspect of EU lobbying into our structure. [D017]*

We also found that lobbying network relationship resources were used by Alitalia to develop their lobbying capabilities. However, we found that network and organisational resource reconfiguration was done later, around the end of the second package, in order to develop a strategic lobbying capability.

5.6.5.2 NETWORK RELATIONSHIP INVESTMENTS IN LOBBYING PROCESSES

Alitalia was found to have a very strong national network but not a very strong EU level network. These networks played an important role in developing their lobbying capability. However, Alitalia believed that networks were constrained in this context by having a majority government ownership structure, as influencing at a national level could be done but it was more difficult at an EU level, and contacts were limited. As one of our respondents said:

> *Before deregulation, at a national level, I had also the relations with the Italian regions. You know that the Italian regions have a lot of power. At national level, I also have lots of stakeholders, which are mainly consumer organisations. For EU level, it's of course the commission, parliament, and council. The three main institutions but here we had a limited lobbying scope. We did not have too many contacts in these places. We reacted too late in contacting the right people because we were comfortable and don't think we wanted to change...*
>
> *I also had relations with AEA, acting as a focal point and coordinator with the AEA, the association of European airlines... this was another of our favourite routes" [D035]*

While another respondent said:

> *Before deregulation, this department was lobbying mainly the Italian parliament and the Italian government. One aspect of the government that they used was mainly the ministry of transport. The treasury was another main contact because the treasury held about 62% of the capital of Alitalia, so it was the main shareholder. Also ENAC (Ente Nazionale per l'aviazione Civile), the Italian civil aviation authority, was another point to contact during this point. [D027]*

At Alitalia, during introduction of the third package, the government affairs office had to modify its network base to incorporate new people. This was believed by many to be far too slow but essential to becoming aligned with the new policy environment. As one respondent postulates:

> *We had to hire new people to engage with EU politics that had EU relations. We had to add a EU component to our relations or maybe face problems...so EU networks were developed that played a integral role in our lobbying but a little too late... It should have happened in mid 80's like other airlines but sometimes things happened slowly in Italy. [D021]*

Alitalia was not using extensive networks from individuals within the office to create influence, as they had the contact base with the national level political actors due to the ownership structure. However, the shift in power from Italy to Belgium meant that Alitalia had to play a new EU level game. Therefore, Alitalia started to hire people that had EU level networks in 1992. Alitalia was also using there indirect network resources by using AEA which is placed outside the Alitalia's office. Now let us look at another variable that interacted with the

network resource to help develop a lobbying capability in the endogenous policy context.

5.6.5.3 HUMAN CAPITAL INVESTMENT IN DEVELOPING LOBBYING PROCESSES

Human capital seems to determine the development pace of the lobbying capability. More importantly, we found that Alitalia's institutional affairs office viewed the role of human capital as being an important component in the process of developing lobbying capability. As one informant said:

> *I think that the kind of contact and visibility that Alitalia had on the process was fairly good. I would say that Alitalia always had the ability of having access to the right people in terms of information, assessment of the risk and so on. I believe that we still have the same kind of capabilities in that period but at a national level... Obviously what Alitalia did not have was a business that can transform this information into sustainable decisions because in 1994 and 1995, we went through a very challenging period simulated by the level of competition that meant we needed a strong restructuring plan. That was a result of a managerial weakness in deciding the strategy rather than inability to asses the risk or to influence the course of regulatory development... perhaps the management weakness came from a poor corporate governance structure where the ownership was not matching the control aspects... therefore, we in 1995 hired a few new senior people with the view that they would align Alitalia with the new business environment [D017]*

Network relationship capital is generally considered an attribute of the individual people to other people, whereas human capital is considered an attribute of individuals and comprises a stock of skills, qualifications and knowledge. We found that there were interaction effects between specific people, their network targeting sequences and level of competence (national vs international).

> *Yes, our relationships play a role in our lobbying. It's the most important part of our lobbying but during deregulation our networks were at a national level. As the people we hired were Italians. We did not need to hire external lobbyists. Consultants yes, we had them for all sorts of things for Data etc. We have not done that in the past and no now. In fact we have never hired a lobbyist outside the firm. I think having internal lobbyists is the only way to get influence. [D027]*

As it can be seen from the illustration below, the number of people lobbying does not matter to Alitalia. We found the lobbying capability was developed at Alitalia with the consideration of the quality of network base and not so much the quantity of people. However, the networks were thought to be affected by the ownership structure, as it was the majority government ownership structure that ultimately played a role in devising the networks targets and sequence.

> *It is always a matter of how efficient you can be. I think it is not a matter of having more people with more networks; it is a matter of having the industry having its voice heard. Especially during this time, I think Alitalia could have spent more time building lobbying targets in Brussels but we had the idea that our government contacts were enough. [D017]*

Indeed, the people interviewed felt that Alitalia had good networks at a national level but poor management competence, which could be attributed to their weak corporate governance structure.

5.6.5.4 LOBBYING COMPETENCIES IN THE LOBBYING DEVELOPMENT PROCESS

The lobbying competencies at Alitalia were reconfigured by senior executives within the institutional affairs office in order to build their lobbying capability. However, the senior executives within this office did not relate the development of the lobbying capabilities of their firm to a change in lobbying competencies until 1995. This was viewed as the means of reaching "the following stage". Alitalia pursued a strategy of fetching new people that had EU level competence, which was expected to give them access to new knowledge and better networks that they believed they could not have accessed otherwise. As one Alitalia respondent said:

> *We wanted to bring in new EU knowledge, as aviation law was changing. I think the expertise was there for the national level but not there for the international level. [D021]*

An interesting question with regards to developing new lobbying competencies is not only what processes enable firms to configure them effectively, but also how Alitalia selected lobbying competencies to further develop lobbying capabilities?

Several informants describe the process in which new lobbying competencies acquired though talent hunting.

> *I think we just sat around the table and asked if we knew anyone for lateral hiring. If so, then get there CV and negotiate a salary. As simple as that I think. [D035]*

Conversely, some informants felt that Alitalia did not have the right management competence for lobbying:

> *During this time Alitalia was comfortable with the government's big helpings. In my opinion, this made some of the management staff and systems maybe outdated and weak. They tried to get the right people in 1995 during the re-structuring plan but it still had fundamental management and systems flaws. [F008]*

From the micro level analysis of Alitalia institutional affairs office, we found that there were few variables that were evident from the interviews that played a vital role in the lobbying capability construction. We found that competence played an important role in the endogenous policy context and into Alitalias lobbying capability development process. It was evident that political resources were comprised of human, organisational, network and competence resources. However, we found that the ownership structure was viewed by some of the executives to have affected Alitalia lobbying capability capacity in this context. Moreover, Alitalia was very comfortable resting on their laurels and relying on monopolistic positions on routes. For them lobbying capability was developed for national purposes, and only in 1995 did they decide to modify this capability, when they realised that things had to change or they would face bankruptcy (see Appendix 18 for Alitalia's overall storyline map cluster in the endogenous policy context).

5.7 CASE STUDY FOUR: SAS AIRLINES

5.7.1 SAS OVERVIEW

The national airlines of Sweden (ABA), Norway (DNL), and Denmark (DDL) first met in 1938 to negotiate joint service to New York (see Appendix 14 for expansion on the Scandinavian government's general views on airline policy).

The plan was delayed by WWII but kept alive in Sweden, where banker Marcus Wallenberg founded Svensk Interkontinental Luftrafik (SILA), a private airline that in 1943 replaced ABA as Sweden's international carrier. With SILA's financial backing, the yet-to-be-formed Scandinavian Airlines System (SAS) obtained the necessary landing concessions to open a Stockholm-New York air route in 1945. SAS was formed in 1946 after the mergers between SILA, DNL and DDL.[68]

After opening service to South America (1946), Southeast Asia (1949), and Africa (1953), SAS inaugurated the world's first commercial polar route in 1954. It formed charter airline Scanair in 1961 and Danish domestic carrier Danair, through a joint venture, in 1971 (SAS web-site 2006).

Deregulation of US airlines (1978) signalled the demise of nationally protected airlines. Jan Carlzon, former head of Swedish airline Linjeflyg, became SAS's president in 1981. By targeting businessmen as the airline's most stable market and substituting an economy-rate business class for first-class service on European flights, Carlzon turned SAS's losses into profits by the end of 1982 (Dienel and Lyth 1998).

The company bought about 25% of Airlines of Britain Holdings in 1988, gaining a foothold at London's Heathrow Airport. Another purchase that year brought SAS nearly 10% of Continental Airlines Holdings. In 1989 the airline signed agreements that provided route coordination and hub-sharing with Swissair, Finnair, LanChile, and Canadian Airlines International.

SAS tried in the early 1990's to merge with KLM, Swissair, and Austrian Airlines to create a new international carrier, but that effort failed in 1993, leading to the replacement of Carlzon. New CEO Jan Stenberg consolidated the group, shed non-core businesses, and cut 15,000 jobs. By late 1994 SAS had sold SAS Service Partner (catering, its largest non-airline unit), Diners Club Nordic, and most of the SAS Leisure Group. By spinning off its 42% stake in LanChile and creating a new Latvian airline with Baltic International, SAS focused its air

[68] The Swedish government owns 21% of the new SAS, and the governments of Denmark and Norway each own 14%.

routes in Scandinavia, Western Europe, and the Baltic region (Dienel and Lyth 1998).

The SAS consortium was restructured into a single publicly traded company, SAS AB, in 2001. That year SAS and Danish carrier Maersk Air were fined by the European Commission for agreeing not to compete on certain Scandinavian routes. SAS EVP Vagn Sørensen accepted responsibility for the illegal agreement and resigned. A month later SAS's board of directors also resigned, and a new board was elected at an extraordinary shareholders' meeting held later that year. At that time Jørgen Lindegaard took over the CEO position.[69]

SAS is a founding member of the Star Alliance, whose members include Air Canada, All Nippon Airway, Lufthansa, Thai Airways, United Airlines, and VARIG of Brazil. The marketing alliance allows the carriers to pool frequent-flyer programs and share booking and airport facilities. Many of the members have signed code-sharing deals with one another. SAS serves more than 770 destinations worldwide through its Star Alliance partners. It has three alliance members within its group: Scandinavian Airlines, Spanair, and Blue1 (formerly Air Botnia). The SAS group also owns Widerøe, airBaltic, and Estonian Air. Widerøe is Norway's leading regional carrier, and Spanair is Spain's second-largest airline. Fast-growing Blue1 is based in Finland.[70]

The airline has been struggling to keep costs down, and it has been exploring the usual ways to quickly eliminate high costs, including reducing jobs from its workforce. The increase in fuel prices has also exacerbated the airline's financial condition. Despite its cost-cutting efforts, SAS has failed to stop losses in the face of stiff competition and record jet fuel prices.

[69] The SAS trading subsidiary was folded into the airline unit in 1994. Through its hotel unit, SAS allied itself with Radisson Hotels to expand its presence in Europe, the Middle East, and Asia. In 1997 the company joined with United Airlines, Lufthansa, VARIG, and others to form the Star Alliance. In 1998 SAS acquired Finland's Air Botnia.

[70] The company has split its Scandinavian Airlines businesses into four separate airlines. Three of the units operate in Denmark (Scandinavian Airlines Danmark), Norway (SAS Braathens), and Sweden (Scandinavian Airlines Sverige), and there is an additional airline to handle international flights (Scandinavian Airlines International). Together these airlines transport almost 24 million passengers yearly (SAS company web-site 2006).

To reduce costs, the company has decided to focus on its core business. As part of that strategy, the company in 2005 agreed to sell its European Aeronautical Group, which has operations in Sweden and the UK, to Canada-based flight operations manager Navtech (see Appendix 6 for expansion on SAS's financial position and for a snap shot of the economy).

5.7.2 THE GOVERNMENT AFFAIRS FUNCTION IN SAS

The government affairs function within SAS was carried out by the company's aeropolitical affairs department, whose main objective was the preservation and acquisition of traffic rights, and influencing of political actors. This department, like a government affairs office, dealt with external factors, such as environmental and conservation pressures, as well as the development of an adequate infrastructure. This department has been lobbying from the very start but senior managers within this department realised that its lobbying capability had to accommodate a new target group, mainly political actors in Brussels. As one respondent said:

> *Then I think that SAS has been lobbying from the beginning in 1946. And why is it so? Because aviation and governance have been so intertwined, maybe more then any other industries. Because our industry has been so heavily regulated. And I think therefore contact with governments and airlines started much earlier then many other industries...*
>
> *...Whilst lobbying in a more historical sense was based more on a bilateral basis or national basis. We were aware that the regulatory arena was going to change since the commission would get a strong role. It is a long answer but I think it is very important to highlight the change in the lobbying environment was inevitable after deregulation. So we had to work hard in the aeropolitical affairs office to influence the policy makers early and change our lobbying function to be more efficient. [B004]*

A number of political developments which actually or potentially influenced the position of SAS and its profitability were controlled by the aeropolitical affairs department. This department determined the access to markets, relations with

suppliers, relations with competitors, and the possibility of cooperation. The main activity of this department before deregulation was as following:[71]

- To monitor as early as possible any social, political, legal developments which could affect the position of SAS and its future;
- Within the social, political, legal developments identified, to support the making of internal decisions relevant to the positions taken by SAS and to advise on the way in which these positions should be followed through in the political and administrative decision-making process.

To protect and strengthen its commercial position, SAS follows a corporate political strategy by lobbying targeted political actors. It implements this by participation in public debate and by attempting to exert influence by means of formal and informal exchanges of ideas with prominent figures in politics and the government, and with representatives from various sections of society. This department viewed deregulation as the following:

> *When we came to the realisation that liberalisation was unavoidable. When we did that we wanted to go all the way within the EU. We wanted as much liberalisation as possible. And by liberalisation we also would stress that non discrimination a great deal. And I think a lot about state aid in that regard. Because if you liberalise the market that would probably be a number of candidates which turned out to be true for failure. And if you liberalise a market you should allow those airlines and businesses to fail otherwise you cannot talk about free and liberalised competition. As soon as the market was liberalised, there was no pardon from the Scandinavian authority. They went all the way immediately and abided by all the rules. And that is a Scandinavian way of doing things. There were many national carriers that were protected, protected, protected in so many ways by national governments. They were protected from the consequences of the liberalisation. For instance Air France, received something like 5 billion Euros in State Aid in 1997. Which would be unheard of in a Scandinavian environment. So SAS had to survive on its own and in some instances also fighting its own authorities and this is where lobbying became a more important integral part of the SAS regulation game. [B006]*

[71] B007 and B024.

SAS's lobby function at the EU and the relevant national organisations is based at the SAS head office in Denmark. Although SAS created a public affairs manager role in the European capital in 1995, this was done to meet the new needs from this policy context. This decision stems from SAS's view that government affairs are an important management activity. They based of a manager in Brussels, both within SAS and outside, and the manager would soon be perceived to be important by political actors. The Brussels man is an external resource that can be used to create some form of value for SAS.

5.7.3 TYPES OF LOBBYING ROUTINES USED BY SAS

SAS spent a lot of time developing lobbying routines before, during and after the introduction of the deregulation. This was mainly due to SAS executives believing that political decision-makers were in the position to affect their bottom line tremendously, so it was important for them to have an influence mechanism that would direct the right policy outcome and also matched their resources and skills. The senior executives within the aeropolitical affairs office had several ways of influencing national and international political actors. The types of lobbying processes used by SAS were mainly a combination of individual and group coalition influence. As one respondent said:

> *We lobbied bilaterally with the national authorities in the three Scandinavian countries. The individual lobbying path was in our opinion the best way to influence. However, according to our thinking and evaluation then we used other resources from our lobbying bag to influence. AEA was a great resource that we pulled out of the hat. We were lobbying using AEA during that time using mainly some influence at the general meetings but everyone wants to push their views in these meetings...*
> *...If you ask me what actual process we used more, we used maybe more individual lobbying routines but AEA played a big role and of course our national government authorities. [B007]*

The categorisation of the different lobbying routines was done according to idiosyncratic and generic lobbying routines. Some illustrative quotes were chosen that were exemplary of themes that emerged from the interview transcripts, as shown in Table 16.

Table 16: Direct SAS quotes to show lobbying processes types

Idiosyncratic Lobbying Routines	**Generic Lobbying Routines**
"Visiting friends"	"Using our resources like interest groups like AEA that we pay to use"
"Personal letters"	"Conferences"
"Contacting the national authorities"	"Cocktail parties"
"Personal phone call"	

As seen from the illustrative quotes from the above, SAS was using an array of individual lobbying that involved complicated targeting and sequences by using a combination of telephone calls, visiting friends, and letters. They were also using generic lobbying that other airlines may tap into by paying a fee, including AEA and conferences. According to the SAS respondents, the aeropolitical affairs office decided to put most effort into lobbying using idiosyncratic lobbying routines, while also using the generic routines. The reason for this was thought to be because the government affairs executives believed that these routine combinations were the best way to influence the policy makers. As one respondent said:

> *We were lobbying using the classic lobbying techniques like using friends inside the political system, dinner parties, cocktails and breakfast meetings but this has changed to a lesser extent to before, because it is a matter of cost. It is also a matter of time, a matter of resources etc. Sometimes it might be more efficient to have a short meeting in an office on a specific topic. [B029]*

Before 1988, the aeropolitical affairs office was learning to influence at the EU level, by learning the paths of influencing the European political actors, while lobbying the three Scandinavian authorities. As one respondent said:

> *Before the first package was introduced, we had to deal with a lot of questions around traffic rights. But after the third package came into place it was not necessary to negotiate any flights anymore because we had an open European market. So this meant that the geographic priorities had to change. That you could focus on entirely on non-liberalised markets when it comes to those issues. So as a result you need less people in an aeropolitical function. But then of course the institution started to become more creative when it comes to proposing legislation*

> *within other areas. First they liberalise then they find out that liberisation did not work the way they thought so then they started to debate other issues to adjust the market or adjust the behaviour of the undertaking or whatever. We sometimes refer this to as, re-regulating the market. Like in consumer legislation or competition law or whatever. So there was a change in focus. [B004]*

The EU government had very little power before 1992, but it did have discussions about the components of the policy with the Scandinavian authority. Actually SAS had a very special situation at that point in time, as Sweden and Norway were not members of the European Union while Denmark was a member of the EU. That of course made it necessary to ensure that there was some consistency between how the deregulation package was going to be applied to the three countries. Therefore, there was a special agreement created between the European Union and Sweden and Norway to ensure that all legislation was also going to be applied to Norway and Sweden.

5.7.4 POLITICAL RESOURCES AND POLICY RESPONSIVENESS

From the analysis we found that the lobbying capability was developed from political resources. Political resources are important in the lobbying process, especially in responding to the policy needs. Subsequently the respondents explained that political resources are mainly comprised of people who have experience and networks, and the actual organisational structure. We categorised all the themes found into three key variables that make up a political resource; human, organisational and network resources. It is from these important resources that lobbying capabilities are formed and these capabilities then are used to deploy the political resources. Table 17 below shows the three main categories of the emergent concepts that are important in the political resource composition. Table 17 also shows the illustrative quotes.

Table 17: SAS political resources

Political capital resource	Observations
Human	"Knowledge" and "experience"
Network	"AEA" and "friends within the political system" "associates in EU level and national level"
Organisational	"organisational formal structure", its "planning and coordinating systems"

SAS developed its lobbying process from its political resources; the rejuvenation of their lobbying capability happened around 1986. Nevertheless, they decided to develop their lobbying capability through people, their network and department structure. As one SAS senior respondent says:

> *It is very double-sided. But I must admit that it is much more difficult to influence the policy making alone. It is a matter of network resource and other resources. So I would say in 1986 we developed our lobbying within the firm by focusing on making the commercial side of SAS understand what was happening at Brussels. We knew that we wanted regulation to change like KLM and British Airways. At the same time AEA and we hired new people that gathered information so that SAS could understand the regulatory environment more thoroughly. We were aware that many good things were going to come but also competition was going to be increased as a result of this deregulation. So definitely we tried to make Brussels hear our opinions but our individual level of influence was limited due to the large number of other interest groups. The political environment definitely shaped our routines during this period. We had to find the resources to meet the new environment. Yes, we all wanted to be proactive but at this time it is difficult to have our opinions heard due to lack of resources. I must admit that's the key to everything! [B004]*

The illustrative quote shows that SAS had moved early in the game compared to some of its competitors. They started developing their lobbying capability the well before the first package. Moreover, this department felt that they did not have the right configuration of political resources to develop a robust lobbying capability to match the new policy environment. They started to focus on several factors to develop their lobbying capability.

The next part will aim to understand how SAS developed its lobbying capability and political resources within this office before and during deregulation. We came to learn that the aeropolitical affairs office used some form of decision

templates or what we term a "cognitive blueprints" to modify political resources in order to develop a lobbying capability in their specific way. In other words, the SAS used from its human, organisational and network resources a specific lobbying capability configuration to deploy political resources, based on how their executives interpreted this policy context. The next part will look at the core elements of the lobbying capability process in more detail. In other words, we will illustrate that SAS had micro level variables that were significantly used in order to develop lobbying in this endogenous policy context.

5.7.5 COGNITIVE BLUEPRINT AND TOP MANAGEMENT ATTENTION IN DEVELOPING A LOBBYING PROCESS

The decisions taken by the SAS senior management in their aeropolitical affairs office played a vital role in developing what they believed to be a strong lobbying capability for this period. The decision-making blueprints that the senior executives used and adapted in that time, are what we have found to be at the core of the lobbying development process. As one respondent put it:

> *Our thinking frames were important in this period. The way I made decisions was made from the people around us, my past experience and what lies ahead. However, some of our previous routines were challenged with the potential policy liberalisation so SAS and our department had to evolve our lobbying routines. [B029]*

As the illustrative quote above shows, the senior management's cognitive blueprints came mainly from their previous experiences but also from the people around them to assist their current learning and from their perception of the future impact of policy. This highlights that past, present and future is something that SAS managers look to when developing their own cognition in order to then develop lobbying capability.

We found that the SAS decision-making blueprints were fairly adaptable and decision-makers had a lot of support from owners. The senior management teams within the aeropolitical affairs office were conditioned by default to create cognitive blueprints to facilitate decision-making. Moreover, the top management teams within this office needed their cognitive blueprints to be

improved every so often to meet the new policy environment. After hearing that deregulation may be introduced, the SAS aeropolitical affairs office started to develop their lobbying capability by firstly looking at their own cognitive blueprints, and where they lacked competence they looked outside the organisation within their networks, or learned by reading. As one senior informant put it:

> *Like always before the deregulation period when you do lobby work, it is a matter of analysing the political environment. We were analysing the different political parties and their views. This was done in order for us to make our information packages or what some call 'position influence packages', these were brought to the political receivers. Our thinking was adaptable and we lobbied in the way we thought was right. As we went past the first package we had to read a lot of books on the US deregulation period in order to inform our thinking....[B024]*
>
> *... My thinking then led me to believe that we had to have a large number of meetings which in our view was the most sufficient way to deal with, for example, the parliament. We had one to one meetings with politicians, meetings with various committees etc. And obviously to use whatever organisations around the political system. [B024]*

We can see here that the senior management within the government affairs office would learn by doing, instead of getting formal training to develop their lobbying capability. We believe that within this period the actual decision-making went from the aeropolitical affairs office to the CEO level. As one informant put it:

> *Decisions flowed from mainly our office to CEO. Yes, he did play a large role in the influencing game but we provided him with the SAS corporate political strategy information. I think it usually starts in our office. [B007]*

On a different note, we found that senior executives' decision "blueprints" decided the targets to lobby at, both national and international. During the first and second package of the endogenous policy context (1987-1992) the lobbying was conducted more at a national level, with a shift taking place towards the EU level from 1992-1997.

> *SAS did target people in the lobbying game before deregulation. The lobbying targets depended on access to who we knew and who we thought had power. [B028]*

As the illustrative quote shows, SAS would target political actors in their networks, and this depended on their cognitive understanding of access and power. Nevertheless, we have also found that human, organisational, and networks resources, and competence investments all played an important role in developing an effective lobbying capability. In addition, ownership and stakeholder's views influenced the cognitive aspects slightly, according to the top management team within the government affairs office.

5.7.5.1 ORGANISATIONAL STRUCTURAL MODIFICATIONS IN THE DEVELOPMENT PROCESS

Organisational structure was found to be important in developing the SAS lobbying capability. Moreover, lobbying capability development was helped by senior management adapting the aeropolitical affairs office to be better aligned with the perceived endogenous policy context changes (*"adapting our department" [B007]).* Therefore, organisation structure modification was done in order to allow greater levels of interaction between the top management teams from the SAS aeropolitical affairs office and political actors within the different supranational institutions. However, we found that there was a lower level of transference of responsibility for strategic decision-making from the SAS to their interest group representation (AEA). Instead they attempted to exercise more influence alone. Furthermore, lobbying routines in this challenging policy context were adapted, often leading to some simple structural reorganisation and formal redefinitions of responsibilities within the government affairs office. As one respondent said:

> *Our department had been functioning since the beginning but we changed the characteristics since the aviation policy world was changing around us. Yes we wanted to create a unique structure! You will not find that too much...*
>
> *...We made our department more communication focused. That was our intent and thinking before deregulation. During deregulation we were working in always improving the structure of our department. And yes we were conscious of doing this all the time. [B024]*

From our follow up interview, we found that the SAS senior managers recognised the power shift from national governments to the EU level. Therefore

they extended their organisational structure within their aeropolitical affairs office by hiring a person to man their new Brussels office. Indeed, it was important for SAS to be close to the political actors so they opened a small office after the introduction of the first package to reduce transaction costs. As a senior respondent said:

> *At that time it was located in Denmark. But then we also opened a small Brussels office in 1991. We had one person looking after this place and it was their role to feed us information and make contacts. But our Denmark office also played a major role in coordinating the lobbying to our satellite office. [B006]*

We found that SAS senior managers made decisions from their own blueprints to improve their organisational structure reconfiguration in order to develop a strategic lobbying capability. However networks relationships were also found to be closely related to the lobbying capability development process.

5.7.5.2 NETWORK RELATIONSHIP INVESTMENTS IN LOBBYING PROCESSES

SAS was found to have good national networks with all three of its governments, especially before the introduction of deregulation. However, the senior management team in the aeropolitical affairs office knew that their network composition had to change by incorporating an EU frontier. According to the respondents, EU level network building began in 1985, where specific people were hired that had EU level network connections (and competence). These networks played an important role in developing their lobbying capability. As one of our respondents said:

> *I think the recipe was simple. Way before deregulation, we had to meet people usually at national level or make contact with people in the countries that we were flying to. During this time we were structured well, we had the right contacts to meet the right people. Access channels through relationships allow influence to be facilitated. We would try to show the politicians that we understand what kind of dilemma they had and what kind of consideration they needed to take. At a national level that was definitely the best way to do it before 1985. Our lobbying involved having the right people, after 1985 we knew that we had to bring in new blood. The lobbying routines did not change too much, however who you contacted changed slightly. I think that the new recruits that were hired gave EU targets our version of the story, these new hires*

> *would help tell those EU actors that they knew well, why one thing was good and why another thing was bad. But at the same time understand what position the politician was in. [B007]*

While another respondent said:

> *It was an ongoing process, we knew that all new players at EU level had to be contacted after a certain time and that is probably the way to do it. We were just mixing with the EU parliament ministers to let them know our views. They would listen because we were viewed to be a very important industry with regards to bringing in tourists and allowing business tourism to flourish. It was natural and being in places for the sake of influencing is not how we conduct lobbying at SAS. I don't think any airline is that intricate in their lobbying capability building. We like to try to be in a natural setting to influence. We were the biggest airline in Scandinavia by far; we were also in the position that we had the expertise that politicians needed from time to time. [B028]*

From the quotes above, we can see that SAS realised that they needed new networks. Therefore the senior management team made decisions to hire new people. These people that were hired then were contacting EU and national level targets. The people within this department did not target EU and national level actors in specific planned sequences; access allowed by those individuals was more important.

During the deregulation period, especially in the introduction of the third package, SAS decided to modify their network base to incorporate new people that had EU level networks, using their cognitive blueprints. As one respondent's postulates:

> *On an EU level, SAS was at that time a very high profile airline and our CEO was also a very highly profile CEO within the industry and within the business environment in Europe in general. So I think he had easy access to whatever top layers. We also had this external person come in with their own network. So we bought it partly so to speak, the network on most levels and managed to open most doors as a result of that. That is what lobbying is all about in my opinion. It was very easy for us to open doors at the EU level and certainly at the national level where we had the network needed to open the doors already. [B006]*

SAS was using extensive networks from individuals within the office to create influence, as they had the contact base with the national level political actors due

to having a strong historical attachment. However, the shift in power from national governments to Brussels meant that SAS had to play a new EU level game. Therefore, SAS started buying EU level networks in 1986 and also used their indirect network resources, AEA, which was placed outside the SAS office.

> *Well we belonged to IATA, AEA and we belonged to an organisation that is of an industry association being part of the national employers' organisation. That was the only organisation that we were members of in the Norway. We equally had an organisation in Sweden and Denmark more or less. So both AEA and IATA were very important resources for us. They did quite a significant part of the lobbying for us but I think going alone is the best, especially when you have time to react. [B024]*

From the above quote, we can see that before the introduction of deregulation, the SAS aeropolitical affairs office perceived associations to be an important network resource in developing their lobbying. The next part will look at another variable that helped develop their lobbying capability more closely.

5.7.5.3 HUMAN CAPITAL INVESTMENT IN DEVELOPING LOBBYING PROCESSES

Human resources were seen to be very important in the SAS lobbying game. The senior management team within the aeropolitical affairs office decided that influencing at EU level meant bringing in new talent. The new talent was important in lobbying capability development process, as they would bring into this office both "competence" and "network" resources. As one informant said:

> *Well, before deregulation, we didn't really get formally trained like in other departments. We had to learn by doing and build national contacts to influence abroad. However, when we learned that deregulation was indeed needed to integrate Europe, we realized the opportunity and the importance of bringing in EU competence, which meant bringing in new people to lobby European targets. We knew from looking at the US case that Europe wanted to build a strong united institutional continent. Logically democracy differentiates itself from other types of political regimes by allowing business people to inform politicians because they don't know everything. We knew that SAS had to take lobbying seriously like KLM and Lufthansa. Our thinking took us to believe that we already had prior knowledge from the national lobbying so these kinds of things become embedded in our culture. But what we needed was EU relationships and EU expertise in order to influence targets in Brussels.*

> *So we went out shopping for people. We usually hired based on how long you worked for either the national government in Scandinavia or a European institutions. If you had a strong education and background in EU law, economics or airlines, then we would consider you to enter the aeropolitical department. [B004]*

The above quote suggests that the senior management decision in bringing in new talent was crucial to developing the SAS lobbying capability, in order to influence the deregulation policy. The senior management believed that in order to influence the deregulation process and other future policies they had to bring in new talent that had both EU and national level competences and networks. What is more, we found their resource acquisition strategy had an overlap at a micro level between human resources, network resources and competence, highlighting again the complexity involved in developing lobbying at SAS. This interaction effect helped the lobbying development process.

> *We had our own office in Brussels during that time. For this office, we hired a great mind with strong relationships. I think most airlines had an office there during that time, so SAS did the same. Obviously we have to hire from time to time external legal help. That's important. And I would think we did that also in 93 and 94. That is more or less the only expertise we buy from outside. We never use lobby consultants or things like that. We use our own people, as that is the only way to keep control on the influencing. Preferably people that have years of experience in transport law. [B006]* [72]

From the above quote, we can see that human capital investment was important to SAS to influence the whole deregulation procedure. Senior management used their cognitive decision-making to bring in new blood with networks and competence.

[72] Similarly another respondent said: *"I know that during that time we employed a colleague of mine from the Danish foreign office who was a specialist in EU processes and political procedures. He was employed in particular to influence the whole procedure and of course the end result was liberalisation process in the EU the Europe. But how he did it and how much impact and success we actually had I don't know. But I know that SAS from the initial stages being maybe a little apposed to the liberalisation package shifted strategy to more or less to being in favour because that was the way to have influence to get the end result. This was a process that was going to be, that was impossible to stop anyways, so it was good to be part of the process instead of being opposed to the process." [B024]*

5.7.5.4 LOBBYING COMPETENCIES IN THE LOBBYING DEVELOPMENT PROCESS

Lobbying competencies was viewed by SAS senior managers as a way to develop their lobbying capability. Senior management in the SAS aeropolitical affairs office explicitly related the development of their lobbying capability to a change in lobbying competencies, which were expected to enable them to influence the policy decision-makers in Brussels. The competence acquisition was linked to the human capital investment, where they bought in specific people instead of training current employees to influence. Moreover, this strategy was viewed as the means for reaching "a positive outcome" [B006]. SAS pursued a strategy of fetching new people that had EU level knowledge, which was expected to give them access to new knowledge and better networks that they believed could not have accessed from training people. They needed to influence people before it was too late, so in 1985 they went looking for some people. As one SAS respondent said:

> *Lobbying development then was in my opinion about knowledge and skills building before policy introduction. It was also about exchanging information with people in power, and this power was moving to Brussels. The power shift also meant that the lobbying behaviour we had needed to change. Influencing these people in power depended on our thinking, relations and skill set. This comes from expert knowledge we gained over time...*
>
> *...In the lobbying game, you give the politician something and they give you something back. We are not talking about bribery, far from that, but we are talking about knowledge on our position. At SAS we were educating the political actors on our position and on how packages would reduce the risk of failure. I made it clear to my contacts that packages were the way forward. We also wanted subsidies to stop for everyone. We wanted fair competition for everyone. Equal platform for everyone on price and routes. [B007]*

Underlying the diversity was an effort to gain access to specialised expertise, embodied in individuals that were viewed as being among the top in their fields of expertise. Hiring top experts in specific areas helped SAS in developing new lobbying competencies and supporting them developed management cognition that appeared to be the underlying model for evolving their lobbying capability.

An interesting question with regard to developing new lobbying competencies is not only what processes enable firms to configure them effectively, but also how firms select lobbying competencies that will further develop lobbying capabilities? Several informants describe the process through which new lobbying competencies were targeted, *"We looked for the best aviation law experts with EU and National networks" [B024].*

We can see that the lobbying capability process played an important role in the endogenous policy context where SAS had time to manoeuvre to make their interest heard. From the micro level analysis of SAS, and its aeropolitical affairs office, we found that there were few variables that were evident from the interviews that played a vital role in the lobbying capability construction. It was evident that political resources were comprised of human, organisational, network and competence resources. Furthermore, a symbiotic relationship was found between political resources and lobbying capabilities, where the political resources were used to develop the lobbying capability and the lobbying capabilities were then used to deploy the political resources (see Appendix 19 for SAS's overall storyline map cluster in the endogenous policy context).

5.8 CASE STUDY FIVE: TAP AIR

5.8.1 TAP AIR OVERVIEW

The airline was founded on March 14 1945, beginning commercial service on September 19, 1946 from Lisbon to Madrid under its original name of Transportes Aereos Portugueses (TAP). On December 31 of that year, it began its Linha Aérea Imperial, a twelve-stop service including Luanda, Angola and Lourenco Marques (now Maputo), and Mozambique. 1947 saw the inauguration of its domestic service from Lisbon to Porto (see Appendix 15 for expansion on Portuguese government's general views on airline policy). Service to Sao Tome and London began in 1949 (TAP company web-site 2006).

In 1953, the airline became a private company and began service to Tangier and Casablanca. The one millionth passenger flew on TAP on June 19, 1964, 18 years after the airline began operations. In 1969 service to New York via Santa

Maria Island in the Azores began. Boston was added to the New York service the following year (TAP company web-site 2006). In 1975, TAP was nationalized, becoming a public corporation (*Empresa Pública*).

TAP purchased the Boeing 747 during the 1970's, replacing their Boeing 707s; but the 747s were eventually sold due to lack of demand. They were replaced by Lockheed TriStars and Airbus A310s on long haul routes. By the late 1990's TAP had expanded its fleet by selling its older Boeing 727s and Boeing 737s and had replaced them with Airbus A319, A320 and A321. The TriStars were sold to Air Luxor and were replaced by more capable Airbus A340s giving TAP a large fleet of Airbus only aircraft (TAP company web-site 2006).

In 1989 service to Newark, New Jersey was introduced and in 1991, service to Berlin. Also in 1989 TAP became a publicly-traded company (*Sociedade Anónima*). In 1993, TAP began flying to Tel Aviv. In 1994, TAP began a code sharing arrangement with Delta Air Lines for north Atlantic service. This agreement was ended in 2005. 1996 saw the introduction of a service to Boston via Terceira Island in the Azores, the inauguration of service to Macau and the launch of TAP's Web site. In 1997, service began to Punta Cana and Bangkok. Flights to Macau and Bangkok have since been discontinued.

In 2005 TAP became the sixteenth member of the Star Alliance. TAP Air Portugal was rebranded as TAP Portugal in February 2005. It employs 9750 staff. TAP also ended its code sharing agreement with Delta Air Lines and began a new agreement with United Airlines as part of its membership in Star Alliance. Under this agreement United's code (UA) is placed on TAP's trans-atlantic flights and some African flights, and TAP's code (TP) is placed on United flights (see Appendix 6 for expansion on TAP's financial position and for a snap shot of the economy).

In 2006, it is planning to start codesharing with US Airways on all routes between Portugal and the USA and connection services out of New York City-Newark and Philadelphia. TAP Portugal has shareholdings in a number of other airlines: White (75%), Air Sao Tome e Principe (40%), Linhas Aereas de Sao Tome e Principe (40%) and Air Macau (15%) (TAP company web-site 2006).

5.8.2 THE GOVERNMENT AFFAIRS FUNCTION IN TAP AIR

A large part of the government affairs function within TAP Air was carried out by the external affairs office.[73] Until the early 90's this department was focusing mainly on national and also on new EU affairs. However, before 1989 it was focused chiefly on national level lobbying. Only after this period did they begin to learn that the lobbying process had to change to accommodate the new changing policy environment. Then the team of four had to deal with the various institutions in Brussels. Nonetheless, this department had a role within TAP Air, and its main function consisted of the following:[74]

- ❖ providing a clear organisational structure;
- ❖ monitoring the relevant political fields;
- ❖ developing the network of stakeholders;
- ❖ systematic communication with different stakeholder.
- ❖ all relations with institutions at national and EU level

The external affairs department had an objective of preservation and acquisition of traffic rights to Asia, North-America, Africa and Europe until the end of 1980's (Annual Report 1989). According to interviewees, they did not have to lobby national governments like other airlines, mainly because the governments owned them so influencing just meant picking up the phone and "having a chat"[75]. However, external factors, policy change pressures, the development of an adequate infrastructure and the ongoing development of the single market led to this department modifying its lobbying capability. As one TAP air respondent explained:

> *Our department then dealt with government affairs like it does now. It dealt with multi-lateral representation, and aeropolitical affairs and also alliances. So it had an external affairs and the alliances function. By alliances it does not mean on the alliance in which we are integrated, its more then that, its also all the commercial arrangements that we have*

[73] The external affairs office has the same function as a government affairs office.
[74] C009, C010, C011, C013 and C025.
[75] C009, C010, C011, C013 and C025.

> *with other non-alliance partners. But to get to the subject, we knew that things had to change at Tap before deregulation. If we wanted to stay in the business, our office would have to change. We had an important lobbying function but we knew that it would increase more with time, but being government owned complicates things, as you can imagine. [C009]*

This department has been lobbying from the very beginning because of political nature of the industry and its management. It has always had constant interactions with the political arena in Portugal and its governments. Moreover, the nature of lobbying at TAP before 1988 focused very much on national level targets using their national aeropolitical division at the Ministry of Transport to negotiate traffic rights. However, senior management realised from the early to mid 90's that they needed to lobby at EU level for the third package. As a senior respondent said:

> *Well we first were happy with our position on routes but knew that it would not last. So we wanted some sort of phasing to be agreed upon because each member state had for a long time a different aeropolitical development, so the regulatory environment was individualised up to that point and there was difference in the playing field among the several members, so we definitely thought that in order for this process to be successful it had to be phased in. The other issue is that you also needed to take into account special situations such as peripheral areas, which needed special treatment, so exceptional treatment if wish in terms of regulatory environment, I am referring to our islands like Accores and Madeira. Those were the two main issues that we were working on and fighting for. However, we tried to lobby mainly on these issues individually and using AEA. I think that we lobbied later then KLM, Lufthansa and BA, but that's due to our organisation. [C010]*

We can see from the illustrative quote above that Tap Air did lobby individually and also used AEA, however, they felt that they started late compared to others. This was mainly due to their organisations culture, which had government ethos all over it which affected the incentives[76]. This constrained them and they were also reluctant to change the system that allowed them to be protected by their own government.

[76] C010

5.8.3 TYPES OF LOBBYING PROCESSES USED BY TAP AIR

From the interviews we found that lobbying routines/processes were used and modified by the external affairs office at TAP Air before, during and after the endogenous policy context.[77] The categorisation of the different lobbying routines was done according to two types, idiosyncratic and generic lobbying routines. Some illustrative quotes were chosen, as shown in Table 18, which were exemplary of themes that emerged from the interview transcripts. As one TAP Air senior management respondent sums up the essence of decisions taken in this context in conjunction to the types of lobbying processes used:

> *It was mainly AEA that played a role in our lobbying. As you understand, when Portugal joined the European Union in 1996, until then a certain habit of articulation with the national authorities came into place. The direct lobbying functions of TAP via the national authorities was fairly developed compared to our young EU contact base. I would say that if you are considering that time frame of deregulation, we definitely gave our input into the whole process but less at the start. I think that it was done more from our trade association, AEA than directly, through our authorities. But of course in this process there [are] always three institutions that need to be lobbied, so to speak. The one that AEA lobbies most effectively is the commission. And in a way it might also influence the transport committee or the European parliament, but it is for the members to secure and assure that their message are well heard at council level and MEP level through their own lobbying processes and efforts. The lobbying efforts were not as structured as it is nowadays. Yes, we lobbied much more through AEA, I am pretty sure, but we used some individual paths with our local authorities. [C011]*

Table 18: Direct TAP quotes to show lobbying processes types[78]

Idiosyncratic Lobbying Routines	**Generic Lobbying Routines**
"Talking to our board members and our civil aviation authority"	"Using interest groups like AEA and IATA"
"Letters"	"Conferences"
"Speaking to our stakeholders"	"Cocktail parties"
"Phone call"	

[77] Routines and processes are viewed synonymously here.
[78] C009,C011, C013 and C025.

As seen from the illustrative quotes from the above, TAP Air was using an array of individual lobbying that evolved complicated targeting and sequences by using a combination of telephone calls, visiting friends, letters. They were also using generic lobbying routines that other airlines may tap into for a fee, including AEA, conferences and cocktail parties. The senior management interviewed felt that TAP wanted to use a combination of lobbying routines to deploy political resources to influence policy makers. TAP external affairs office decided to put most effort on using their generic lobbying routines before the implementation of the first package, as they felt constrained by their ownership. Correspondingly, they believed that based on their limited financial resources and human resources they could influence mainly using AEA and political targets in their country. According to the respondents, from 1988 most of the lobbying that TAP did was through AEA. However, simultaneously the external affairs office was slowly learning the influencing routines for European supranational institutions and Portuguese authorities in Brussels.

> *Well, we were much more active with our national authorities because you also have to understand that whole process of becoming a member of the EU, saw a lot of transformations in the structure of the Civil aviation authority in Portugal. And the competition authority in Portugal and competition authority and the national authority as well. Throughout this process, we had to adapt to new interfaces, it was a learning curve that made our lobbying more effective. So definitely in 1997, we were heard with a different degree of active listening then we were heard before 1988, that is for sure. This is because things were structured differently as an organisation. [C033]*

It was evident that TAP was late in the lobbying game, but they became very active in lobbying directly to the commission in 1996 and 1997, just after the adoption of the third package. This was mainly due to TAP facing financial and economic difficulties where the state decided to recapitalise the company together with an in-depth restructuring plan.

> *I assume because also understand that the relations. TAP at the time was 100% owned by the government and being perceived as the flag carrier of Portugal. The relationship between our board and the Minister of Transportation was quite close, I would think at the time, this was the channel to influence the best possible way. Definitely the most effective*

> *one, I don't think that through AEA we would be able to influence the process as much nowadays, as now we are one of thirty carriers that have a different dimension and global structure in Brussels, which is to their advantage, in this regard. So I would assume in that time the main channel would be the national one through our board to the Minister of Transportation. The other one through our civil aviation authorities. I would say that my department would do more through the civil aviation authority but also letting the board know so that they can convey them to the Minister of Transport. That was how things were done more or less. [C009]*

We can see that TAP senior managers used a combination of individual and collective influence routines to deploy political resource before, during and after. However, they could not keep using the same routines because the whole environment was changing. The power that was in the hands of the national authorities was being transferred slowly to European level authorities. Therefore, after the third package, the commission definitely, gained more power than ever in relation to aviation issues. This does not mean that TAP stopped lobbying their national authorities, due to the triangle with the commission, council and European Parliament. On the contrary, they had to lobby even more to try to influence their national authorities at an EU level, particular those that sat in the different council of ministers. So in 1997 they started to keep their individual efforts focused on national activities and EU level which, of course, impacted on their decision-making. But in terms of lobbying the commission TAP did it either through AEA or through their permanent representative in Brussels and Portugal. There were lots of interesting policy responsiveness techniques and political resources that TAP used within this endogenous policy context.

5.8.4 POLITICAL RESOURCES AND POLICY RESPONSIVENESS

Similar to the other four cases, we found that the lobbying capability was developed from the political resources. The senior management at TAP configured their political resource base to help improve their lobbying process, especially in responding to the endogenous policy needs. The respondents explained that political resources were comprised mainly of people who had experience and networks, as well as the actual organisational structure. We categorised all the themes found into three key variables that make up a political resource: human, organisational and network resources. The senior management

thought from their previous experiences that these important resources were needed to develop their lobbying capability in order to effectively deploy the political resources. Table 19 below shows three main categories of emergent concepts that are important in the political resource composition.

Table 19: TAP Air political resources

Political capital resource	Observations
Human	"Knowledge" and "experience"
Network	"used AEA" and "friends" "associates in EU level and national level"
Organisational	"organisational formal structure"

As it can be seen from the above quotes, TAP Air developed its lobbying process from its political resources, but the rejuvenation of their lobbying capability happened much later when compared to other airlines ("around 1996"). This was mainly because they were very comfortable in their old ways of being a flag carrier. Nevertheless, they decided to develop their lobbying capability from people, their networks and knowledge, and the institutional relations department structure. As one TAP Air senior respondent said:

> *If you are talking about lobbying before deregulation, in our instances, then the lobbying capability we had did not change the environment the way we wanted. But I would say that airline size and ownership played a part in the outcome. But if you are talking about national level then that is a different story. I think that we introduced then ways of lobbying that could change the environment, even the relationship with those authorities that were overseeing the aviation issues in our country. So it is all relative but we definitely had introduced new lobbying processes which changed the environment locally but in terms of making impact on the deregulation it's difficult to say. [C010]*

The illustrative quote shows that TAP Air had moved late in the game in comparison with its competitors. They started developing their lobbying capability during the third package, which was mainly due to being a government owned organisation. Moreover, this department felt that they did not have the right configuration of political resources to develop a robust lobbying capability

before 1994. They started to focus on several factors to develop their lobbying capability.

The next part will aim to understand how Tap Air developed its lobbying capability and political resources within this office before and during deregulation. We came to learn that the external relations department used some form of decision templates or what we term a "cognitive blueprints" to modify political resources in order to develop their lobbying capability in their specific way. In other words, the Tap Air drew from its human, organisational and network resources a specific lobbying capability configuration to deploy political resources, based on how their executives interpreted this policy context. The next part will look at the core elements of the lobbying capability process in more detail.

5.8.5 COGNITIVE BLUEPRINT AND TOP MANAGEMENT ATTENTION IN DEVELOPING A LOBBYING PROCESS

The way in which lobbying capability development decisions were taken by the senior executives within TAPs external affairs office played a crucial role in developing what they believed to be a strong lobbying capability. Similar to the other cases, we found the cognitive blueprints to be at the core of the lobbying process. However, the blueprint decisions made by senior management within the external affairs office were constrained due to the majority government ownership. TAP were not able to invest in this function, as they were not financially strong. As a TAP senior member postulates:

> *We knew that the focus was going to shift to Europe. We had a small in team at that time in our office so we decided to develop influence at the national level. But on the European front, we had to learn by doing, we were faced by a new policy environment so we had to learn and adapt the organisation slightly and process wise, this was definitely done. This internal reflection became normal to prepare for the different phases, especially for the third package. We had a multi-disciplinary team that looked into this, recommended changes and improvements in the organisations and processes in humans. These were needed for enhanced functions but this was done internally. We hired one EU person but that was it, we spent less unlike others that spent more in getting new people. [C011]*

Building on the idea of a constrained capability, senior management members from the institutional affairs office found their decision blueprints constrained to a certain degree which affected their ability to renew their lobbying capability to match the new policy environment at the same pace. As one senior informant put it:

> *At that time, we didn't change our lobbying efforts too much as we were owned by the government, so whoever came into power, they played a role in who we targeted. But after the third package we had to focus more on Europe. [C009]*

TAP Air only wanted to develop their lobbying capability after 1990 as before 1988 they had been very comfortable in their old ways. The senior management within the external relations office learned that they had to change their department. Simultaneously, we found that the senior management tried to work closely with the Association of European Airlines (AEA) to develop their thinking process and blueprints on the European front.

Another question posed was, where did the decision-making originate in this context that devised the lobbying capability? According to the interviewees, the actual decision-making went from the institutional affairs office to CEO level.[79] As one informant puts it:

> *It very much started at our level and then we interphased with other departments that were impacted by deregulation policy issues at stake, so we sought opinions internally and we prepared our lobbying position, which was discussed with the board. The CEO had less say on how we developed our lobbying. It was all about our thinking and what we thought was right at that time. [C010]*

We also found that cognitive blueprints decided the targets to lobby at both a national and international level. During the endogenous policy context, the lobbying was conducted mostly at a national level between 1985-1997, with a shift towards the EU level taking place from 1996-1997. This was later than other airlines, perhaps due to being complacent in their monopoly position.

[79] C011

Nevertheless, rather than jumping in and using a *laissez-faire* path for creating strategy, senior managers in the external affairs office used their cognitive blueprints from previous experience and learning to channel and fuel their decisions on lobbying capability development.

Indeed the mix between human, organisational, and networks resources, as well as competence investments, played an important role in developing TAP Air's lobbying capability. However, ownership and stakeholders also influenced the top management cognition within the external affairs office.

5.8.5.1 ORGANISATIONAL STRUCTURE MODIFICATIONS IN THE DEVELOPMENT PROCESS

We found TAP Air's external affairs department slightly modified their structure during deregulation (endogenous policy context) to accommodate the new policy environment. However, before 1988 they were very static in their structure, with resistance to changes in departmental organisation. The reason for this, as explained by people interviewed, was that senior management was reluctant to change their lobbying platform due to the embedded nature of their resources, culture and ownership. However they realised that they had to bring lobbying processes forward and align them with the endogenous policy context, especially if they wanted to influence future policy. They used AEA as a way to learn how to configure their department and to look at their competitors.

Senior managers saw potential for lobbying capability development with greater levels of interaction between the external affairs office and European level targets. Therefore they created a satellite office on Brussels in 1996 to lobby the European Union. As one respondent said:

> *I believe that TAP entered the European lobbying game later than the others. But we did hire one EU person to be closer to Brussels in order to influence EU politicians. I remember that we had to take lobbying and external affairs seriously, but again we were little limited in what we could do, as being a government organisation has some problems. Our structure changed a little with older people leaving in 1994 and we got few new people with EU contacts. [C033]*

Surprisingly, a high level of transference of responsibility for lobbying was moved to interest group representation. However, as lobbying activities in this challenging policy context changed, TAP implemented some structural reorganisation and formal redefinitions of the responsibilities within the external affairs office.

On the other hand, we found that lobbying network resources were also used by TAP to develop their lobbying capabilities. However, we found that network and organisational resource reconfiguration were done later, around the end of the second package, in order to develop a strategic lobbying capability.

5.8.5.2 NETWORK RELATIONSHIP INVESTMENTS IN LOBBYING PROCESSES

TAP Air was found to have a very strong national network but its senior management did not a very strong EU level political network. These networks played an important role in developing their lobbying capability. However, TAP believed that their networks were constrained in this endogenous policy context. This was believed to because of the majority government ownership structure that allowed them to influence at a national level for years, which made individuals reluctant to change. This created resistance to changing their lobbying patterns; hence they started lobbying later than other airlines, because the CEO created pressure. As one of our respondents said:

> *That is difficult to say, it is such a long process, hard to say, how much time we spent lobbying in this period and if our ownership made it more difficult? I believe we did not spend that much time, we used AEA with our national influencing tactics. I think some people thought this was the best combination to influence not realising that it was outdated. We needed to lobby individually also at EU level instead of just at home. Also remember that we are owned by the government so lobbying then was very different to that done in a partially owned private airline.[C009]*

At TAP Air, during introduction of the third package, the government affairs office had to modify its network base to incorporate new people that had EU contacts. As one respondent postulates:

> *Well, we wanted new people. We wanted a lot from them. They had to come from the inside the political system; they needed to have EU*

> *contacts and have international law experience, preferably in aviation law. They had to create the necessary empathy to start the process but it was also the basic rule that they had to involve themselves from the outset, we faced them to these live experiences from an early stage of the process. They were included in the Portuguese delegations to bilateral consultations with third countries and they were included in multilateral meetings, where all the policy issues were discussed. They were asked to prepare letters and positions. This was very much a learning curve that needed to be very rapidly accelerated after the third package. [C010]*

Before deregulation, TAP was not using extensive networks from individuals within the office to create influence at the EU level, as they had a strong relationship with their government. However, the shift in power from Portugal to Brussels meant the senior management recognised that they had to play a new EU level game soon. TAP Air started to hire people that had EU level networks in 1993. Correspondingly, TAP was also using their indirect network resources by using AEA. Now let us look at another variable that interacted with the network resource to help develop a lobbying capability in the endogenous policy context.

5.8.5.3 HUMAN CAPITAL INTERACTIONS IN DEVELOPING LOBBYING PROCESSES

Human capital seems to determine the development pace of the lobbying capability. More importantly, we found that the external affairs office viewed the role of human capital as being an important component in the process of developing lobbying capability. As one informant said:

> *In this department we had people who had been working with the civil aviation authority which was part of their curriculum. We had around 4 people in this office dealing with aeropolitical affairs. Most had a regulatory area type of expertise. To add to this, I don't think it's about having a big department with lots of people. Lobbying is about who you know and how you reach them using those processes. However, we very much interconnected our legal department with regulatory and competition related issues. [C009]*

As can be seen from the illustration below, the number of people lobbying does not matter to TAP. Network relationship capital is generally considered an attribute of the individual people to other people, whereas human capital is considered an attribute of individuals and comprises a stock of skills,

qualifications and knowledge. There is an overlap between human resources and network resources, as the networks come from the human resources. This means that when you develop lobbying by hiring someone, then you are also buying their network resources.

> *Everything was done in-house. We did not have anyone lobbying for us. You will find this behaviour more in America then in Europe. We used our in-house human resources. [C011]*

From the above quote, TAP had as its main consideration maintaining the quality of its network base and not so much the quantity of people. However, the networks were considered to be affected by the ownership structure., as it was the majority government ownership structure that ultimately played a role in devising the networks targets and sequence. The senior managers would by default opt to contact national authorities instead of seeking EU networks. However, the senior managers did start to recruit new networks during the deregulation process, not specifically with the intention of influencing the deregulation process.

> *In our particular case we had some major changes. We had some early retirements. Around 1993, there were quite a few people that had been working for more then 20 years for TAP, then were given an opportunity to retire. It was coincidence but it did. If you ask me if it's hard to hold or train or to prepare anyone for this department in terms of their social networking and lobbying capabilities. It all goes through knowledge. So what we made sure that before these people left which had the realm of knowledge in their heads, they were able to coach those who were coming in from the areas of external relations. They have been prepared for these sorts of functions or diplomatic carriers. So we did take a lot of attention in how our collaborators are trained, but it takes a long time 'til you have that ideal web of contacts, the ideal level of intimacy with your authorities or peers or so forth. It takes some time. I think that when people come to such a department. They are not looking at brief experiences, they understand that it is a time life and long commitment. [C033]*

Indeed, the people interviewed felt that TAP had good networks at a national level but poor management competence, which could be attributed to their weak corporate governance structure.

5.8.5.4 LOBBYING COMPETENCIES IN THE LOBBYING DEVELOPMENT PROCESS

The lobbying competencies at TAP were reconfigured by senior management within the external affairs office in order to build their lobbying capability. However, the senior management within this office did not relate the development of the lobbying capability to lobbying competencies until 1996. This was viewed as the means for moving forward and aligning themselves with the endogenous policy context. TAP pursued a strategy of fetching new people that had EU level competence which was expected to give them access to new knowledge and better networks that they believed they could not have accessed otherwise. As one Alitalia respondent said:

> *We hired some people that had EU level knowledge around package 2. [C009]*

An interesting question with regards to developing new lobbying competencies is not only what processes enable firms to configure them effectively, but also how TAP selected lobbying competencies for further development of their lobbying capabilities? Several informants described the process through which new lobbying competencies were acquired though talent hunting. Some informants felt that TAP did not have the right management competence for lobbying, which resulted in them joining the game later.

> *Alitalia and other government owned airlines were used to lobbying their governments. This meant they had to change years of eating the same food. [F008]*

From the micro level analysis of TAP external affairs department, we found that there were few variables that were evident from the interviews that played a vital role in the lobbying capability construction. We found that competence played an important role in TAP's lobbying capability development process in the endogenous policy context, but they had problems in changing their old ways. It was evident that political resources were comprised of human resources, which encapsulated network and competence resources, and organisational, structural resources. To add to this, we found that the ownership structure was considered by some of the senior management to have affected TAP's lobbying capability

capacity in this context. Indeed, TAP was resting on their laurels and monopolistic positions on routes instead of adapting earlier. Portugal was shrouded by a government security blanket, as Portugal had not joined the European Union till 1986. For them lobbying capability was developed for national purposes. In 1995 they decided to modify this capability, when they realised that things had to change or they would face potential problems (see Appendix 20 for TAP Air's overall storyline map cluster in the endogenous policy context).

5.9 CONCLUDING REMARKS

In summary, we have seen that three out of five airlines developed their lobbying capabilities early. These three airlines were considered to have developed their lobbying capabilities in similar ways, using a sophisticated cognitive blueprint in advance with intent to influence policy-makers in order to protect their organisations. Moreover, the government affairs management was able to adapt their lobbying capability with full support of their owners.

We also found that at the generic level of lobbying capability, the development process was fairly similar in pattern across all airlines in adapting human capital, network capital, competence and organisational structure. However, at the idiosyncratic level, the lobbying routines were different due to the use of different combinations of resources and lobbying targets and sequences. These routines were idiosyncratic because they were leveraged on firm-specific resources like network and human resources.

We also found that two government-owned airlines developed their lobbying capabilities very differently to private airlines. The reason for this difference was that government ownership was thought to constrain finances, structure and management. In addition, the lobbying capability development process was similar in the two government-owned airlines at the micro foundations.

To summarise, there were clear similarities and differences between the cases from the European flag carrier's airlines. The cases on lobbying development from the state airlines showed:

1. Great emphasis on generic lobbying routines and idiosyncratic routines at the national level.
2. Leveraging later from their current political resources. Also leveraging from new political resources, but far too late.
3. Little emphasis on changing networks, structure and human capital assets until very late in the deregulation process.

In contrast, the cases from privately owned airlines showed:

1. More emphasis on idiosyncratic lobbying routines but also using generic routines.
2. Leveraging early from current political resources, but also adding new political resources.
3. Greater emphasis on developing new networks, structures and human capital assets.

Overall the lobbying capability development played an important role in the endogenous policy context where airlines had time to manoeuvre to make their interests heard. The private airlines configured their resources and lobbying capability differently to the government-owned airlines. Subsequently, they were all using functions with the same macro-organisational context. We also found from the micro level analysis of all government affairs offices that four variables played a vital role in lobbying capability construction. It was evident that political resources were comprised of human, organisational, network and competence resources. These resources were used by management to reconfigure their lobbying capability development process. It was here that cognition played a vital role in building this symbiotic relationship between political resources and lobbying capability development. Once the lobby capability was developed satisfactorily, then it was used to deploy the political resources to create influence.

Chapter

6

EMPIRICAL FINDINGS PART 2: LOBBYING CAPABILITY DEVELOPMENT IN AN EXOGENOUS POLICY CONTEXT (2001-2005)

This empirical chapter will provide an analytical overview of five European flag carrier airlines, in conjunction with presenting a detailed examination of each airline in relation to the exogenous policy context. Focus will be on lobbying activities on specific issues: insurance coverage, aviation security costs and compensation package. It will look at providing a longitudinal analysis of lobbying capability development mainly post 9/11, but with some description of lobbying activity before the 9/11 event. We will show, through the inductive study, that a range of non-market environment responsiveness strategies were adopted logically by the chosen case organisations in the form of a lobbying capability to create organisational alignment with the non-market exogenous environment. Finally, the data analysis will show the main sources that are playing a role in the development of a lobbying process as a strategic capability and the interactions between each micro level source that may help create a competitive benefit. This chapter will be systematic, looking at each airline organisation individually using a within-case analysis. Thereafter, a cross case analysis will be conducted in Chapter 7, where some emergent themes and propositions relating to lobbying development processes suggest labels from the dynamic resource-based literature and corporate political activity.

6.1 INTRODUCTION

The chosen context in this investigation is one in which exogenous policy (2001-2005) events emerged as a result of post September 11 terrorist attacks in the U.S. The terrorist attacks had heavy knock-on effects on airlines in Europe (Harrington *et al.* 2005). The airlines knew that they were loosing demand, so they had to be compensated for this political attack. In order to secure compensation to support their growing debts, exacerbated by a fall in demand and extra costs associated with new government security policies, airlines had to react quickly (Bonham *et al.* 2006; Tarry 2005). It was within this context that European airlines quickly learned that they had to lobby the European Commission and their national governments, as lobbying was vital to them sustaining their competitive positions. Moreover, the majority of airline government affairs departments had to influence and make their organisation's interests heard on several issues. According to the senior management interviewed; the main issues included the following:[1]

- ☐ Compensation package
- ☐ Aviation security cost
- ☐ Insurance coverage

Similar to the interviewees, Doganis (2005) highlights the importance of these emerging policy issues that surfaced after 9/11. Therefore, if the airlines did not lobby, they would have risked receiving less aid, and possibly would have had large insurance premiums and larger security costs to pay, which would have hindered their competitive positions. Let us look more closely at the three issues that the European airlines were mainly lobbying for during this exogenous policy context.

6.2 OVERVIEW OF THE EXOGENOUS POLICY CONTEXT FROM THE CASES

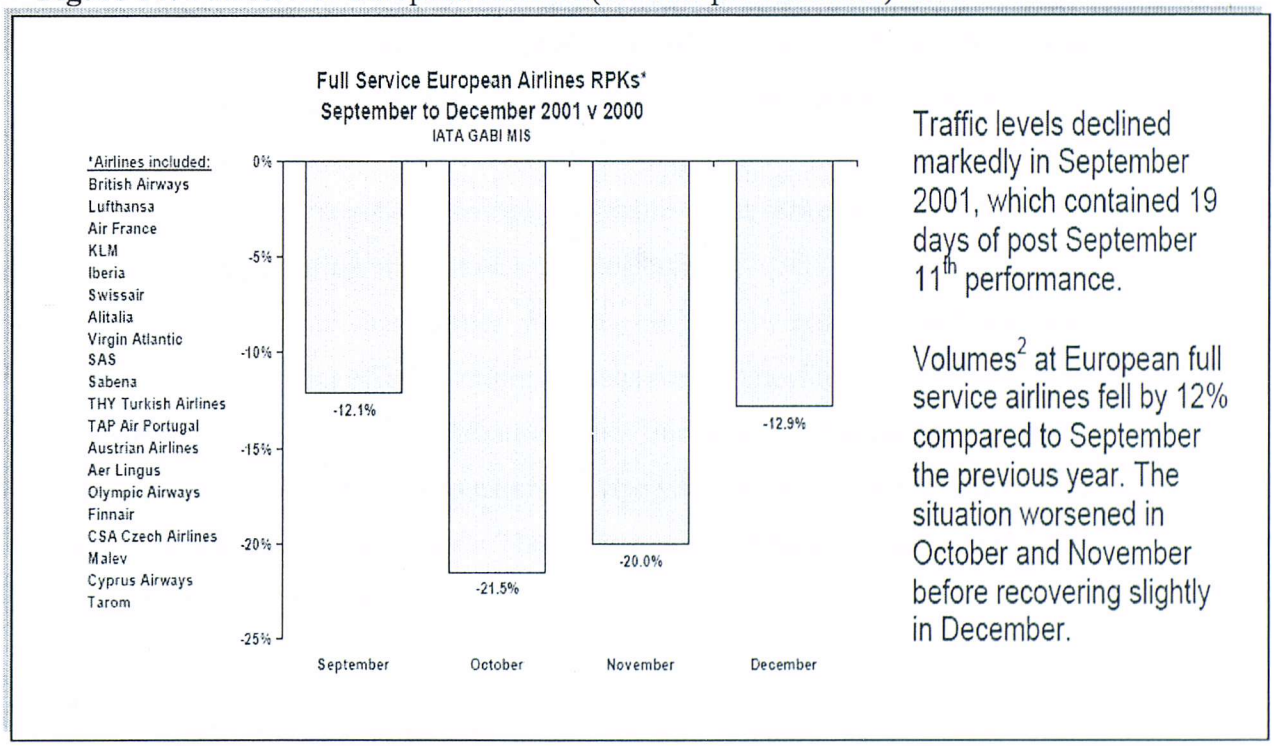
The full service scheduled airline sector had experienced a difficult year even before the exogenous shocks of September 11. Numerous European flag carrier airlines saw first half year losses increase by almost half compared to the

[1] Some people included A001, B004, F008, C010, E014, D021, E022, E014.

previous year (Irish Aviation Authority report 2003). Much of this poor financial performance had been attributed to the slowdown in the global economy experienced in the first half of 2001. Financial results from other air transport sectors were healthier. In particular, the low fares sector continued to go from strength to strength, with profits growing by over 150% compared to those in the first half of 2000 (Irish Aviation Authority report 2003).

However, most hub airlines were affected severely post September, as seen from Figure 14. The terrorist attacks in the USA caused a number of short and medium term impacts on the European aviation industry. First of all, US airspace was closed in the immediate aftermath of the attacks, and was not opened for four days (AEA Annual report 2002). During this period, no flights from Europe to the USA could operate, leading to a loss of revenue for airlines and airports in Europe. When flights resumed, there was a dramatic decrease in demand. This was most severe on North Atlantic routes but was significant across all types of routes. The only market segment that did not appear to be badly hit was the low fares sector. It seemed that demand from consumers for low fares still kept them on a healthy and strong foothold in this period.

Figure 14: Full service European Airlines (revenue per kilometre) RPK



Source: AEA Annual report 2002

On the commercial side, the airline industry response to the crisis facing them post September 11 was centred on withdrawing aircraft from service, cutting staff numbers and renegotiating contracts with suppliers. In the months following September 11, the European Union's surviving flag carriers announced job cuts of circa 25,000 employees. Air France and Finnair were notable as the only major carriers who did not announce job losses (Irish Aviation Authority report 2003). In addition, there were also a number of actions taken to maximise cash reserves, such as deferring investments and sale of non-core businesses (AEA Annual report 2002).

On the non-market front, European flag airlines realised that they had to lobby quickly and hard post September 11 in order to be compensated for their losses or risk going bankrupt. Using both individual and collective lobbying routines and action responses they managed to demonstrate their positions to both European states and the European Commission, who as a result provided different financial support mechanisms. These included a mixture of financial and other measures (IATA Annual report 2002)[2]:

- Provision of "last resort" insurance following the withdrawal of cover by commercial insurance companies, including an allowance for some short term waiving of insurance premium charges. This scheme was initially approved for one month but was subsequently extended.
- Compensation to airlines for the four days that US Airspace was closed, subject to complying with strict criteria as to how the compensation amount was to be calculated.
- The airline cost issues had to be mainly paid by airlines with government offering minimal loans for the short term.

In addition to the financial measures, the European Commission agreed to lobbied calls by major airlines to extend to one year the period that slots could be unused before being reallocated. This move was opposed by some low cost carriers looking for new slots[3].

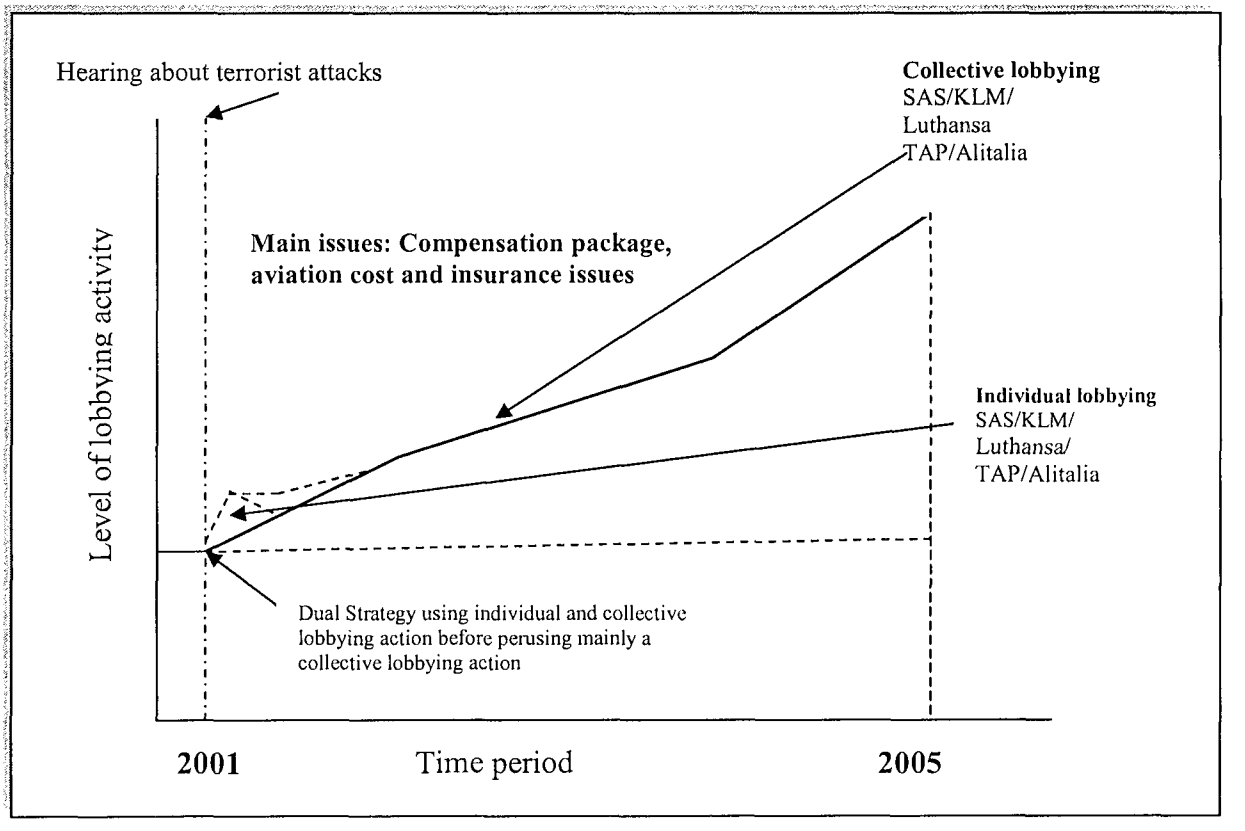
[2] Also triangulated with F015, F008, A002, C009, E023, B024 and E020
[3] F015, F008, and E020

Although the above measures were agreed by the Commission, other forms of state aid were firmly opposed. The European Commission expressed their view that many of the airlines facing financial difficulties were already in trouble prior to September 11. Rather than rescuing failing airlines, consolidation in the sector was to be encouraged. However, airlines were against this, as an executive postulated:

> *We needed to use everything to make the government give us what we lost. [E014]*

Figure 15 below describes the dynamic lobbying patterns during the exogenous policy context, based on the interviews conducted, documents from the European commission and annual reports.

Figure 15: The lobbying capability development patterns



Source: Interviews, European Commission reports and Annual reports

From Figure 15, we see that some European flag carrier airlines were using an individual lobbying path in the early days after September 11, then realising that

they all needed to unify to save time after a few weeks. Let us look at one of the main issues that five case airlines were advocating using their specific lobbying processes.

6.2.1 COMPENSATION PACKAGE ISSUE

Post September 11, the unstable position of most airline companies was due to the overwhelming knock of 9/11 on consumer demand for travelling. Moreover, the European flag carriers were told post September 11 that they would not receive any money. As a result the airlines decided that they all had to persistently lobby their national governments and use AEA to lobby the European Union on securing the compensation package[4].

As a result, the European Commission accepted that some types of aid, including aid relating to the costs resulting from the closure of airspace to compensate for the damage caused by natural calamities or other extraordinary events (to quote the European Treaties) could be granted to the aviation sector by way of exception (AEA Annual report 2002). This was done in order to promote greater certainty in the short term. The Commission indicated to Member States that it would use its role in the field of state aid under the EU Treaty to approve each government's intervention as long as a proper notification was made and the guidelines were respected (European Union Website 2006). Therefore, post September 11, the airlines knew they would get something and focus was on the amount of compensation.

However, the end result was that the Commission laid down a number of conditions for authorising emergency state aid schemes (AEA Annual report 2002). In particular, compensation could be granted only for the costs arising during the four days in question following the grounding of planes decided upon by the national authorities, particularly in the United States, and the flights cancelled or disrupted as a result[5].

[4] F015, F008, A001, A002, C009, C010, E023, B024, F036 and E020

[5] F008, A002, C009, E023, F036 and E020

6.2.2 AVIATION SECURITY COST ISSUE

For years, the aviation industry was one of the most powerful symbols of the modern era, representing promises of unlimited mobility, international co-operation and technological progress which have been the shining face of globalisation (Hanlon 1999). However, since the September 11 attacks, the issue of aviation security dominated headlines across the world (Lakdawalla and Zanjani 2005; Jaffee and Russell 2006). The attacks put pressure on all airlines around the world, as it asked many fundamental questions about making air travel safer. However, governments in European and especially the US guided the agenda to introduce strict measures to reduce the terrorist risk of another 9/11. These measures were to be introduced by the airlines, but who was going absorb the additional new security costs? As a result many European airlines started to lobby governments nationally and internationally to find support on this cost issue.

Defence against terrorism was viewed by airlines as a national government responsibility. The airline industry started lobbying on this issue as they felt they should not be singled out to pay the bill. They believed that their states had to "finance the protection of their citizens" (IATA Annual report 2003, p.13). As a result, in Europe, much progress was made towards implementing the primary security measures as defined in ICAC Doc 30 as well as additional security solutions (see Appendix 5 for further expansion on costs). These included the classification of weapons, technical training for crew, checking and monitoring of hold luggage (100% hold baggage screening), and protection of cockpit access and quality control of security measures applied by Member States. Yet clearly the need for security had to be balanced with cost, convenience and civil liberties. New measures requiring airlines to invest in specific areas generated enormous costs for the airlines. In general the airline expenditures for security reached an estimated US$5.6 billion in 2003 (IATA Annual report 2003). The boundaries of what was considered acceptable intrusion are still being tested. Nevertheless, more emphasis was being put into technology, especially biometric identification to prevent boarding of those on police wanted-lists and those with previously identified erratic behaviour. Increasingly tests were being conducted

using both biometric hand and iris recognition in an effort to develop an effective balance between heightened security and efficient passenger processing.

6.2.3 PROGRESS ON INSURANCE

Insurance is very important to airlines as it can reduce risk. Insurance is a contract in which an individual or entity receives financial protection or reimbursement against losses from an insurance company (Vaughan and Vaughan 2003). The company pools clients' risks to make payments more affordable for the insured coverage by a contract binding a party to indemnify another against specified loss in return for premiums paid.

Full service airlines always had some insurance coverage. The events of September 2001 changed this with the market basically withdrawing from providing this type of cover. Many questioned the speed and consistency with which insurance underwriters almost simultaneously withdrew third party war and terrorism cover following the attacks on September 11, 2001 (Lakdawalla and Zanjani 2005). The difficulty with terrorism insurance has always been that there is a problem of uncertainty and not risk. Hence normal actuarial principles do not apply. The tendency is, therefore, for private insurers to be over cautions and levy high premiums. Governments can intervene but there is always a danger in state interventions distorting markets (or a lack of appropriate state actions that can damage markets).

Nevertheless during this exogenous context, the European aviation industry realised that insurers were not willing, at any price, to cover third party terrorism risks adequately. Therefore, from 2001 to 2002, this harsh reality galvanised the European airline industry into action in terms of developing their lobbying capabilities. They started to develop their lobbying using specific resources that culminated from their decision making processes. The lobbying undertaken by the airlines laid down two important dates that paved the way for a long-term, viable solution to the insurance crisis. In early October 2002, the EU's Council of Transport Ministers met to decide whether to endorse 'Eurotime', a proposed mutual fund to provide the level of third party war and terrorism risk cover

without which airlines, airports and others in the industry could not operate[6]. Thereafter, ICAO announced 'Globaltime', its own proposed mutual insurance plan, which could have been secured with the requisite support of Member States (i.e. those contributing over 51% of ICAO's funding)[7]. Both proposals required initial financial guarantees from governments, without which such schemes could not fly. Some respite was offered by the EU governments in the form of guarantees but there were measures aimed at ending this (European Communities 2002).

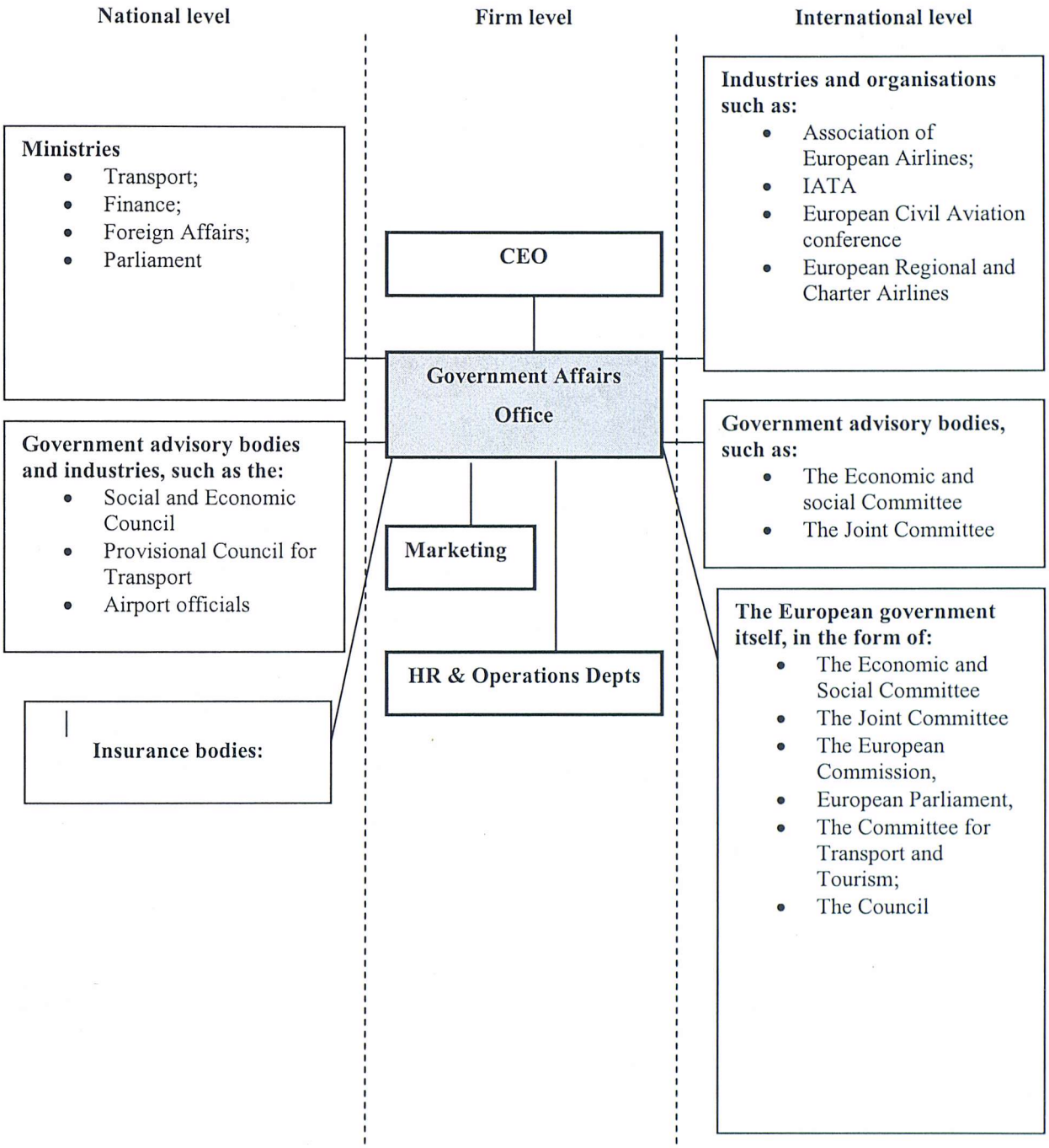
Indeed, coming across this exogenous policy context, the airlines realised that they needed to lobby their respected governments and the European Union quickly to sustain their competitive position or risk extinction. In this section, we explore the coping mechanisms that the European airlines used to adjust to the current policy climate, examine the impacts of these changes on lobbying capability development, and assess the issues at micro levels, focusing particularly on lobbying for the costs involved in introducing new security measures, compensation packages and insurance coverage.

6.3 GENERAL STAKEHOLDER TARGETS IN THE LOBBYING PROCESS

Before discussing lobbying capability development, it is worth listing the most important stakeholders who have been active in the policy process. We will aim to map out the different lobbying micro targets and stakeholders contacted by our chosen case government affairs offices. Figure 16 is created without claiming to be completely comprehensive but rather as accurate from the interviews, archival data and documents:

[6] F015, F008, A001, F036 and E020
[7] A002, B029, B024, C009, C010, E023, B024

Figure 16: Initial organisation of key lobbying micro targets for all airlines during the exogenous policy context



Lobbying for the three issues involved a fairly complicated and lengthy decision-making process in which the stakeholders appeared in changing roles as protagonists in the different phases of the process. The complexity of some issues was to some extent dependent on the information provided by each

protagonist and influenced by the mutual positions they took up. For instance, it is important to airlines that they should be able to play their own direct roles vis-à-vis interaction with a number of stakeholders in their individual internal-decision making processes. However, in this context many of the stakeholders had strong overlapping interests, in which there were only slight differences in the individual goals for which they were striving. Because of the great number of stakeholders it is obvious that the decision-forming process, and consequently the process of influencing those decisions, is fairly complicated. The next part will aim to explore the individual cases in more detail.

6.4 CASE STUDY ONE: KLM

6.4.1 GOVERNMENT AFFAIRS FUNCTION

The government affairs offices functioned slightly differently to the way they did in the deregulation context. Both pre and post 9/11 had very distinct effects on resource utilisation, decision-making associated to resources usage and lobbying capability development. In the pre 9/11 period, the main functional objective for the government affairs office within KLM was preservation and acquisition of traffic rights. As one respondent explains:

> *Well, I think we were doing just routine work. I was doing what we always did. I was getting as many traffic rights as possible. That was obviously lobbying on regulation or policy initiated by the Dutch government or in Brussels or whatever. So that was normally, I would say our day to day work that we would do as a department outside or within the company. [E014]*

Similarly another senior respondent said:

> *We also have a corporate centre which is basically, the, we call ourselves consultants to the board of the managing directors here at KLM. Now within government and industry affairs office, there are two main issues that we deal with. One is the bilateral air service agreements, the bilateral negotiations, so trying to acquire as many traffic rights as possible in the world. And the other part of what we do in government and industry is public affairs, which covers industry affairs and government affairs in a broad sense so we see ourselves as the counter parts of all sorts of government officials at all kinds of levels and*

> *politicians. Both in the Netherlands, as well as outside, especially in Brussels and also due to our special relationship with the United States, with our joint venture with North West Airlines. We also deal very closely with Washington. Now to give you a brief description of the organisation. We have two full time KLM employees based in Washington, to man our Washington government and legal industry affairs office. And we have a joint office with our Air France partners in Brussels. And we are also there physically, so it is not a virtual office. We have people there sitting and living there everyday. Besides that here in head office in Amsterdam, we have a number of people dealing with bilateral affairs and the public affairs locally on government and I would say civil service input in the Netherlands. [E023]*

Therefore, pre 9/11, organisational components of planning, mainly for building new routes and traffic rights, consisted of the following:[8]

- A clear organisational structure;
- Monitoring the relevant political fields;
- Developing and maintaining the network of stakeholders;
- Systematic communication with different stakeholders.

Nevertheless, the terrorist attacks after 9/11 shifted the strategic landscape for many airlines. The harsh impact of post 9/11 was hard for the airline industry to absorb. The government affairs office had to drastically re-focus its function, resources and capabilities to meet the new policy environmental needs brought forward by the exogenous shock. KLM introduced a corporate political strategy, to defend their commercial position; KLM's government affairs office followed a strategy by lobbying specific targets to regain a loss in revenue. It implemented this by attempting to exert influence by means of both generic and idiosyncratic exchanges of ideas with prominent figures in politics and the governments, and with representatives from various other sections in Netherlands, in the days after 9/11. As one respondent said:

> *Few hours after the planes went into the twin towers, we had to call our emergency director meeting and then a departmental meeting. From this meeting, we knew that we had to meet with some senior national level authorities to give them our position. These meetings with national authorities actually happened the following day. [E14]*

[8] From E018, E022, E023

KLM's lobbying activities for the three issues depicted above, insurance coverage, aviation security costs and compensation package, began very quickly. These lobbying activities cannot be described in terms of separate 'influencing campaigns', as they started individually but then shifted towards a coalition activity. The days after 9/11 included periodic meetings with members of the KLM board, exchanges of correspondence on suggestions and positions taken up, organisation of industrial visits, presentations, and so on. As a senior respondent explains:

> *Well it was chaos that we saw all over the world after those events. There were a couple of things that were important for us. We had to get our air craft with passengers back into the transatlantic domain, you know that the US sealed of their Air Space completely. So we had a lot of planes that had to fly to Canada, Greenland, Denmark, Mexico etc etc. So we had a lot of issues with the Dutch Government but also in Brussels and Washington. To get clearance to have the international transatlantic traffic flowing again. That was something that this department was dealing with a lot, together with flight operations who are responsible for the flight safety and stuff etc. So there was a lot of contact within KLM between various responsible departments, various parts of the flight, we had very very close contact with the Dutch government, because they were inquiring what our problems were. What they could do for us on a regulatory level, what they could do for us in Brussels. What they could do with their relationship with the United States, what the embassy in United states could do etc etc. And those contacts with national governments was all fed through this department. Besides that it was very important in that the European Commission, and the finance ministers, council of ministers, the treasury agreed upon a loan, a virtual loan, if the insurers back out of insuring the airlines because this was becoming a serious war threat or terrorist threat. We had a very hard discussion with a lot of insuring companies who insured KLM. Because they said that we have to pay a lot of premiums now because the risk is so much greater that we cannot cover it anymore in the market. That actually meant that a lot of airlines after a certain date would not start to fly because they would not be able to fly because they could not be able to pay their insurance premiums anymore. Now the Dutch government, and there were a large number of governments, gave us a national guarantee that they would step in if we would come into certain positions with our insurance company. So you understand? [E031]*

The next part will look at the different types of lobbying routines used by KLM to leverage and deploy the political resources to defend themselves from exogenous policy issues.

6.4.2 TYPES OF LOBBYING ROUTINES USED BY KLM

There were lots of different lobbying routines found to be used by KLM's government affairs office during the exogenous policy context under investigation.[9] These lobbying routines were used to influence both national and international political targets in the hours and days after September 11[10]. We have managed to categorise the different lobbying routines according to generic and idiosyncratic lobbying routines. Table 20 shows the different illustrative quotes that are indicative of themes based on lists of common concepts and ideas emerging from the interview transcripts. As one KLM senior management respondent captured the essence of what was happening in this context:

> *We have all sort of templates that we follow with the addition of our own templates. Our manuals have most answers to all possible scenarios. To be honest we have a very extensive emergency response manual here at KLM. That is not so much during 9/11. But I must admit that it has been sharpened up to say that after 9/11 but we have always had one. Actually I would say for decades, KLM has an emergency department which deals with further sophisticated guidelines. These include the principal contacts, what to do, how to act, who to get involved, the choice of jurisdiction. It goes from low down in the company to the CEO level. We also have a response manual that is part of this emergency manual, if we have a major accident or a hijacking outside the Netherlands, we have teams ready to travel to that country or position and deal with things at hand locally. So that is quite an extensive programme that we have here at KLM. And in an event like 9/11 although it was not directly aimed at KLM flights, we were affected ... the impact was so major that we all realised here in the company that this was going to mean a lot of stuck passengers in airports. A lot of KLM flights were going to be delayed. That is also something that is managed up onto the top level of the company. And this emergency response manual provides for all those things. The nice thing about emergency response manuals, you can unfold up to the level you feel deemed necessary at the moment. But this was definitely something that went up to the top of the company. [E020]*

[9] Routines and processes are viewed here synonymously.
[10] E14 and European Commission Minutes, 12th September 2001 (COM), 7476

Table 20: Direct KLM quotes to show lobbying processes types[11]

Idiosyncratic Lobbying Routines	Generic Lobbying Routines
"Formal visit"	"Presenting at aviation conferences"
"One to one contact with politicians"	"AEA was very important for us"
"Personal phone call" and "emails"	"IATA"

Another respondent said:

> *Yes, we here at KLM tend to use the personal contact as the primary route to follow, perhaps on a general level but then we have to customise it according to the different stimuli. We tend to wait a little on writing letters, because letters make it always very formal and leaves hardly any time to negotiate. We use letters very much as a last resort. And we use letters only- nearly always only from the top level of the company. Before we reach that level because there is no progress or whatever way we see that there is no progress in our contacts with stakeholders we tend to use the letter as a last resort. What we do in KLM is that we are easy going in giving presentations. We are inclined to do that quite easily generally because we think that we have a message to send and tell. We are very willing to tell that message during conferences and lectures etc. And that is very much in the informal circuit, but still I mean I myself quite frequently give presentations at conferences. It might be an informal way of lobbying but it is a strong way to get your message across but there is always press around, there are always regulators around, there are always consultants and lawyers around, colleagues from other airlines and airports etc. So you do have the right setting of audience to be able to get your message across. We tend to do that regularly and most of the other lobbying is done through personal contact. That is not only done through only phoning someone and making an appointment, it also done through participating in boards and local communities and local municipalities. It is also in joint meetings with certain government officials or civil servants. If there is an issue coming up and we think that we have to do something about it, let's phone a politician. At KLM we try to get into the process as early as possible.*

The lobbying routines used during this policy context were used in a combination of ways. According to people interviewed, from the archival data obtained and EU commission reports, KLM used mainly individual idiosyncratic lobbying routines in the days after 9/11. However they shifted their lobbying efforts to move through AEA and the Dutch Authorities after a few weeks (see Appendix 9 for letter from AEA). It was found that the actual decisions taken in using a more

[11] E020, E012, E018, E023

idiosyncratic lobbying routine combination first, followed by using a larger concentration of a generic routine, were based on the cognitive blueprints. The senior management people interviewed at KLM believed that this was the best way to influence based on their previous experience and the belief that they had a good political resource portfolio. In addition they realised that everyone was in the same boat with the same interests, so they shifted their lobbying routines to a more generic platform. The next part will look at the actual content of the political resources more carefully.

6.4.3 POLITICAL RESOURCES AND POLICY RESPONSIVENESS

The respondents acknowledged the fact that their political resources were very important in developing their lobbying capability process in this policy context. Moreover, senior management believed that their lobbying capability development process would start from their political resources. The senior management, using their cognitive blueprints, would weigh the options of introducing new political resources or using current ones, to make new lobbying processes that would leverage and deploy the political resources (a symbiotic relationship between resource and capability).

Similar to the endogenous policy context, senior management explained that their thinking templates led them to believe that political resources were still comprised of human resources, organisational structure and network resources. They believed that these sub-level political resources needed to be reconfigured to create non-market change to impact the potential onset of new polices. We categorised all the themes found into three key variables that make up a political resource; human, organisational and network resources.

The KLM senior management team believed that their previous experiences, foresight, current learning, ownership and time played important roles in configuring their political resources to develop their lobbying capability in order to effectively leverage and deploy their political resources once more[12]. Table 21

[12] E020, E012, E018, E023

below shows the three main categories of the emergent concepts that are important in the political resource composition that contributed to the development of the KLM lobbying capability.

Table 21: KLM political resources

Political capital resource	Illustrative quotes
Human	"Knowledge" and "experience", "We did not hire new people but we used our people well" [13]
Network	"AEA was very important for us in the weeks and months after 9/11" and "We looked towards our friends and national relationships to get compensation". [14]
Organisational	"Our department did not restructure at the start but we did a few years after 9/11 to reduce costs"[15]

One of the respondents believed that it was important to leverage on these resources and to get involved in the lobbying process early. Thereafter talking to high status people was viewed initially as the right way in this context. As this respondent says:

> *I believe that we followed the emergency manual from the first minutes and hours after 9/11. With the addition of our own thinking ofcourse. We were speaking to specific targets in our national governments as explained in the manual; however who to contact with regards to names was discussed in our emergency meetings. At the same time, we were using AEA, but afterwards we realised that we had to shift our efforts more at the EU level. At this stage we felt that AEA was the best way to influence in order to get the best outcome. Individual efforts were not needed as much after a few weeks and we thought it was a waste of time. Everyone was in the same boat, and we had the same interests so AEA played a paramount role for us in this context. But we did lobby within our AEA meetings too. [E018]*

The next part will aim to understand why and how KLM devised its lobbying capability and political resources within this office. In addition, as shown in Table 20 in the illustrative quotes, there were few variables that were key to KLM's development of lobbying capability in the exogenous policy context.

[13] E020 and E018
[14] E012 and E023
[15] E020 and E23

However, we also came to learn that the government affairs office also used some form of templates or what we term a "cognitive blueprints" to modify their political resources in order to develop a lobbying capability. The next part will explore the core elements of the lobbying capability development process in more detail.

6.4.4 COGNITIVE BLUEPRINT AND TOP MANAGEMENT ATTENTION IN DEVELOPING A LOBBYING PROCESS

The decisions taken by senior management at KLM's government affairs office played a vital role in developing what they believed to be a strong lobbying capability for this period. The decision-making templates or the "cognitive blueprint" that the senior executives used in this period were created over time. Moreover, post 9/11 was a new experience and its effects put airlines under a lot of sustained pressure. Therefore, the executives started using core notions from their previous blueprints with attention given to specific routines. Thereafter they shifted their focus to AEA using an "accumulative blueprint". Where did the cognitive blueprints and accumulative blueprints come from? As one respondent put it:

> *As with most jobs, the thinking processes come from previous experiences. This can be from learning from others or learning by doing and there is also some guess work. But we realised that we had to change the lobbying strategy by using AEA more; as a group people listen to you more. [E012]*

As the illustrative quote shows, the cognitive blueprint came mainly from their previous experiences, their current learning and consideration of future potential policy impacts. However, there were also AEA's blueprints that were used to help them lobby. The decision-making allowed the senior management to realise that AEA was the best way out[16].

We also found that the KLM's decision-making blueprints were fairly flexible and it had a lot of support from its owners. Moreover, after hearing that there

[16] E020, E012, E018 and E023.

would be some potential political impacts, KLM identified the potential issues that required government help in order for KLM not to loose more money. The KLM government affairs management started to develop their lobbying capability by firstly looking at their own cognitive blueprints, then at the organisational blueprints and where they lacked knowledge they looked outside the organisation within their networks. As one senior informant put it:

> *We looked within our departments, the emergency manual, attended conferences, had meetings with people and had lots of individual conversations daily. We also would meet with AEA, where we would find out what they were doing... AEA was crucial in this time to pull all our resources together and influence together. [E023]*

We can see here that the senior management within the government affairs office would learn by doing instead of getting formal training to develop their lobbying capability[17]. It was this management attention on political resources and talking to people from the inception of the event that helped in developing the cognitive blueprint in the early part of the exogenous policy context. However, KLM senior management in the government affairs office realised that they had to re-focus to integrate their blueprint with the AEA office in order to influence using a larger pool of resources, as time was running out.

With regards to the flow of knowledge, the lobbying cognitive blueprint processes were affected by board level cognitive blueprints. The direction and the command in the hierarchy played a role in further developing the cognitive blueprint. We found that within this period the actual decision-making went from the CEO level to government affairs office. As one informant put it:

> *I would say honestly that the knowledge flowed first from the CEO to department like ours. It went mainly downwards as it was a big political but also commercial issue so the CEO played a large role in disseminating information. But then it shifted to us more when it came to compensation, security and insurance issues, because I think that the experience and knowledge of the people in departments like ours, is very much focused on international regulatory setting, it is very much focused on what are the developments in the United States, in Europe, in the Far*

[17] E018 and E023.

> *East and we tend to be a bit closer to the fire as we would say in Holland, than the board of directors. However, we had a very close link to them. Obviously they had ideas and visions of how the future of aviation should look like. What the role of KLM should be etc etc. That has been like that for decades, that is not unique for the board which is in place now. Our department created the real incentive and push forward, the activeness of getting to a certain goal because we believe in a certain development and want to play a serious role in that area. In this time frame it very much originated from departments like governments and industry, strategy, maybe even legal here and there etc. [E022]*

We also found that the cognitive blueprint was influenced to a certain degree by the stakeholders like the Association of European Airlines (AEA); IATA; ICAO, European Commission, European Parliament and members that attended the European Civil Aviation conference. As a one respondent said,

> *I think that our thinking was affected mainly by the association of European Airlines and European Commission. But IATA, ICAO, and aviation conference we attended had some affect on our thinking processes. [E018]*

What are the cognitive blueprints used for? We found that senior executives from the government affairs office and their decision blueprints decided the targets and the sequence to lobby at, both national and international level. The cognitive blueprint also decided the routine combination, and finally, the choice of delivery mode. That is, whether political strategies should have been implemented directly by firm managers or outsourced to professional suppliers of these services. As one senior KLM representative said:

> *I think that there are few critical elements that helped develop our lobbying at KLM during this time. In my opinion I think the choices concerning political lobbying building relate to these elements. The primary strategic choices of the level and type of argument to persuade the relevant constituencies. The choice of venue to be addressed. The choice of targets that will be engaged and the delivery mode. Here I mean outsource versus us directly implementing the strategy. [E023]*

As the illustrative quote shows, who in their networks to target was important in this context type. However, the choice of lobbying routines and argument content was also important. Nevertheless, in order to create this lobbying capability, the department had to slightly re-shuffle. The human, organisational, and network

resources, as well as competence investments, played an important role in developing an effective lobbying capability for this time. However, stakeholders also influenced the cognitive aspects of the top management team within the government affairs office.

6.4.4.1 ORGANISATIONAL STRUCTURE MODIFICATIONS IN THE DEVELOPMENT PROCESS

One of the ways through which the KLM lobbying capability was developed was by adapting the lobbying capability of the firm. Developing KLM's lobbying capability was associated with adapting the department's organisational, structural resources. However, in this context, the departmental structure was modified slowly over the two years after 9/11. The larger part of the restructuring happened later rather than straight away because this department had restructured during the deregulation. They felt that the pressure was intense and restructuring straight away was unnecessary. As one respondent said:

> *We restructured slowly but most taking place between 2003 and 2004. [E018]*

Our observations suggested that organisational structure was used to reconfigure the lobbying capability at later stages in this policy context. This slow process was mainly because they were still very busy lobbying at their national level. As one respondent said:

> *We have not really restructured the departments that much in the months after 9/11 to lobby and influence better. It was a fairly large department before 9/11. What we have done is we have kind of restructured in such a way that we were getting smaller in number slowly after 9/11. My department is now just four while there were five other people in same areas in 2001. There were something like 16 to 17 people around 2000 in this department. And there is another department that deals with all the matters in Skipo airport now, as we have a discussion here in Holland as you most probably have heard from Holland, here about the whole infrastructure capacity. And especially the whole environment capacity here in the airport. We have now created a new department that deals with just that aspect. So the amount of people has slightly changed. We still have the government, industry and public, skipol, environmental etc affairs unit. But instead of having just one broad environment, one boss over our heads, we now have small number of departments under that same boss. This all happened from 2004 onwards. [E031]*

The structure of the government affairs office was considered "hierarchical" throughout the exogenous policy context, that is below the director of government and industry affairs there were other directors (Environment, Public and Airport), managers and analysts[18]. During more recent follow-up interview, the senior management believed that this choice of structure was particularly important and cost effective. It was also believed that shedding people and creating more sub departments would make their lobbying more effective and allow them to develop their lobbying quickly.

On the other hand, there was a high level of transference of responsibility for strategic decision-making after a few months to interest group representation, where there was more of an attempt to influence in a collective manner. As one respondent said:

> *At the start, we were lobbying mainly alone but also using AEA on the side line. Then we moved to lobbying using mainly AEA, as they became our main lobbying arm...We did restructure slowly over 2 years to reduce costs and become more efficient. We lost a few people from our department and we changed our shape here at KLM. [E022]*

But we also found that the lobbying network relationship resources had been used by KLM to develop their lobbying capability. The next part will aim to better explore the relationship between network resources and the lobbying capability development process.

6.4.4.2 NETWORK RELATIONSHIP INTERACTIONS IN LOBBYING PROCESSES

Networks were viewed to be a central resource in creating a lobbying capability. From our analysis, we found that KLM's networks played a role in developing their lobbying capability in this context. However, it was found that KLM invested less time in building new networks when compared to the deregulation period, as they used their pre-existing relationships, particularly between their national governments, with whom they have traditionally been collaborating for long periods of time. Moreover, they focused fewer efforts in developing new network relationships mainly because of time, as the time frame meant that they

[18] E018 and E023.

had to react quickly to the potential exogenous policy issues. As one of our respondents said:

> *Well post 9/11, we built it both ways. We like to form them naturally and by actually targeting specific people we know that might help us in achieving what we want. A lot of it forms naturally, I have had the privilege, whatever you want to call it, of being a civil servant before I joined the company. Out of these counterparts, in that job, I made friends. So that is very easy. I think that is something that develops naturally. On the other hand, as in a lot of western European countries, we do have a lot of political setting and a cabinet that change every four years, which means that you have to redevelop or re-invent your contacts at a right level every couple of years. So what we do is, of course some things go naturally because you go to the right receptions and cocktail parties or you have the right personal contacts because you have a issue that you must deal with. Therefore, in this time we had a financial issue, it was obvious that I would contact the ministry of financial affairs and the ministry of economic affairs and build my network from that. So that is issue driven. On the other hand, we think its necessary that when we have a new council in the city of Amsterdam which is a very important city for KLM and there are politicians there who we do not know from previous contacts when they get their seats in the Amsterdam city council. We actively go to them and invite them or stuff like that so it depends. It all boils down to communicating your views or which positions and in which organisations, you want to have in your network, and either actively or naturally, building up our network. [E031]*

KLM were using their current people within the office that had specific networks that were built previously (either organically or actively) to create influence during this period. They were lobbying network targets that were pre-determined by the individuals but the sequence of who to target was determined by access and time. As a respondent said:

> *We were contacting all the people that we knew had power to get the insurance issue, aviation cost issue and compensation package issue resolved without affecting our revenue. We were communicating to them our position and how the EU needed to help us. I think that we used contacts that were in the emergency manual and our own contacts from the commission... Time and access was a very important factor to bear in mind... But then we started to use AEA more while at the same time working on reviving our commercial business. [E023]*

As interest and issues were similar for all flag carrier airlines, KLM started to use AEA's EU level networks to influence. KLM was using their indirect network

resources by using AEA, which was placed outside the KLM office but was a paid resource. However they used a combination of direct and indirect routines. As a respondent said:

> *We had a lot of contact with people from the Ministry of Financial Affairs here in the Hague to get money. And there was this European financial incentive for the four days after the 9/11 attacks. If you could claim that your flights, that you were seriously impeded because your flights could not fly to the states or that our planes had to get diverted or wait all over the world missing our flight times etc. That amounts to a lot of extra costs for a lot of airlines. And the European commission allowed us to be compensated for that. And this department was very instrumental in gathering all the data within the company. Making sure that we had a sound legal claim and bringing this claim to the European Commission in Brussels. Therefore securing the fact that we could secure those funds. [E014]*

The next part will explore the logical interaction between network relationship resources and human capital investment.

6.4.4.3 HUMAN CAPITAL INTERACTIONS IN DEVELOPING LOBBYING PROCESSES

From our observations of KLM, we found there to be great importance attributed to the role of human capital resources in the process of developing their lobbying capability. According to the KLM respondents, they believed that in order to organise an effective lobbying capability, their current human capital resources had to be configured in specific way in order to communicate important information to their micro targets. However, in this time frame they believed that outsourcing of the lobbying or bringing in new people was not needed. As one informant said:

> *Post 9/11 meant that we had to react quickly, as time meant less money and potential future problems. Having to react quickly meant that we had no time to recruit new people, and in actual fact it did not make sense hiring new people in this time for us. I think that we had the right people; we used our expertise and contacts to make the best possible communication to reflect our difficult position. Of course we had to let go of some people, as the pressure was on to become more efficient like other industries. The merger between Air France and us meant that we had to become better in lobbying. Taking some people out was needed as we had also Air France that had a government affairs office. [E018]*

The human capital resources were used quickly post 9/11, but KLM realised that focusing more on individual lobbying made no sense, therefore there was a shift to coalition interest representation (AEA). At the same time, KLM realised from this context that they had to shed the number of human resources, especially after the merger with Air France, as they had pressure from their current owners and new owners to become more efficient.

Therefore, it made a lot of sense for the senior management to use AEA. AEA played a very important role in providing a platform where KLM could influence the EU. During this time AEA had around 20 people working within its office with 31 members (AEA Annual report 2002)[19].

The next part will explore the overlap between lobbying competence and human capital investment.

6.4.4.4 LOBBYING COMPETENCIES IN THE LOBBYING DEVELOPMENT PROCESS

Senior executives in the government affairs office at KLM explicitly related the development of the lobbying capabilities to a change in lobbying competencies, which were expected to allow them to influence new decision makers and increase internal efficiency. Instead of pursuing a policy of fetching new people with EU level knowledge or better networks, they used their in-house lobbying competencies at the early stage of the policy context, but then shifted their efforts by integrating their competence with AEA's lobbying competence. As one KLM respondent said:

> *We were using our people post 9/11 and also using AEAs expertise and knowledge of lobbying. We realised that AEA was the best choice to lobby instead of focusing on lobbying alone. [E018]*

Underlying the shift to AEA was an effort to gain access to specialised expertise, embodied in individuals that had expertise in coalition lobbying[20]. Using AEA allowed KLM to gain different lobbying competencies, contacts and supporting

[19] F032
[20] E018 and E023

them throughout appeared to be the underlying model for the evolving KLM lobbying capability. An interesting question, with regard to bringing in lobbying competencies from AEA, is when should firms select external lobbying competencies to develop their own lobbying capabilities?

We can see that lobbying capability development played an important role in the exogenous policy context where KLM had little time to manoeuvre to make their interest heard. From the micro level analysis of KLM'S government affairs office, we found that there were few variables that played a vital role in the lobbying capability construction. It was evident that political resources were comprised of human, organisational, and network, which was complemented by competence. These resources and competencies were used to reconfigure their lobbying capability development process. Cognition played a role in building this symbiotic relationship between political resources and lobbying capability development. The KLM lobbying capability had a larger focus at the start on idiosyncratic lobbying routines but then it shifted its focus to using generic lobbying routines to leverage and deploy the political resources to maximise influence (see Appendix 21 for KLM's overall storyline map cluster in the exogenous policy context).

6.5 CASE STUDY TWO: LUFTHANSA

6.5.1 GOVERNMENT AFFAIRS FUNCTION

The government affairs function within Lufthansa during the exogenous policy context was set up as if "they were strategic advisors",[21] as well as people who are in charge with implementing strategy of Lufthansa, or, at least, creating or influencing the creation of the political and regulatory parameters to allow Lufthansa to implement its strategy. This department's function (in this context) brought in non-market information and analysis into the company and then they moderated their decision-making processes to react to potential policies, while defending their positions[22]. In other words, this department took its non-market decisions post 9/11 and then tried to the influence the policy environment in

[21] Words used by one Lufthansa senior manager-A002.
[22] A001 and A003.

order to facilitate the implementation of their own corporate strategy.[23] They worked on the local level, with the hub communities, European commission and other European governments.

On the other hand, pre 9/11 this office focused their efforts on many different issues. According to the interviews and annual reports, we found that this department focused large amounts of time on slot regulation, labour laws, and improving the image of Lufthansa with regards to the environment[24]. In addition, they were working in different jurisdictions to gain traffic rights e.g. from Japan to the U.S. At an abstract and peripheral level they focused mainly on monitoring and defending their organisation's position by scanning the non-market environment. As one respondent said:

> *The main issues were mainly very dull. Of course the infrastructure scarcity was already an issue. So issues like slot regulation and environment. Single European Sky was already on the list. Galileo was another issue that was talked about. Then all kinds of labour law issues or operational regulations. IATA sounding for example safety issues. And then of course we spent a lot of time on forging alliances and getting the respecting clearances for that. Then noise issues. The hushkit debate. Subsidies questions. Ailtalia two packages I guess. Many airlines were earning quite good money in the industry so the whole thing was not as critical and as adventurous as it was post 9/11. [A002]*

6.5.2 TYPES OF LOBBYING ROUTINES USED BY LUFTHANSA

There were lots of different lobbying routines found to be used by the Lufthansa's government affairs office during this exogenous policy context. As one senior respondent describes the lobbying routines used in this context:

> *We were using a combination of lobbying routines. These routines were the same as the ones used in other issues but in greater frequency and different combinations. The routines were used to influence our governments and EU level political actors. This was an extraordinary event so we used a mix of routines that we believed would create positive influence. These combinations are not a strict recipe but more dependent on our owners in mind. [A026]*

[23] Lufthansa requested 180 million euros in state aid to compensate them for revenues lost as a result of 11 September (European Commission Web-site).
[24] F036, A026, A001, A002 and A003.

While another senior respondent said:

> *To be more precise, let us look at things step by step. We were first evaluating what had occurred. Thereafter we used the phone calls to see who could help. So I had to look to see who could help us. Undeniably friends and alliances within the system are very important to this process. We used routines revolved around personal letters to the commission, phone calls to people in the commission but these routines are givens. However, what is important are the people that are most close to you within the system. These people can influence to some degree. But I would say that the combinations are important. Indirect routes cannot happen without direct routes. [A030]*

Table 22: Direct Lufthansa quotes to show lobbying processes types[25]

Idiosyncratic Lobbying Routines	**Generic Lobbying Routines**
"We had direct many meetings with national authorities and our board members"	"Participating in conferences"
"Personal letters and lots of phone calls"	"Using AEA"
"One to one contact with politicians"	
"Talking to our government"	

As seen from the illustrative quotes from table 22, Lufthansa was using some lobbying routines to influence policy makers after 9/11. They started using a combination array of idiosyncratic lobbying routines and generic lobbying routines that involved complicated targeting and sequences by using an a combination of high frequency telephone routines, visiting friends, letters and one to one sessions with political contacts. The generic lobbying routines included AEA and holding talks at conferences. The generic lobbying routines were viewed to be the best way to influence political actors in their opinions after a few weeks; therefore they focused most of their efforts on coalition representation, instead of using mainly individual efforts.

Prior to 9/11, the government affairs office had freedom to lobby without having meetings with its CEO or other directors, as most of its senior representatives in this office were empowered to make important decisions with regards to

[25] A001, A002, A003, A005.

lobbying. However, after 9/11, the direction and lobbying efforts had to change for the government affairs office because Lufthansa had to defend its declining position. Moreover, Lufthansa did not drastically change its approach to running its government affairs department nor did it restructure the department. It just shifted its focus to its coalition lobbying arm after lobbying individually. As one Senior Lufthansa figure highlights:

> *Lobbying had to change at Lufthansa in the sense of whom to contact, which manner to contact and of course content. Also the flow of decision shifted from bottom up to top down. The individual routines were at the start similar to other contexts but used more frequently but then we used AEA more. [A002]*

The actual lobbying routines that were used by Lufthansa to leverage and deploy political resources in this context were important for Lufthansa. The next part will look at the actual content of the political resources more carefully.

6.5.3 POLITICAL RESOURCES AND POLICY RESPONSIVENESS

In this policy context, political resources were very important in developing Lufthansa's lobbying capability. Senior management believed that their lobbying capability development process would start from their political resource base. Consequently, they would use their thinking blueprints to weigh the options of whether introducing new political resources or use current ones, to make new lobbying processes or use current ones, in order to leverage and deploy the political resources to create favourable policy changes.

Lufthansa's respondents disclosed that their thinking templates led them to believe that political resources were comprised of human, organisational, structural resources and network resources[26]. They believed that some sub-level political resources needed to be reconfigured to create non-market change to impact on the potential onset of new polices.

[26] A001, A002, A003 and A005.

The senior management team believed that their previous experiences, foresight, current learning, ownership and time played important roles in configuring their political resources to develop their lobbying capability in order to effectively leverage and deploy their political resources again. Table 23 below shows the three main categories of the emergent concepts that are important in political resource composition, in order to develop the Lufthansa lobbying capability.

Table 23: Lufthansa political resources [27]

Political capital resource	Illustrative quotes
Human	"Experience", "we had the right people with lots of knowledge"
Network	"AEA was very important for us in the weeks and months after 9/11" and "our contact base".
Organisational	"Restructuring happened many months after 9/11"

One of the respondents believed that it was important to get involved in the lobbying process early rather than late and that talking to high status people was initially the right way in this context. As this respondent says:

> *I think, like all airlines we were conveying our position to our authorities in the hours after 9/11. We did this for weeks using individual and AEA paths. We contacted people at both national and EU level. We tried to work with the European Commission. But it is always a very delicate game to balance your lobbying at Brussels and on a national front. You need support from your own member state and the council usually if you want anything done at Brussels. You don't just lobby just at Brussels, but you have to lobby at Berlin and Bohn. You have to balance between the all things in my view. [A030]*

As shown from Table 23, Lufthansa had few variables that were important to the development of their lobbying capability in the exogenous policy context. However, we also came to learn that the government affairs unit also used some form of templates to modify their political resources in order to develop their lobbying capability. The next part will aim to understand why and how Lufthansa devised its lobbying capability and political resources within this

[27] A030, A026, A001

office. We will explore the core elements of the lobbying capability process in more detail.

6.5.4 COGNITIVE BLUEPRINT AND TOP MANAGEMENT ATTENTION IN DEVELOPING A LOBBYING PROCESS

The thinking processes used by senior management at Lufthansa's government affairs office were more autonomous in this policy context. These decision-making processes played a vital role in developing what they believed to be a strong lobbying capability for this time. The lobbying decision-making templates or "cognitive blueprint" that the senior executives used in this period were modified from pre 9/11 to meet the new policy pressures of post 9/11.

Post 9/11 was a new context where airlines did not have time to invest in new lobbying processes but they had to instead change the combination of their routines in order to lobby. Therefore, the executives started using their existing blueprints to organise their political resources, so that they could lobby effectively. They shifted their focus to AEA using an "accumulative blueprint". Where did the cognitive blueprints and accumulative blueprints come from? As one respondent put it:

> *My lobbying formation maps come from past experience and lots of reading. But I think the AEA maps and thinking processes also come from their own lobbying practices. However, in this context our maps were pre-existing ones that were from our emergency manuals. These manuals told us what to do and who to contact. But the sequence of whom to contact was slightly structured, to a certain level but then the rest depended on our own initiatives. [A001]*

The cognitive blueprints came mainly from their previous experiences and their current learning. But there were also AEA's blueprints that were used to help them lobby. The rational process for lobbying allowed the senior management to realise how they needed to form their lobbying capability. Moreover, this g
Flexible, rational approach allowed them to be fairly ambidextrous, going between their generic and idiosyncratic lobbying routines. It was also found that their ownership structure affected their lobbying development process. As one respondent said in a follow up interview:

> *Our owners and stakeholders were very important for us in this context. [A002]*

While another respondent said:

> *Especially in a densely regulated industry like aviation, if you are government-owned then your influence is quite different in this field, there is a more natural stakeholder ship by civil servants and by your own government. We still have some sort of natural stakeholder ship in terms of national pride or personal empathy. And affection for Lufthansa or British airways even though they are private companies but in the end it is not the same as it is in France, Italy, Portugal or Greece. State ownership makes a big difference in whether you need to lobby and how hard you have to lobby. It is very evident and the fact that not everybody is privatised makes the market very distorted. [A002]*

With regards to the flow of knowledge, the lobbying cognitive blueprint processes were affected by board level cognitive blueprints. Indeed the direction and the command in the hierarchy played a role in further developing the cognitive blueprint and the lobbying capability. As one informant put it:

> *I don't think in our department worked top down or bottom up after 9/11. I would say it was a mixture this time. We had meetings then ideas got consolidated into valid information and then decision making processes were started. But you know that those decisions can be basically bottom up, however, ultimately the top decided here. In that context, you start dealing with the problem on the 11 September in the ensuing days you receive dozens and maybe hundred of emails, faxes, phone calls, and everything. There you had to sort these things using your own initiative and experience. And then your superior knows and the decisions were taken. And sometime you had to get a decision. You know in general that you work in the interest of the company and therefore if you get a formal decision then you start to work on it straight away. You start to get the problem out. You start to share the information with the regulators and politicians. Again it is not like a machine. It is like an organism that has many sensors out. It is like a reaction of a human body. Everyone's body reacts similarly to external viruses and bacteria in a certain ways but others react differently. That's how our firm works. There is always a general decision making process but the specific details changes with each issue and task. And certainly in a crisis situation like that it is not a plan. You react using all your competencies. [A026]*

Senior executives from the government affairs office and their decision blueprints decided who to target (this process including the status power weighing of each target) and the sequence to lobby at both national and

international level. The cognitive blueprint also decided the routine combination and finally the choice of delivery mode[28]. That is, whether it should be implemented directly by firm managers or outsourced to professional suppliers of these services. As one senior Lufthansa representative said:

> *Our thinking is revolved around the communication content argument. The choice of people to meet and the delivery mode. [A030]*

As the illustrative quote shows, who to target was important in this context type. However, the choice of lobbying routines (idiosyncratic lobbying routine at the start then shifting to a generic lobbying routine) and argument of content were important for Lufthansa. Nevertheless, in order to develop their lobbying capability, the department had to slightly reconfigure processes. The cognitive blueprint organised the human, organisational, and networks resources, as well as competence, which allowed the development of a perceived effective lobbying capability. The exogenous policy context type did seem to affect the choice of blueprint to use. In addition, the stakeholders also influenced the cognitive aspects of the top management team within this particular government affairs office.

6.5.4.1 ORGANISATIONAL STRUCTURE MODIFICATIONS IN THE DEVELOPMENT PROCESS

Lufthansa's lobbying capability was developed by adapting to meet its new environment. However, in this context, the departmental structure was not re-structured in anyway. They felt that the pressure was intense and restructuring straight away was unnecessary. As one respondent said:

> *Things change very slowly at major German corporations because of the problematic, well it is not just problematic, it's a decision that you can not really hire and fire at your will. So you are basically stuck with the same people so you just give them new jobs. So this is what happened. We just had couple of people turn exclusively to dealing with issues like keeping our slots after the 80/20 rule. There had to be an exception made to the 80/20 rule meaning that if you don't utilize 20% of your slots then you would loose the slots. And of course with the disruption in international air transport, that would have affected our networks. And*

[28] A001, A026, and A030

> *therefore we had to get a change for that. We have the compensation issue where the security issue. We did have insurance problems with the potential of fleet being grounded because of withdrawn insurance coverage's for terrorist attacks and third party damages. That was a major issue that had to be reworked on and then of course all kinds of operational questions, short-term security measures with disruptive effects on our operations or with our passengers and all we sustained damages of about 50 or 60 million Euros of which 43 million Euros were compensated. I guess we were the ones that received the biggest package from the government. [A030]*

Our observations suggested that organisational restructuring was not necessary to develop their lobbying capability. This decision was mainly taken because they believed that they had the right lobbying capability structure for this context. Furthermore, they were still very busy lobbying at their national level and international level, so there was no need to change. As one respondent said:

> *No, we did not change our structure. We remained structurally in tact with no modifications. Like I said earlier. This department is very specialised and each person plays a very important role which we can weaken Lufthansa, if they are taken out of the big picture. Yes other departments did lose people like marketing but our function is viewed a very important function. [A003]*

On the other hand, Lufthansa also used its interest group representation, where there was also an attempt to influence in a collective manner. As one respondent said:

> *I think we relied heavily on our own lobbying tactics but AEA played a big role on time. Maybe it was a 60%:40%. The latter being interest representation. [A002]*

However, we also found that the lobbying network relationship resources had been used by Lufthansa to develop their lobbying capability. The next part will aim to better explore the relationship between network resources and the lobbying capability development process.

6.5.4.2 NETWORK RELATIONSHIP INTERACTIONS IN LOBBYING PROCESSES

Networks were viewed to be a central political resource in creating a lobbying capability. From our analysis, we found that Lufthansa's network resources played a role in developing their lobbying capability in this time window.

However, it was found that Lufthansa invested less time in building new networks compared to the deregulation period, as they used their pre-existing relationships, particularly between their national governments, with whom they have traditionally been collaborating for decades. Moreover, they focused less of their efforts on developing new network relationships because of the tight time frame. The pressures of a short time line meant that they had to react quickly to the potential impacts of exogenous policy issues that could have affected their competitive position. As one of our respondents said:

> *I think you could say that in this context building new networks were not important because we already had the networks and time was knocking on our door. In general, I would say the first most important thing we used would be the current network from our people. The second thing is that our organisation has a strong reputation, so this helps to build up such a network and keep your network healthy. Of course the contact maker has to be well connected and articulate in relaying the information. [A001]*

Lufthansa were using their current people within the office that had specific networks that were built previously (either organically or actively) to create influence during this period. However, they believed that their acquiring and maintaining strong networks was inevitable because of Lufthansa's strong reputation and history. The government affairs office was lobbying network targets early in the policy formation process, mainly individually, and these specific targets were pre-determined by the individuals. However, the sequence of whom to target was determined by access, reputation of the individual and time. As a respondent said:

> *I don't think the lobbying sequence was mechanistic in its manifestation. However, the targets were chosen actively, but this depended on access which always plays a big part in the influencing game. However the status of the target also has a big weight of our choice. We usually try to work bottom up where we leave the king and queen targets till later but on this occasion we had to speak to people with high positions. [A003]*

Lufthansa realised that their interests and issues were similar across all flag carrier airlines. Therefore, Lufthansa also started to use AEA's EU level networks to influence at the same time. The government affairs office started

using their indirect network resources by using AEA, which was its other lobbying arm. As a result, the government affairs office used a combination of idiosyncratic and generic routines. As a respondent said:

> *Well, there is a general recipe to lobby but it depends very much on the directors and CEOs. It's not a mechanism that works in the same way all the time. Each policy is unique which requires its own specification of combination of routines. I would say that there are some outside associations that all airlines can use which have their own routines that all firms have access to like the AEA and IATA, but when it comes from influencing individually then we must use specific ways that other firms might not have. But the tasks and the stakeholders play a large role in this complex web and they also can act as forms of resistance to our lobbying efforts. So answering your question there are many ways to create influence but in this context, the importance and urgency of the policy formations were going to happen, so we looked at our resources, competencies, alliances and of course friends. [A030]*

The next part will explore the logical overlap between network relationship resources and human capital investment.

6.5.4.3 HUMAN CAPITAL INTERACTIONS IN DEVELOPING LOBBYING PROCESSES

The human resources in Lufthansa's government affairs office were found to be very important in the process of developing their lobbying capability. According to the respondents from the government affairs office, they believed that in order to organise an effective lobbying capability, their current human capital resources had to be configured in specific way in order to communicate important information to their micro targets[29]. However, in this time frame they believed that outsourcing the lobbying, bringing in new people or even downsizing was not needed to develop their lobbying arm. As one informant said:

> *We did not outsource or hire people to lobby for us. We had 22 people. They looked at everything from competition law to environmental issues. A team of international traffic right experts and there is an environmental team. Those are really the two expert teams. And then there are two political teams, one in Brussels and one in Berlin who deal with political affairs. They all lobby but our political affairs office does more lobbying. In this time, we had the right people in place and we had the knowledge. [A030]*

[29] A001, A002, A003, A005 and A026.

While another respondent said:

> *One thing about your point about how to acquire the best talent - really talent is two fold in government affairs. One thing is to have a real understanding of substance therefore of different topics, economic topics, dynamics of globalization, dynamics of the industry. And there is a second part is the networks, having a network, understanding how these political network processes works. So it is important for us to acquire at least in both these fields. And very often, in the second field, it usually happens by hiring people that are in the other side of the political process. As that is usually something that cannot be studied. Yes we can have the understanding of the broader issues, the broader dynamics in world politics, world economics, rather from a strong academic background. However the contacts cannot be born over night, it's more complex in our lobbying. For example in our department after September 11 we had few people from different fields of knowledge. We had thinkers which are important and then contactors. At least that is how we worked then and still work. [A001]*

The human capital resources were organised to lobby quickly post 9/11, but Lufthansa realised that focusing on both individual lobbying and coalition interest representation (AEA) lobbying was the right strategy[30]. Therefore, it made a lot of sense for the senior management to use AEA. Bearing in mind that everyone was in the same boat, AEA played a very important role in providing a platform where Lufthansa could influence the EU. AEA had around 20 people working within their Brussels office with 31 airline members adding lots of support. The next part will explore the overlap between lobbying competence and human capital resources.

6.5.4.4 LOBBYING COMPETENCIES IN THE LOBBYING DEVELOPMENT PROCESS

Senior executives in the government affairs office at Lufthansa explicitly related the development of their lobbying capabilities to a change in their lobbying competencies, which was expected to enable them to influence the correct target decision-makers. However, instead of pursuing a policy of fetching new people with EU level knowledge or better networks, they used their in-house competencies and the competencies from AEA to lobby national and international political actors. As one Lufthansa respondent said:

[30] A001 and A002

> *We were only using our in-house people post 9/11 and also using AEAs expertise and knowledge in lobbying political actors. I think the pool of resources at AEA was good for this time, as of course we could use these resources to influence. [A005]*

AEA had access to specialised expertise in-house and from its 31 airline members. Lufthansa using AEA allowed them to gain different lobbying competencies in contacting special high status targets. Supporting them through appeared to be the underlying model for the evolving Lufthansa lobbying capability.

In summary, we can see that the lobbying capability development played an important role in the exogenous policy context where Lufthansa had little time to manoeuvre to make their interest heard. From the micro level analysis of Lufthansa's government affairs office, we found that there were few variables that played a vital role in the lobbying capability construction. It was evident that political resources were comprised of human, organisational, and network, which were supported with competences. These resources and competencies were used to reconfigure their lobbying capability development process. More importantly, cognition played a role in building this symbiotic relationship between political resources and lobbying capability development. The Lufthansa lobby capability had an equal focus between the idiosyncratic lobbying routines and the generic lobbying routines to leverage and deploy the political resources to maximise influence (see Appendix 22 for Lufthansa's overall storyline map cluster in the exogenous policy context).

6.6 CASE STUDY THREE: ALITALIA

6.6.1 GOVERNMENT AFFAIRS FUNCTION

The government affairs function within Alitalia was organised to deal with institutional organisations; it dealt with the legal frameworks, however it had developed a more business-oriented approach since the deregulation period.

Within this office, there were mainly senior people that were responsible for dealing with the key stakeholders. That covered all relations with institutions at national and EU level. At the national level, it was primarily dealing with the Italian parliament and the Italian government and it's Ministry of Transport[31]. It also dealt with the treasury, as the treasury held about 62% of the capital of Alitalia (the main share holder)[32]. They also had relations with the Italian regions, as Italian regions had a lot of power and the Vatican. At the EU level, it would have dialogue with the Commission, parliament and Council.

Pre 9/11 this office focused their efforts on many issues, but getting a decree from the Italian government to authorise privatisation was one of the most important. Nevertheless, others efforts included lobbying for traffic to South America, labour law, and improving the tarnished state-owned image. At an abstract and peripheral level they focused mainly on monitoring and defending their organisation's position by scanning the non-market environment. As one respondent said:

> *Alitalia was focusing on getting a decree from the Italian government to authorise the privatisation of the company, because at the time Alitalia was developing its links with Air France. The company had just joined sky team. It had concluded a joint venture agreement with Air France, which foresaw ultimately merger between the two companies and for that to go forward it was essential for the company to be privatised. So it was essential to have in place a decree setting out the conditions for privatisation of the company. And the company was very much focused on lobbying at a national level to get that privatisation. At EU level, before 11 September, the company was focused on using AEA to lobby. But there was no specific issue of importance except that the company wanted and knew that it would have to be recapitalised somewhere in 2002. And of course this recapitalisation would be undertaken partly by the state, being the main shareholder. And it would have to get approval from the commission. So it was preparing that. [D021]*

However, post 9/11, Alitalia was focusing on lobbying for three issues. During the exogenous policy context (2001-2005), this department made decisions to influence the policy environment in order to facilitate the implementation of their own corporate strategy to defend its position. They worked on the local level,

[31] D017, D021, F015, D034 and D035.
[32] Bloomberg company information. Visited www.bloomberg.com (24th January)

with the hub communities, European Commission and other European governments. As respondent said:

> *The triple issues that everyone was lobbying for: the compensation package, the insurance cover issue and the security cost issue. We were lobbying for those issues, but I would put the security cost as the last issue because the priority was on compensation for the four days of closure of US Air space just after 11 September and on insurance. Because without insurance we would not be able to simply operate and then of course the reimbursement of security cost of having the states accept taking on those costs. For Alitalia there was a specific issue, which overcame all those issues. It is the fact that we were lobbying to get our new restructuring plan and the recapitalisation of the company approved by Brussels and that is what we obtained in June 2002. You may want to look at that commission decision; it is published in the official journal of the European communities. And it's a decision from the 19th or 20th June 2002 on the recapitalisation of Alitalia. We notified to the commission, the restructuring plan and the intention of the state to recapitalise. I think it was in December 2001. So in period a lot of lobbying was done. I was almost in Brussels non-stop. [D017]*

Post 9/11, Alitalia asked the Italian Government for L600-700 billion to cover payments for staff redundancies through the cancellation of the 10 per cent ticket tax[33]. This was in addition to the airline's receipt of the third and final L750 billion tranche of aid agreed by the European Commission in October 2001, on a "one-time, last-time" basis and subject to various conditions (European Commission Web-Site 2006). Alitalia believed that US governments put in place a $15 billion dollar package which needed to be equaled in Europe. Moroever, the US received around five billion in cash and ten billion in loans for US carriers and so it was clear that Alitalia had to react along similar lines. However, they knew that it was going to be very difficult from the start, where the European government and commission offices considered not meeting a comparable US financial size. The evaluation of options led them to believe that investing time and people in following the process was not really worth it, so they shifted all efforts to AEA. The message in Brussels was, "*yes we understand but air transportation is in trouble, but if you cannot survive this then too bad as we don't have too much money*".[34].As a result, Alitalia realised their lobbying

[33] D017 and D035.
[34] D021

capability development process had to measure the best efficiency path and time for this type of context.

6.6.2 TYPES OF LOBBYING ROUTINES USED BY ALITALIA

The choice and combination of lobbying routines can be very important in creating a type of 'defense' influence to protect balance sheets from being eroded. This was the case for most airlines post 9/11, where airlines were going to face the exogenous policies that would hinder their competitive positions. Alitalia's government affairs office were using different lobbying routine combinations in order to leverage and deploy political resources to influence policy makers for the three policy issues, those being insurance coverage, airline security cost issue and a compensation package. They started using a combination of idiosyncratic lobbying routines and generic lobbying routines that involved targeting and sequencing their lobbying routines. Their idiosyncratic routines involved using an array of high frequency telephone routines, visiting friends, writing letters and one to one sessions with political contacts. However, they believed that generic lobbying routines were the best option for them to influence political actors as idiosyncratic routines would not add value. Therefore they focused most of their efforts on coalition representation (using AEA) after a few weeks instead of using mainly individual efforts[35]. A senior manager said:

> *Alitalia was hit badly by the terrorist attacks. We evaluated the damage and the future damages that would be incurred. As a result, we started asking the Italian Government for help to cover payments for staff redundancies we made, because of the cancellation of the tickets etc. We used several routes to pass information to our authorities about our declining positions. We used direct contacts, had meetings and phone calls with the treasury, which was not that successful in my view. But yes, I believe that AEA was the most important way to get our message heard. [D034]*

[35] D017, D021, F015, D034 and D035.

Table 24: Direct Alitalia quotes to show lobbying processes types[36]

Idiosyncratic Lobbying Routines	Generic Lobbying Routines
"We had direct many meetings with our owners"	"Attending conferences"
"Personal letters and lots of phone calls"	"AEA was important to Alitalia"
"One to one contact with politicians"	"Hiring outside help"
"Talking to our government"	

Prior to 9/11, the government affairs office did not develop a sophisticated European lobbying arm as they did not have to go far to speak to their national government. However, after 9/11, the direction and lobbying efforts had to change for the government affairs office because Alitalia had to defend its declining position. They did change drastically their approach to running their government affairs department and restructured the department. As a result, it just shifted its focus to its coalition lobbying arm. As one Senior Alitalia figure highlights:

> *We did what we could by writing letters, talking to our friends, our owners. But in the end, we had to use AEA. Time was a big factor and we had to react quickly in order to utilise the right processes but we had limited resources. [D017]*

While another respondent said:

> *I can tell you that we increased our activities, writing, making phone calls, emailing, and so on. But we have not have a clean template like maybe British airways that focus in creating a particular type of routine groups, if that is what you like to call it. I think we were messy, probably because of the fact that we are so much less number of people after 9/11, and therefore it was difficult for us to organise our work and we were busy with issues. [D034]*

The actual lobbying routines that were used by Alitalia to deploy political resources in this context were important for Alitalia. The next part will look at the actual content of the political resources more carefully.

[36] D027, D021, D037

6.6.3 POLITICAL RESOURCES AND POLICY RESPONSIVENESS

In this exogenous policy context, political resources were very important in developing Alitalia's lobbying capability. Senior management believed that their lobbying capability development process would start from their political resource base. However, we found that the antecedent of deploying resources was the cognitive blueprints. The senior management's cognitive blueprints were used to weigh out the different options, whether introducing new political resources to meet the new policy environments or using the current ones to make new lobbying processes, or using current ones in order to leverage and deploy the political resources to create favourable policy changes.

Alitalia's respondents clarified that their thinking processes were well defined but constrained by time and ownership. However, following a blueprint led them to believe that political resources, human, organisational, structural, and network resources, could be used to develop their lobbying capability. They believed that some sub-level political resources were needed to be organised in such a way as to create non-market defense to reduce the potential onset of new exogenous polices. Yet the emergent policies were considered difficult to control in Alitalia view. As one respondent said:

> *We did what we could by writing letters, talking to our friends, our owners. But in the end, we had to use AEA for the three issues as time was running out. While we used individual lobbying for the recapitalisation as that was the most important thing in my view... We had the expertise at the national level but could not lobby at the EU level the same way, as we did not have the right resources for this time. [D014]*

The senior management in the government affairs office believed that their previous experiences, current learning, ownership and time played important roles in configuring their political resources. This helped to develop their lobbying capability in order to effectively leverage and deploy their political resources again. Table 25 below shows the three main categories of the emergent concepts that are important in the political resource composition in order to develop Alitalia's lobbying capability.

Table 25: Alitalia political resources [37]

Political capital resource	Illustrative quotes
Human	"I think we had the right people"
Network	"We had a good national level contact base but not so strong EU contact base". "AEA"
Organisational	"The recapitalisation led us to change our departmental structure" "we organise our structure after 9/11 to lobby for the recapitalisation"

The next part will aim to understand why and how Alitalia devised its lobbying capability and political resources within this office. In addition, as shown from Table 25, Alitalia had few variables that were important to the development of their lobbying capability during the exogenous policy context. However, we also came to learn that the government affairs unit used some form of templates to modify their political resources in order to develop their lobbying capability. This decision-making came from blueprints but was constrained by time and ownership. The next part will explore the core elements of the lobbying capability process in more detail.

6.6.4 COGNITIVE BLUEPRINT AND TOP MANAGEMENT ATTENTION IN DEVELOPING A LOBBYING PROCESS

The thinking processes used by senior management at Alitalia's government affairs office were more autonomous in this policy context. Their decision-making processes played a very important role in developing what they believed to be a strong lobbying capability for this period. The lobbying cognitive blueprints that the senior executives used in this period were modified from pre 9/11 to meet the new policy pressures of post 9/11[38].

Post 9/11 was a new context where the government affairs office did not have time to invest in new lobbying processes but they had to instead change the combinations of their current routines. Therefore, the executives started using some aspects of their existing blueprints to organise their political resources, so

[37] D021, D034, D035, D021 and D039
[38] D017, D021, F015, D034 and D035.

that they could lobby effectively. However, they shifted the blueprint focus onto AEA. As one respondent put it:

> *Well, I knew what to do. I had worked in the European Commission so I had a cognitive blue print per se. I knew perfectly who would be the internal people to contact. [D021]*

The cognitive blueprints came mainly from their previous experiences and their current learning. But there were also AEA's blueprints that were used to help them lobby. The rational process in this context allowed the senior management to realise how they needed to form their lobbying capability. Moreover, this rational function allowed them to be less ambidextrous, as they switched to their generic from initially using idiosyncratic lobbying routines (very quickly)[39]. However, this function and blueprint choice was affected by the ownership structure and time, which affected the choice in the lobbying development configuration. As one respondent said in a follow up interview:

> *Working for a company that is mainly government-owned is irritating to say the least. Things are not that simple and feel restricted at times... When you feel the time pressure, you must adapt and evolve quickly to meet the demands" [D034]*

With regards to the flow of knowledge, the choices of the lobbying cognitive blueprint compositions by the senior management team were found to have been affected by the board level. It was found that the direction and the command in the hierarchy played a role in further developing the cognitive blueprint which then helped develop the lobbying capability. As one informant put it:

> *The CEO had a vital role in the rising issues in that context. He had a role in the compensation issues for the 4 days and the insurance. These were issues of course high on his agenda, just like the recapitalisation issue. He was less involved in the security cost issue because he had more important issues. He also knew that we were not going to get a penny with regards to the security cost issue, so he decided not to put all his efforts on that case. [D027]*

[39] D017, D021, F015, D034 and D035.

In terms of deciding who to target, the senior executives from the government affairs office made the decisions (this including the status power weighing of each target) and determined the sequence for lobbying at both national and international level. However, we also found that the cognitive blueprints decided the targets, routine combinations and sequences. This blueprint also decided the choice of delivery mode, as in, whether to implement directly by firm managers or outsource to professional suppliers of these services. As one senior Alitalia representative said:

> *I think we were slightly limited in who we could talk to being government-owned. But this can be good, as you can well imagine, being owned by the government means you can organise meetings quickly with important people to inform them about your position. This means we can be heard in Europe quickly. As we all know there are good things and bad things to being owned by a state. [D034]*

As the illustrative quote shows, Alitalia would target specific people. Although they felt restricted in their resource base, they could have direct conversations with their own government to lobby on their behalf at the European Commission. Thus, the choice of lobbying routines (idiosyncratic lobbying routine at the start then shifting to a generic lobbying routine) and argument of content were important for Alitalia with regards to lobbying for the three issues (plus recapitalisation). Moreover, the cognitive blueprints chosen organised the human, organisational, and networks resources, as well as competence, which allowed the development of their lobbying capability. The exogenous policy context type did seem to affect the choice of blueprint to use. But their ownership structure also seems to have affected the cognitive blueprint's choice within the government affairs office.

6.6.4.1 ORGANISATIONAL STRUCTURE MODIFICATIONS IN THE DEVELOPMENT PROCESS

Alitalia's lobbying capability was developed by adapting it to meet its new emerging policy environment. However, in this context, the department did re-structure itself, as they felt that the pressure was intense and restructuring had to be done to become more efficient. As one respondent said:

> *Oh yes, it become even more crucial to restructure after 9/11. Actually that is when they hired me. They changed a bit the profile of the director for that position in the sense that before the person that was in charge had a more national background. After September 11, I was recruited because Alitalia wanted someone that had more of an EU background. [D017]*

Our observation suggested that departmental restructuring was needed to develop their lobbying capability. This decision was mainly taken because they believed that they did not have the right lobbying capability structure for this context. As one respondent said:

> *Before September 11. We were monitoring the political activity at both national and international levels and using our lobbying activity. But before September 11, we had a big structure. In fact, we had also an office in charge with Vatican relationship for example. Of course in Italy the Vatican is very important, so we have many contacts with the Vatican. But this office has been cut of after 11 September, this activity. And also we had an office dedicated to the regional affairs. But also these offices to be reduced so now we are few people following many affairs in both the national and international side. It was because after the 11 September we had a business plan which established also level costs reductions of course together with social costs absorbers and so on. Our office has been reorganised in this sense but of course issues such as security and insurance are very well followed. For example, I am personally involved in a working group at the AEA level that is very busy with the question of the APPNR issue. [D034]*

Therefore while they restructured their office, they also started using their interest group, AEA, to influence the European Commission. They believed that to influence in a collective manner made more sense for them. As one respondent said:

> *I think that we might have a combination of routines. But I do believe that it is important for example to have awareness of some issues in advance in order to lobby in the adequate manner. After 9/11, we tried to do this through mainly AEA. For example, AEA that is the Association of European Airlines, in which Alitalia is in so much involved. And so through them we are able to follow the issues that we consider important, they also follow the issue from the beginning, as many information from the commission, the institution and also from the industry. They are a very good base for us. [D035]*

However, we also found that the lobbying network relationship resources had also been used by Lufthansa to develop their lobbying capability. The next part will aim to better explore the relationship between network resources and the lobbying capability development process.

6.6.4.2 NETWORK RELATIONSHIP INVESTMENTS IN LOBBYING PROCESSES

Networks were considered to be a central resource in creating a lobbying capability. We found that Alitalia's network resources played a role in developing their lobbying capability in this context. Moreover, it was found that Alitalia invested more time in building new networks compared to the deregulation period, as they used their pre-existing relationships, particularly between their national governments with whom they have traditionally collaborated for decades. Moreover, they changed their network base because they needed to become more efficient with regards to the industry average. The government affairs office started changing their network base after lobbying individually for their issues. After shifting focus to AEA, Alitalia started restructuring their department, which meant that they had to let go of some old networks and bring in new networks. As one of our respondents said:

> *This department went through some changes after 9/11, where we had to lay off some people that were not needed. We tried to bring in only 2 people with new EU and national level contacts. This was done not with the intent to use for the immediate three issues. These issues were dealt with by AEA and us of course. The people brought in were brought in more for the long term strategy of our lobbying. [D035]*

Therefore, Alitalia used their current people within the office that had specific networks, but they also shed some people of during this context to make room for new improved lobbying networks. In the days after 9/11, the current group was lobbying specific national targets more and these targets were pre-determined by the individuals. They used a sequence of whom to target which was determined by access and time. As a respondent said:

> *I think that Alitalia's network was short. What I mean is that they tended to speak to their national governments first, but that was outdated for this new type of context. [F015]*

Conversely, Alitalia realised that the interests and issues were similar across all flag carrier airlines. Therefore, they started to simultaneously use AEA's network and their own networks to influence. As a result, the government affairs office used a combination of idiosyncratic and generic routines. As a respondent said:

> *I think it worked well for us in using AEA and our own efforts. I think what was important is coordination through the AEA. I mean in those circumstances, AEA proved to be very essential; I did not need guidance from AEA because in the sense, I knew the commission and had worked there. But I believe that in this type of event, AEA was useful to accumulate the type of knowledge needed to react to the rising issues. They provided guidance to its members in what to do and how to do it. [D035]*

The next part will explore the overlap between network relationship resources and human capital investment.

6.6.4.3 HUMAN CAPITAL INTERACTIONS IN DEVELOPING LOBBYING PROCESSES

The human capital resources in Alitalia's government affairs office were found to be very important in the process of developing their lobbying capability. According to the respondents from the government affairs office, they believed that in order to organise an effective lobbying capability, their current human capital resources had to be organised in specific way in order to communicate important information to their micro targets during the exogenous policy context[40]. However, in this timeframe they believed that outsourcing the lobbying was indeed necessary, on top of bringing in new people and downsizing to develop their lobbying arm. As one informant said:

> *Yes, we had lawyers. We hired outside only for this specific issue of the recapitulation of the company. We hired a law firm specialised in EU affairs. While for the other topics, we did it through the AEA and individually. But we did not hire anyone. [D021]*

Alitalia maintained a government affairs office, with the intention of restructuring in the short to medium term. However in the short term, the human capital resources were organised in a way to quickly lobby post 9/11. Alitalia

[40] D017, D021, F015, D034 and D035.

soon realised that focusing more lobbying effort on their coalition lobbying platform (AEA) was the right strategy. The next part will explore the overlap between lobbying competence and human capital investment.

6.6.4.4 LOBBYING COMPETENCIES IN THE LOBBYING DEVELOPMENT PROCESS

The senior management team within the government affairs office within Alitalia explicitly related the development of their lobbying capabilities to a change in their lobbying competencies, which was expected to enable them to influence the target decision-makers. They pursued a tactic of getting a few good people with EU level knowledge and better networks in the medium term. However, in the short term they used their in-house competencies and the competencies from AEA to lobby national and international political actors. As one Alitalia respondent said:

> *We had the average competence in our office but did not have all the resources. The terrorist attacks damaged our bottom line. So, no, I don't think we had enough resources, well it was largely enough. However, specific skills and knowledge that we needed were not there during that time. We needed more knowledge on times, so we had to go to AEA. [D035]*

While another senior person said:

> *Post September 11 we were hiring new, talented individuals who had knowledge in lobbying at an EU level, as that was where lobbying was moving... We hired people that have extensive knowledge in EU law. [D021]*

AEA had specialised experts in-house and from its 31 airline members. Alitalia used AEA to gain different lobbying competencies in lobbying and influencing. Supporting them throughout appeared to be the underlying model for the evolving Alitalia lobbying capability.

We can see that the lobbying capability development played an important role in the exogenous policy context where Alitalia had little time to manoeuvre to make their interest heard. From the micro level analysis of Alitalia's government affairs office, we found that there were few variables that played a vital role in the lobbying capability construction. It was evident that political resources were comprised of human, organisational, network and competence resources. These

resources and competencies were used to reconfigure their lobbying capability development process. Cognition played a role in building this symbiotic relationship between political resources and lobbying capability development. Cognition allowed for a more idiosyncratic lobbying routines concentration at the start and then it shifted to a generic lobbying routines platform to leverage and deploy the political resources to make influence (see Appendix 23 for Alitalia's overall storyline map cluster in the exogenous policy context).

6.7 CASE STUDY FOUR: SAS AIRLINES

6.7.1 GOVERNMENT AFFAIRS FUNCTION

The government affairs function within SAS was organised to deal with legal frameworks, bilateral agreements with states, monitoring of the political landscape and, more importantly, implementing corporate political strategies to create or defend their competitive position[41]. The senior people within this office were responsible for dealings with the key stakeholders, which covered all relations with institutions at national and EU level. National level was primarily the Swedish, Norwegian, and Danish parliaments and governments.

Pre 9/11 this office focused their efforts on many issues including acquisition of traffic rights and monitoring the political scene[42]. In other words, at an abstract level they focused mainly on monitoring by scanning the non-market environment. Soon after 9/11 (exogenous policy context), this department took decisions to defend their position from the emerging policy environment in order to facilitate the implementation of their own corporate strategy. They worked on the local level, with the hub communities, and at an international level with the European Commission and other European governments to protect their position[43]. They made it clear that SAS was in a difficult position; stopping insurance, not providing compensation, and making them pay for security costs would be disastrous for the Scandinavian region. As one respondent said:

[41] B006, B007, B024 and B028.
[42] B006 and B028.
[43] B006, B007, B024, B028 and F036

> *Acquisition of traffic rights and mainly monitoring the political scene were the activities that our departments were focusing their efforts on. But on the actual day of the attack I was in Brussels actually. At that point I thought that the airline industry will never be the same after and of course that was true. September 11 had a tremendous impact on the entire airline industry. But looking at 9/11 as an impact in context of this department and its functions, it did not change anything drastically in our department. It was just that we had some new topics that we had to deal with like security, like insurance and those kinds of things. But what we did before 9/11 and after 9/11 on general routines bases was not very different. We are a department that can be assumed to play a very important role for SAS and therefore we need stability in our structure. So we were not re-structured as a result like other parts of SAS. Actually before 9/11, SAS was focused on a cost cutting programme. But obviously after 9/11 happened that programme was even more important and stringent. [B012]*

While another SAS informant said:

> *We expressed our views on insurance and security costs. Those were big things, so we were lobbying the EU system mostly through AEA but we also obviously used our national EU representatives also. We addressed the Scandinavian governments and parliaments. That was vital - without that state insurance help, I don't think that any airline would have survived. And the Airlines paying all the security costs would have been problematic.*

SAS realised their lobbying capability development process had to measure the best efficiency path and time for this type of context. They started lobbying using different lobbying routines but maintained a similar structure to pre 9/11. However, their decision frames were based on following other people and using their own rules.

> *Everyone has different network base but we all use a generic platform like AEA. But the network is differentiated by who you know. I think individual lobbying has its perks and some contexts need this more, while coalition lobbying using trade associations have their benefits too in some contexts. Maybe using both individual and group lobbying is the best way forward. I think overall that we managed to get what we wanted at EU level and collectively with the other airlines, with AEA. We got the commission approving and authorizing the states to compensate the airlines of the four day of closure of the US airspace. We got the commission accepting the states to guarantee the airline activities, to provide the insurance coverage. And we got the commission to be very receptive and very positive on the idea of member states paying for security costs. But that was only one side of the problem. Of course you*

needed all these issues to be approved at EU level but as far as implementation was concerned, it all depended on national level, so then you needed to go to your respective member states and make sure that they would take the implementing decisions because it was there economic value that was getting affected. [B029]

6.7.2 TYPES OF LOBBYING ROUTINES USED BY SAS

There were lots of different lobbying routines found to be used by the SAS's government affairs office during this policy context. As one senior respondent describes the choice of lobbying routines:

Well we used phone calls, letters and personal visits to meet some people at our national authorities in Denmark, Norway and Sweden. But AEA was doing most of the work for us when it came to lobbying the European commission. They provided the coordination and information gathering, intelligence exchange and so forth. [B029]

While another senior respondent said:

The process was very much like what it has been traditionally using the various routines and tools within our box, including letters and information material, including meetings, one to one or with larger groups. But at this point we had a time element as well, so intensity of lobbying had to change. So it would be fair to say that we had less time with direct contact with politicians to influence them in the way we wanted. Less time talking to all the different political parties and governments of the three Scandinavian countries. They understood the problems quite fast. They had no problem there and they all talked to each other to be sure that they were handling the matter the same way. I would say that process was with the most important people in the governments. That was about it and letters. [B028]

SAS was using some lobbying routines to influence policy makers after 9/11. They started using a combination of idiosyncratic lobbying routines and generic lobbying routines that involved complicated targeting and sequences by using a combination of high intensity telephone routines, visiting friends, letters and one to one sessions with political contacts[44]. The generic lobbying routines included mainly AEA and attending conferences. In the interests of time, the generic lobbying routines were viewed to be the best way to influence political actors in

[44] B006, B007 and B028.

their opinions after a few weeks. Therefore they focused most of their efforts on coalition representation instead of using mainly individual efforts[45].

Prior to 9/11, the government affairs office had freedom to lobby without having meetings with its CEO or other directors; this was the case as most of its senior representatives in this office were empowered to make important decisions with regards to lobbying. However, after 9/11, the direction and lobbying efforts had to change for the government affairs office because SAS had to defend its declining position. Moreover, SAS did not change drastically its approach to running its government affairs department nor did it restructure the department[46]. It just shifted its focus to its coalition lobbying arm.

6.7.3 POLITICAL RESOURCES AND POLICY RESPONSIVENESS

Equally, in this policy context, political resources were very important in developing SAS's lobbying capability. Senior management believed that their lobbying capability development process would start from their political resource base. However before using these resources they would use their thinking blueprints to weigh up whether to introduce new political resources or use current ones to make new lobbying processes, or use current ones in order to develop their lobbying capability.

SAS respondents disclosed that their thinking templates led them to believe that their political resources, human, organisational, structural, and network resources, needed to be used to defend their position from the policy environment. Moreover, the senior management team believed that their previous experiences, foresight, current learning, and autonomous factors of ownership and time played important roles in configuring their political resources to develop their lobbying capability, in order to effectively leverage and deploy their political resources again (resource->capability->resource). Table 26 below shows the three main categories of emergent concepts that are important in the political resource composition in order to develop the SAS lobbying capability.

[45] B006, B007, B024 and B028.
[46] B024 and B028

Table 26: SAS political resources [47]

Political capital resource	Illustrative quotes
Human	"We had expertise" and "experience"
Network	"We used AEA" and "our friends".
Organisational	"We remained the same, as we had a good structure"

The respondents believed that it was important to get involved in lobbying process earlier rather than later[48]. In this context, they realised that time was an issue, therefore talking to high status authorities early and using AEA was the right way to lobby. As this respondent says:

> *Yes, I agree with you completely. Nobody could in Europe wait. It was about getting together quickly. The national governments were the ones to provide the guarantees. In this time, European structures were superfluous where national relations were extremely important. Because when things happen so fast there was simply no time to do anything on a consorted level. There was a development very quickly. It was called EURO time at ICAO. [B006]*

The next part will aim to understand why and how SAS devised its lobbying capability and political resources within this office. In addition, SAS had few variables that were important to the development of their lobbying capability in this exogenous policy context. We will explore the core variables of the lobbying capability process in more detail.

6.7.4 COGNITIVE BLUEPRINT AND TOP MANAGEMENT ATTENTION IN DEVELOPING A LOBBYING PROCESS

The senior management at SAS's government affairs office used specific thinking blueprints that were more autonomous than induced in this policy context. These decision-making blueprints played a vital role in developing what they believed to be a strong lobbying capability for this time. The lobbying decision-making templates or the "cognitive blueprints" that the senior executives used in this period were modified from pre 9/11 to meet the new

[47] B006, B007, B024 and B028
[48] B006, B024 and B028.

policy pressures of post 9/11[49]. However, how did they build these blueprints? A respondent describes the process:

> *We learn by doing. I am always learning at home. In fact that is how we build our decision-making processes, maps, whatever you want to call it. We do this by doing things as we go along. I get home and start to think about the issues on the plate, and then I refer to my library... In this context, we used our decision on the choice of level and type of strategy. Then the choice of the content for our argument to influence, the targets to contact and the mode of direct or indirect. [B007]*

As seen from the above illustrative quote, the cognitive blueprints came mainly from their current learning, but they also came from past experiences and foresight. The rational process used for their lobbying allowed the senior management to realise how they needed to form their lobbying capability. Moreover, this flexible logic allowed them to be fairly ambidextrous, switching between generic and idiosyncratic lobbying routines. Furthermore, it was also found that their ownership structure affected their lobbying development process. As one respondent said in a follow-up interview:

> *Our owners and stakeholders allow us to be better at lobbying than say other airlines. We have access to three governments, more resources in some ways. But this can also mean three times more work. [B024]*

Indeed, post 9/11 was a new context where SAS did not have time to invest in new lobbying processes, thus instead they had to change the combination and intensity of their lobbying routines. Their executives started using existing blueprints and modified them slightly to organise their political resources, so that they could lobby effectively to meet the new policy challenges. These blueprints led them to shift their focus to AEA during this context.

With regards to the flow of knowledge, the lobbying cognitive blueprint processes were affected by board level cognitive blueprints. Indeed the direction and the command in the hierarchy played a role in developing the cognitive blueprint and the lobbying capability. As one informant put it:

[49] B006, B007, B024, B028 and F015

> *It emerged at the CEO level. In crisis situations like this it should always come from the top. But we worked closely together on political affairs where I kept the CEO informed on the legal aspects of things. [B028]*

Senior executives from the government affairs office and their decision blueprints decided who to target (this including the status power weighing of each target) and the right sequence to lobby, at both national and international level. The cognitive blueprint also decided the routine combination, and finally the choice of delivery mode. That is, whether it be implemented directly by firm managers or outsourced to professional suppliers.

As seen previously, who to target was important in this context type. However, the choice of lobbying routines and argument of content were important for SAS. Nevertheless, in order to develop their lobbying capability, the department had to slightly reconfigure processes. The cognitive blueprint organised the human, organisational, and networks resources, as well as competence, which allowed the development of an effective lobbying capability. The exogenous policy context type did seem to affect the choice of blueprint to use. In addition, the stakeholders also influenced the cognitive aspects of the top management team within this particular government affairs office.

6.7.4.1 ORGANISATIONAL STRUCTURE MODIFICATIONS IN THE DEVELOPMENT PROCESS

SAS's lobbying capability was developed as it was adapted to meet the new policy environment. However, in this context, the departmental structure did not vary in anyway at the micro level. Moreover, they felt that the pressure was intense and re-structuring straight away was unnecessary. As one respondent said:

> *At this time we needed to be effective, efficient and more serious about lobbying. Influence on the political decisions making process cannot be made from a distance. You have to be there, physically present in the Brussels environment. That is a structure we introduced before 9/11 in 2000. But we did not change our shape, as our shape was fairly robust compared to some other airlines. [B006]*

Our observations suggested that departmental re-alignment was not necessary in the traditional sense to develop their lobbying capability in the short to medium term[50]. This decision was mainly taken because they believed that they had the right lobbying capability structure for this context. However, they did introduce AEA into their lobbying game, and it acted as an extension of their department's structure. As one respondent said:

> *AEA was important to our department weeks after 9/11. We worked closely with them through the whole period for the three issues. [B029]*

However, within this context, they only downsized their Norwegian office in the medium to long term. They did this to be more efficient in their lobbying. As a respondent said:

> *We actually downsized our Norwegian office, less then other parts but we did downsize. However, this happened latter then sooner. In our office few people left because in the situation in which the industry was going into [at] that time. Overhead costs were the worst; it was a matter of cutting costs for any price. So the downsizing was substantial, we reshuffled. I would say that before September we had 9 people and at the end of the process we had 3 by 2005. The reason to go from 9 to 3 is because we have been reorganising the whole group. [B028]*

We also found that the lobbying network relationship resources had been used by SAS to develop their lobbying capability. The next part will aim to better explore the relationship between network resources and the lobbying capability development process.

6.7.4.2 NETWORK RELATIONSHIP INVESTMENTS IN LOBBYING PROCESSES

Networks were viewed to be a central political resource in creating a lobbying capability. Moreover, SAS's network resources played a role in developing their lobbying capability in this context. Nevertheless, it was found that SAS invested less time in building new networks, as they used their pre-existing relationships, particularly between their national governments with whom they traditionally collaborated for decades. Moreover, they focused less of their efforts on developing new network relationship because of the tight timeframe. The pressures of a short time line meant that they had to react quickly to the potential

[50] B006, B007, B024 and B028.

impacts of exogenous policy issues, which could have affected their competitive position. As one of our respondents said:

> *We have a very sophisticated IT system, where we have over 1000 names, emails, and telephone numbers of contacts, friends, politicians from all over the world. Plenty of people to contact but in this time, the main people we contacted were the people with authority. To make sure people hear you, you must contact your top trumps quickly then start contacting other friends at other airlines and AEA. [A001]*

SAS were using their current people within the office that had specific networks that were built previously (either organically or actively) to create influence during this period[51]. The government affairs office were lobbying network targets early in the policy formation process, mainly individually. These targets were pre-determined by individuals but the sequence of whom to target was determined by access, reputation and time. As a respondent said:

> *I guess that having the contacts is half the story, as also getting the meeting with them is the other half. But having the SAS brand can get the meeting quickly. [B024]*

SAS realised that interests and issues were similar across all flag carrier airlines. Therefore, SAS also started to use AEAs (EU level) networks to influence at the same time. The government affairs office started using their indirect network resources by using AEA, which was its other lobbying arm. As a result, the government affairs office used a combination of idiosyncratic and generic routines. The next part will explore the logical overlap between network relationship resources and human capital investment.

6.7.4.3 HUMAN CAPITAL INTERACTIONS IN DEVELOPING LOBBYING PROCESSES

The human resources in SAS's government affairs office were found to be very important in the process of developing their lobbying capability. Moreover, according to the respondents from the government affairs office, they believed that in order to organise an effective lobbying capability, their current human

[51] B024 and B028.

capital resources had to be organised in a specific way in order to communicate important information to their micro targets[52]. However, in this timeframe they believed that outsourcing the lobbying or bringing in new people was not necessary to developing their lobbying arm. As one informant said:

> *We kept everything in-house, as that is the best way to keep control on outcomes. Yes, everything was done in-house, so that we could save money. Hiring consultants is far too expensive and we need to keep the influence knowledge in house. [B004]*

While another respondent said:

> *I think in this time the combination of direct and indirect ways was important. But there are no secret instructions when it comes to successful lobbying routines. You have the right financial and human resources that have the knowledge and contacts. It's a layered approach that make things happen. Each case we encounter is different so we need to use different ways, but using the general base of lobbying is a given of course. [B024]*

The human capital resources were organised to lobby quickly post 9/11, but SAS realised that focusing on both individual lobbying and coalition interest representation (AEA) lobbying was the right strategy. Therefore, it made a lot of sense for the senior management to use AEA. AEA played a very important role in providing a platform where SAS could influence the EU during this exogenous policy context. The next part will explore the overlap between lobbying competence and human capital investment.

6.7.4.4 LOBBYING COMPETENCIES IN THE LOBBYING DEVELOPMENT PROCESS

The senior management team within the government affairs office related the development of their lobbying capability to a change in their lobbying competencies, which was expected to enable them to influence the correct policy decision-makers and improve internal efficiency[53]. Moreover, they used their in-house competencies and the AEA competencies to lobby national and international political actors. As one SAS respondent said:

> *We had the competence in-house to deal with potential problems and where we lacked knowledge, we just had meetings or read things to fill*

[52] B007, B024, B028, F015
[53] B006, B007, B024 and B028

> *the gap. It was combination of old and new in perspective. Because we were also in an intermediary phase where the EU was partially taking over. The micro politics was still managed at the national level. That has changed since then. After September 11, we had already the right people so we slightly changed structures later for cost issues but less for competence issues. So it has been a gradual process in regards to that I would say. [B004]*

Other then just using their own lobbying competencies, SAS used AEA to gain different lobbying competencies in devising a strong lobbying content to create some influence. Supporting them through appeared to be the underlying model for the changing SAS lobbying capability. Indeed, we can see that lobbying capability development played an important role in this exogenous policy context where SAS had little time to manoeuvre to make their interests heard. Subsequently, we found that there were few variables that played a vital role in the lobbying capability construction. It was evident that political resources were comprised of human, organisational, and network which was complemented by competence. These resources were used to reconfigure their lobbying capability development process. While cognition played a role in building this symbiotic relationship between political resources and lobbying capability development. Indeed, the SAS lobbying capability had an idiosyncratic lobbying routines focus at the start and then it shifted to a generic lobbying routines platform to leverage and deploy the political resources to maximise influence (see Appendix 24 for SAS's overall storyline map cluster in the exogenous policy context).

6.8 CASE STUDY FIVE: TAP AIR

6.8.1 GOVERNMENT AFFAIRS FUNCTION

The government affairs function within TAP air was organised to deal with the political environment and the legal frameworks. This office contained people that were responsible for communication with the key stakeholders. These forms of communications constituted formal and informal information exchanges at national and international levels with political actors; sustaining and building relations with institutions, airlines and political actors at both national and

international level; and monitoring the political landscape[54]. At the national level it primarily had contact with the Portuguese parliament and the Portuguese government. Contact with the national government was mainly with the Ministry of Transport and with the treasury[55]. At the EU level they had contact with the commission, parliament and council. As one respondent said:

> *I deal with government affairs and our department deals with government affairs, multi-lateral representation, and aeropolitical affairs and also alliances. So it is external affairs and alliances where we have to keep our networks fresh and alive. By alliances it does not mean on the alliance in which we are integrated in but also all the commercial arrangements that we have with other non-alliance partners. [C009]*

Pre 9/11 this office focused its efforts on issues such as route development to places like Brazil and Venezuela (Annual Report 2000). At an abstract and peripheral level they focused mainly on monitoring and creating new opportunities by scanning the non-market environment. As one respondent said:

> *I made it clear that it was all about the search of commercial opportunities. It was very much about our office lobbying our civil aviation authority in order to make sure they would allow us to grow here or there and so forth. This has been very much the main stream of effort before 9/11. Again I cannot remember well but there have been some regulations which were of course prepared by the commission during the consultation period of those regulations. The revenue enhancement side then on the cost reduction side, so that was probably the big difference, if you compare the period before and the period after. [C010]*

However, during this exogenous policy context (2001-2005), this department took decisions to influence the policy environment in order to facilitate the implementation of their own corporate strategy. Their strategic behaviour started more at a local level, with them touching base with contacts at the European Commission[56]. With further evaluation of the different options, they decided not to invest too much time and resources on their individual lobbying processes. As a result, they shifted all efforts to AEA to do the lobbying. As a respondent said:

[54] C009, C010, C011, C013 and C033
[55] C009, C013 and C033.
[56] C009, C010, C011 and C013

> *On the security measures issues, we mimicked or processed on what other airlines did, so when one member state does something, other member states do the same. So one starts the chain reaction. For instance cock-pit doors, and that sort of things, there was coverage for that type of cost. But for the main cost incurred, there was no consensus. Again it is an issue of how many member states are willing to step into resolving a certain issue. More and more member states look at each other. They do not do anything without looking at each other, for instance Portugal will look at France or UK etc. So it very much depends on how strong you lobby with the national government. What is the relative weight of that country in relation to all the others? So it is not so much that our efforts are less effective or more effective, the decision making in the end depends on many exogenous factors which we are not there to control. Of course, we also used an association called AEA. I believe, in this particular time, we used them a lot. With AEA, we always exchanged views, and tried to have all our peers as active as everyone else, as it is the only way. [C011]*

TAP realised their lobbying capability development process had to measure the best efficiency path for this type of context. The choice was determined by the facts that there was a short timeframe and most other airlines had similar interests.

6.8.2 TYPES OF LOBBYING ROUTINES USED BY TAP

The choice and combination of lobbying routines can be very important in creating a type of influence, which can protect competitive positions. TAP Air's government affairs office was using different lobbying routines in order to leverage and deploy political resources to influence policy makers for the three policy issues: insurance coverage, airline security cost issue and compensation package. They started using a combination of idiosyncratic lobbying routines and generic lobbying routines that involved targeting people and sequencing their lobbying routines. Their idiosyncratic routines involved using a combination of high frequency telephone routines, visiting friends, writing letters and one to one sessions with political contacts. However, they believed that generic lobbying routines were the best option for them to influence political actors as idiosyncratic routines would not add value. Therefore they focused most of their efforts on coalition representation (using AEA) after a few weeks instead of using mainly individual efforts. A senior manager said:

> *We used mainly personal contacts at the start. This choice was based on the fact that our previous experience showed personal routes are important at the start. The email is very impersonal and people read it or don't read it. If you send a letter that is one page, people get bored and they do not have time, they probably put it somewhere on their desk and let it sit there for two months. I do! It was very much our principal that as much as possible, we needed face to face meetings after 9/11, where we explained what we needed. Being a state-owned airline, people listen to at home. As much as we can that is how we worked. In other words, direct methods... But then AEA was also used to make our position more transparent... we did after 2003 restructure and lay off some people. [C025]*

Prior to 9/11, the government affairs office did not develop a sophisticated European lobbying arm as they did not have to go far to speak to their national government. However, after 9/11, the direction and lobbying efforts had to change for the government affairs office at TAP, because they had to defend their declining position[57]. Moreover, they drastically changed their strategic behaviour in running their government affairs department and hence restructured the department. As a result, it shifted its focus to its coalition lobbying arm. As one Senior TAP figure highlights:

> *Well, we do not wait for the stimuli to eat our position. We are not sitting here and waiting for our civil aviation authority or external relations department of Ministry of Transportation. In most of the instances what we do is when we know that something needs a big effort, you need to be alert all the time and know about things that are coming, the earlier the better. Earlier you can intervene in the decision making process of the policy introduction the better. So that is where AEA and IATA play a very important role because they have a structure that is much better then ours, as it can read signs and alert us for certain processes or certain papers, communications, with some draft regulations which are about to come. So for me in order for the lobbying to be as effective as possible, you need to start your intervention very early in the process, as soon as it happens, we immediately create an internal questionnaire and discussion to create the broad lines of TAP's position on this or that issue. We discuss it with our CEO or the member of the board then we start shooting, we usually do it to the Ministry of Transportation, to the civil aviation authority, to the permanent representative of Portugal in Brussels. Sometimes directly with the transport committee of the European Parliament or even the Commission. And then of course we give our knowledge to AEA and IATA, so that they know what we are doing. So this is very much the process. [C025]*

[57] C009, C010, C011, C013 and C033

The actual lobbying routines that were used by TAP to leverage and deploy political resources in this context were viewed as the best path for TAP. The next part will look at the content of the political resources more carefully.

6.8.3 POLITICAL RESOURCES AND POLICY RESPONSIVENESS

In this exogenous policy context, political resources were very important in developing TAP air's lobbying capability. Senior management believed that their lobbying capability development process would start from their political resource base. The senior management's cognitive blueprints were used to weigh out the different options, whether introducing new political resources to meet the new policy environments or using the current ones, and making new lobbying processes or using current ones, in order to leverage and deploy the political resources to create favourable policy changes[58].

During the interviews, TAP's senior management explained that thinking processes were well-defined, but constrained by time[59]. However, following a blueprint led them to believe that political resources, human, organisational structural and network resources could be used to develop their lobbying capability. They believed that some sub-level political resources were needed for their lobbying to reduce the potential onset of negative polices for airlines. As one respondent said:

> *We had the people with some good knowledge in place to deal with the rising issues from 9/11. But you need more time to influence at the EU level. Maybe our structure and competence was more national oriented then EU level, which we tried to fix around 2004. But using AEA was another avenue to follow after 9/11, as they had the resources and competencies. [C025]*

The next part will aim to understand why and how TAP devised its lobbying capability and political resources within this office. However, we also came to learn that the government affairs unit used blueprints to modify their political resources in order to develop their lobbying capability. This decision-making

[58] C009, C010, C011, C013 and C033
[59] C011

came from blueprints but was constrained by time and ownership. The next part will explore the core elements of the lobbying capability process in more detail.

6.8.3 COGNITIVE BLUEPRINT AND TOP MANAGEMENT ATTENTION IN DEVELOPING A LOBBYING PROCESS

The thinking processes used by senior management at TAP's government affairs office were more autonomous in this policy context. Their decision-making processes played a vital role in developing what they believed to be a strong lobbying capability for this period. Nevertheless, the cognitive blueprints that the senior executives used in this period were modified from pre 9/11 to meet the new policy pressures of post 9/11.

These cognitive blueprints came mainly from their previous experiences, their current learning and their predictions for the future. However, there were also AEA's blueprints, which were used to help them lobby. The rational function of their lobbying process allowed the senior management to realise how they needed to form their lobbying capability. Moreover, this flexible, rational function allowed them to be fairly ambidextrous, switching between generic and idiosyncratic lobbying routines. However, the rational process and blueprint choice were affected by the ownership structure and time, which impacted on the choice in the lobbying development configuration.

Indeed, post 9/11 was a new context in which the government affairs office did not have time to invest in new lobbying processes but instead had to change the combinations of their lobbying routines. Therefore, the executives started using existing resources to organise their political resources, so that they could lobby effectively. They shifted their focus onto AEA, after exhausting their individual routes. As one respondent put it:

> *Being the head of this department, I think that we knew that we needed to get the government on our side, as that was what everyone was doing. I think we had no problem doing this but the European Commission was hard on us all at the start. So we recognised that collective action was the best option on the table, as everyone did. [C009]*

The choice made in the adoption of a lobbying blueprint was affected by hierarchy and structure. It was found that strategic behaviour in the department was affected by command in the hierarchy, which played a role in further developing their cognitive blueprint, which in turn helped to develop the lobbying capability. As one informant put it:

> *The CEO had some important say in our lobbying in this time. Very different to other events. I think that commercial issues crossed his path, so he needed to get involved in the lobbying. We were all in serious problems, so the CEO had to navigate the ship by actually holding the steering wheel on many of the issues we talked about. [C025]*

In terms of deciding who to target, the senior executives from the government affairs office made the key decisions (including the status power weighing of each target) and determined the sequence to lobby, at both national and international level. However, we found that the cognitive blueprints decided the targets, routine combinations and sequences[60]. This blueprint also decided the choice of delivery mode. That is, whether to implement directly by firm managers or outsource to professional suppliers of the services. As one senior TAP respondent said:

> *We used a mixed soup of routines after 9/11... Being a state airline means obviously that we can talk to the national government. The ownership plays a big role in deciding how to lobby. In our case because we are a government-owned company, we don't have to lobby the same ways as British Airways or KLM. We have to speak directly to the government. It's very effective to have government sitting in your company. But, this also means that our lobbying was a little lazy on the European side over time. We had contacts in the Commission but I don't think it's anything like British Airways or Lufthansa. [C009]*

Consequently, post 9/11 TAP targeted specific people, and felt they had strong resources and some weaker resources. Thus, the choice of lobbying routines (idiosyncratic lobbying routine at the start then shifting to a generic lobbying routine) and argument of content were important for TAP with regards to lobbying for the three issues. Moreover, the cognitive blueprints chosen organised the human, organisational, and network resources and competence, which allowed the development of their lobbying capability to happen. The

[60] C009, C010, C011, C013, C033 and F016

exogenous policy context did seem to affect the choice of blueprint, but their ownership seemed to have affected the cognitive blueprints choice within the government affairs office.

6.8.4.1 ORGANISATIONAL STRUCTURE MODIFICATIONS IN THE DEVELOPMENT PROCESS

TAP Air's lobbying capability was developed by adapting and reacting to meet its emerging policy environment. However, in this context, the government affairs department re-shuffled in the short term, as they felt that the pressure was intense, and they needed to work more efficiently. After transferring the major lobbying component to AEA, it decided on a departmental overhaul in the medium term in order to defend itself from future risk impacts. As one respondent said:

> *Well, I would say we slightly re-shaped in early 2002 and did the main restructuring around 2003. But we definitely re-enforced our lobbying activities because with all the consequences it took place from the attacks. We saw that we needed, first of all to reinforce the message of how aviation was of extreme importance to the economies and wellbeing of populations. So that was a message about us, the industry because the industry had been attacked. Then of course we had to lobby in relation to all the impacts that were being caused at the insurance level, at the security measure level, at the loss of revenue level. So we had to reinforce our lobbying activities and to tell you the truth we definitely put aside any priority in term of bilateral air services agreement because that was not the priority. The priority was much more to do with more with how we could minimise the negative impacts. [C009]*

Our observations suggested that departmental restructuring was needed to develop their lobbying capability. This decision was mainly taken because they believed that they did not have the right lobbying capability structure for this context. As one respondent said:

> *We had to organise our people to focus on the important issues and at the same time lose some calories on the cost front. But we did not change the shape of the department by merging it etc. [C011]*

Therefore while they reshuffled some people, they also started using their interest group, AEA, to influence at the European level. They believed that to influence in a collective manner made more sense for them. As one respondent said:

> *We were using AEA like all other airlines. We were watching our friends in other airlines. We used similar behaviours to other state airlines. [C010]*

However, we also found that the network relationship resources had been used by TAP to develop their lobbying capability. The next part will aim to better explore the relationship between network resources and the lobbying capability development process.

6.8.4.2 NETWORK RELATIONSHIP INVESTMENTS IN LOBBYING PROCESSES

Networks were viewed to be a central resource in creating a lobbying capability. We found that TAP's network resources played a role in developing their lobbying capability in this context. Moreover, it was found that TAP invested less time in building new networks after 9/11 to affect the emerging policies, as they used their pre-existing relationships, particularly between their national governments with whom they have traditionally collaborated for decades. In other words, the government affairs office did not change their network base after lobbying individually for their issues. However, after shifting their focus to AEA, they decided to let some human resources go and bring in two new people. As one of our respondents said:

> *The department had some ups and downs. The department saw some people leaving after 2003. The department at that time was 12 people, we went down to 8 people. Then we had to recruit 2 more people. In the last 10 years it went through certain changes for sure. Within the department which is structured in two separate areas, we try and make everyone feel comfortable with any kind of issue. So there is no specialisation to appoint someone that is not got a capability in that type of activity. Now in terms of the organisation of the airline itself, there has been radical change. Not only at a group level but also at an airline level. How much of that is due to 9/11 and how much of that is due to the internal restructuring that we had before that where we streamlined is difficult to tell. I think that one followed the other, but again it is because we started*

> *that exercise before 9/11, we did not feel the impact the other airlines did. [C025]*

Therefore, TAP was using their current people within the office that had specific networks, but they also shed some people of during this context to make room for new improved lobbying networks[61]. In the days after 9/11, the current group was lobbying specific national targets more and these targets were pre-determined by the individuals. They used a sequence of who to target, determined by status. As a respondent said:

> *We had some people in mind that we contacted but there is no sequence in my head. Just who has status or who is higher in the food chain. Maybe that is a sequence. [C013]*

Subsequently, TAP realised that interests and issues were similar across all flag carrier airlines. Therefore, they started to use AEA's network and their own networks to influence simultaneously, and then shifted entirely to AEA. As a result, the government affairs office used a combination of idiosyncratic and generic routines. The next part will explore the overlap between network relationship resources and human capital investment.

6.8.4.3 HUMAN CAPITAL INTERACTIONS IN DEVELOPING LOBBYING PROCESSES

The human capital resources in TAP's government affairs office were found to be very important in the process of developing their lobbying capability. According to the respondents from the government affairs office, they believed that their strategic behaviour and intent was to organise an effective lobbying capability for the rising policy issues from 9/11. This meant that their current human capital resources had to be organised quickly in a specific way in order to communicate important information to their micro targets during this context. However, in this timeframe they believed that keeping a fairly similar human resource structure was only necessary in the short term, as everything was shifting. As a result, in the medium term TAP decided to bring in new people and downsize to develop a better lobbying arm. As one informant said:

[61] C009, C010, C011, C013 and C033

> *It was all still done in-house and our people were used immediately after 9/11 to work on the three issues discussed. However, the actual main restructuring was related to the fact that we had to cut costs and make our lobbying better. We had to cut all the fat that we had in order to streamline the organisations. So this is a process that started, I think that we were less effective then other airlines because this process had already started mainly after 2001 so it took the last four years or five years. It was very much inward looking on how we could improve organisation methods, working processes and stuff like that. So we went through all this internal restructuring and internal exercise with the help of external management consultants. [C010]*

TAP maintained a government affairs office, with the intent to restructure in the medium term. However in the short term, the human capital resources were organised in such a way as to quickly lobby post 9/11. TAP then realised that focusing more lobbying effort on their coalition platform (AEA) was the right strategy[62]. The next part will explore the overlap between lobbying competence and human capital investment.

6.8.4.4 LOBBYING COMPETENCIES IN THE LOBBYING DEVELOPMENT PROCESS

The senior management team within the government affairs office explicitly related the development of their lobbying capabilities to a change in their lobbying competencies, which was expected to enable them to influence the correct targets and communicate the right types of information. They pursued a tactic of getting a few good people with EU level knowledge and better networks in the medium term. However, in the short term they used their in-house competencies and the competencies from AEA to lobby national and international political actors. As one TAP respondent said:

> *We had all the expertise we needed for the short term, as we could just have meetings with friends or partner airlines to discuss problems etc. We just needed better EU level competencies. But this lack of competence was substituted by AEA. [C011]*

[62] C009, C010, C011, C013 and C033

TAP used AEA to gain different lobbying competencies in lobbying and influencing. Supporting them throughout appeared to be the underlying model for developing TAP Air's lobbying capability.

We can see that the lobbying capability development played an important role in the exogenous policy context, where TAP had little time to manoeuvre to make their interests heard. From the micro level analysis of TAP's government affairs office, we found that there were few variables that played a vital role in the lobbying capability construction. It was evident that political resources were comprised of human, organisational, and network, combined with competence resources. These resources and competencies were used to reconfigure their lobbying capability development process. More importantly, cognition played a role in building this symbiotic relationship between political resources and lobbying capability development. TAP's lobby capability had an idiosyncratic lobbying routines focus at the start and then it shifted to a generic lobbying routines platform to leverage and deploy the political resources to maximise influence (see Appendix 25 for TAP Air's overall storyline map cluster in the exogenous policy context).

6.9 CONCLUDING REMARKS

As seen from the empirical findings above, after September 11, the precarious position of the airlines was brutally exposed to uncertainty. What followed was a massive and painful restructuring of the industry (Harrington *et al.* 2005). In the months after September 11, dozens of airlines in Europe and around the world slashed their routes, shed jobs, filed for bankruptcy, where their share prices plummeted, and in some cases, ceased to exist altogether.

Indeed, we have seen that lobbying capability development played an important role in this exogenous policy context where the airlines had little time to manoeuvre to make their interests heard. Subsequently, we found that there were few variables that played a vital role in the lobbying capability construction. It was evident that political resources were comprised of human, organisational, and network, which were complemented by competence. These resources were

used to reconfigure lobbying capability development process. Cognition played a role in building this symbiotic relationship between political resources and lobbying capability development. The airlines' lobbying capabilities generally had an idiosyncratic lobbying routines focus at the start and then shifted to a generic lobbying routines platform, in order to leverage and deploy the political resources to maximise influence.

To summarise, there were clear differences and similarities between the cases from the European flag carrier airlines. The cases from the state airlines showed:

1. Great emphasis on generic lobbying routines.
2. Greater emphasis on changing networks and human capital assets.

In contrast, the cases from the privately owned airlines showed:

1. More emphasis on both generic and idiosyncratic lobbying routines.
2. Greater emphasis on using current networks and human capital assets.

These differences suggest that ownership structure and policy environment type exert a strong influence on the way that capabilities are developed. The next chapter discusses why lobbying capabilities are developed differently, including cross-case and cross-policy environment analysis.

Chapter

7

THEORETICAL DISCUSSION: MICRO FOUNDATIONS IN LOBBYING CAPABILITY DEVELOPMENT

The previous chapter considered the empirical findings from the five case studies of European airlines for their lobbying capability development efforts. This chapter will now consider how these empirical findings link to the three aforementioned research questions:

- *"What" lobbying capabilities does the firm develop to selectively leverage and deploy its resources in an exogenous and endogenous policy context?*
- *"How" and "Why" does a firm develop lobbying capabilities to selectively leverage and deploy its resources in an exogenous and endogenous policy context?*

This chapter will be chronological. We will theoretically discuss these research questions, and the two broad themes of analysis: the policy environment and lobbying capability development sources. This chapter will also relate to the literature examined previously in Chapters 2 and 3. As evidenced in the previous empirical chapters, the use of cognitive blueprints emerged as a significant finding in developing a lobbying capability, with the addition of the political resources (network, organisational structure, human capital and competence). As such, this chapter will provide some propositions and theorise the impact of the cognitive blueprints on strategic decision-making processes across the

government affairs offices, as well as how they use these blueprints to reconfigure political resources to develop their lobbying capability in the contrasting policy contexts. From here we will try to explain why this original intention has been realised. Finally we will then reconceptualise these findings into a broader theoretical framework of archetypes of lobbying capability development, and discuss how this overall analysis contributes to a theory of building dynamic capability in an organisation.

7.1 THE APPLICABILITY OF THE RESEARCH FINDINGS

The aim of this research was *to generate a detailed understanding of how the context interacts with lobbying capability development processes while also looking at micro level variables.*[1] This thesis focuses on a particular type of dynamic capability, lobbying capability, essential for strategic renewal given the pace of policy formation, and crucial in terms of the ability to generate and sustain an advantage. An organisation's ability to generate and sustain value-creating lobbying strategies as scientific knowledge evolves is a dynamic capability, since it depends on generating and modifying routines for influencing (Zollo and Winter, 2002; Bonardi *et al.* 2007). This research used the implementation of lobbying strategies in the contrasting policy contexts as an indirect means to understand the micro foundations of the lobbying capability development process. These development initiatives are the aspects of the overall capability design solution that can be attributed to the government affairs office intent to minimise the policy uncertainty in two types of policy contexts. This discussion focuses on the key issues in the development of lobbying in different policy contexts. This research sought to identify the micro foundations of the multiple issues within each policy context.

The case studies undertaken as part of this research were viewed from two contexts. Therefore, the research findings relate only to a sample of two extreme

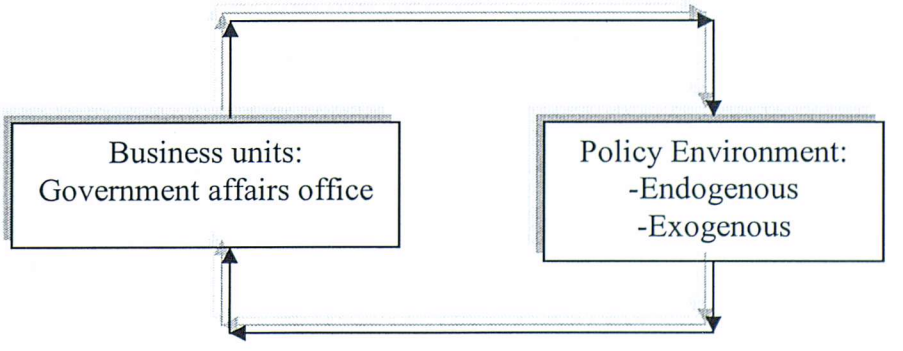
[1] In other words, to understand organisation-level outcomes in lobbying, we need a detailed picture of how and why individuals in different organisations interact, and what factors determine whether and how their employing organisation creates value from lobbying.

contexts. As a result, the findings are not necessarily representative of all airline behaviours and further quantitative research is required to confirm the validity of the findings. Consequently, the recommendations made in this discussion should only be implemented after additional research has been undertaken. However, it must be noted that the knowledge gained on lobbying capability development in the course of this research suggests that the research findings apply to the vast majority of lobbying activities in the non-market environment. It must also be noted at this stage of the discussion that the chosen contexts are not typical contexts. The reasons for this are discussed later in this section.

7.2 LOBBYING CAPABILITY DEVELOPMENT

Dynamic capabilities are rooted in the ability of a business unit to explore and exploit to create a competitive advantage (March 1991). We operationalised lobbying in two contrasting policy contexts in terms of lobbying development to create influence; lobbying that both incrementally builds on the previous lobbying, as well as extends through new lobbying process. These developments of lobbying processes involve architectural change e.g. lobbying may be targeted to different political actors at either national or international level. These lobbying streams or paths present substantial organisational challenges since the structural, network, and human resources, and competencies required to further exploit existing resources, are actively affected by its policy context, owners and time. This research explored how a set of business units dealt with the contradictory requirements of an endogenous and exogenous policy environment, as shown below in Figure 17.

Figure 17: Business and policy environment interplay



This section will analyse how the findings relate to the theory of lobbying capability in Chapter 2, Barney's (1991) RBV approach, Teece *et al.'s* (2000) dynamic capability view, and Holburn's (2001) political capability perspective. It will initially provide an overall comparison and conclusion about the organisation of lobbying capability development within the five cases in contrasting policy contexts, and then conceptualise the emergent findings through an inductive model of "contextually bounded lobbying capability development process".

Let us recap the three explored theories in lobbying capability development. Firstly, from both the RBV and dynamic capabilities view, Sirmon *et al.* (2007) explain that resource management is the extensive process of structuring the firm's resource portfolio, bundling the resources to build capabilities, and leveraging and integrating those capabilities with the purpose of creating and sustaining value for customers and owners. Structuring the resource portfolio involves using processes (i.e. acquiring, accumulating, and divesting) to obtain the resources that the firm will use for bundling and leveraging purposes (Eisenhardt and Martin 2000). Bundling refers to the processes (i.e. stabilising, enriching, and pioneering) used to integrate resources to form capabilities. Leveraging involves the set of processes (i.e. mobilising, coordinating, and deploying) used to exploit capabilities (in our case the lobbying capability) to take advantage of specific market and non-market opportunities. Alternatively, leveraging can involve defending your position from potential risks that arise from both the market and non-market (Kobrin 1978). Thus, through an external orientation, the purpose of leveraging is to use capabilities to create solutions for current and new customers (Kazanjian *et al.* 2002) or political actors (Vining *et al.* 2005).

From the corporate political activity perspective, studies show that the lobbying processes involved in managing resources are affected by the non-market environmental context (Bonardi *et al.* 2007), in our case the policy environment, in which the firm operates. Because of exogenous (high) and endogenous (low) political environmental types being either uncertain or certain (meaning the varying degree of environmental magnanimity) firms develop a series of

temporary competitive advantages. Creating a series of temporary advantages allows the firm to create new value from all value accumulation (Sirmon *et al.* 2007). Thus, effectively and efficiently managing political resources and lobbying capabilities within a political environmental context ultimately determines the amount of value the firm generates and maintains over time (Ireland and Webb 2006).

This section will examine how the empirical findings from the five case studies relate to these three particular theories of lobbying capability. However, firstly some consideration needs to be given to the operationalisation of these theories, or, more simply, how to identify these theories in action. As identified by the RBV theorists (Eisenhardt and Martin 2000), it not sufficient to purely focus on decision-making or resource or capabilities as an indicator of capability development, as this ignores conflicts, context and micro sources that never enter the picture of the strategy process. Hence, on the basis of the core doctrine of each specific theory that was considered, lobbying capability development was viewed longitudinally and identified through:

- RBV (Barney 1991): evidence of value creation from resource acquisition or development.
- Dynamic Capability (Eisenhardt and Martin 2000; Ethiraj *et al.* 2005): evidence of routines and process to leverage and deploy resources to align with the changing environment.
- Corporate Political Activity (Holburn 2001; De Figueirdo *et al.* 2002): evidence of activities to influence regulators and legislators to maintain or defend the competitive position.

The next part will aim to understand the lobbying capability development process in contrasting policy contexts.

7.3 LOBBYING AND POLICY ENVIRONMENT

If paths are crucial for lobbying capabilities, how do firms pace lobbying development and where is the locus of energy for these contradictory processes in different policy contexts? The corporate political activity and dynamic

capability literatures are unresolved on these organisational issues. We found airlines to be developing their lobbying capability paths to be either exploiting or exploring different paths in the two contrasting policy contexts, but not simultaneously in the organisational architectures. These lobbying structures are composed of highly differentiated networks and humans that are weakly or strongly structurally-integrated according to the different policy contexts. The energy to drive these lobbying processes forward and the force for strategic linkage in these complex architectures stems from the senior team and their cognitive blueprints. It is the senior management that try to interpret the different policy environment contexts to decide how to develop their lobbying.

The significance of the environment for managing resources suggests that contingency theory logic should be included into our understanding of the RBV. Although research of this type has been completed, it has been focused, to date, on understanding when a resource is valuable (Priem and Butler 2001). Miller and Shamsie (1996), for example, found that property-based resources are more valuable in stable environments, whereas knowledge-based resources are more valuable in uncertain environments. Brush and Artz (1999) discovered that the value of capabilities differs based on the services offered by the firm and the level of information asymmetries in the environment. Aragon-Correa and Sharma (2003) explain that a firm's competitive context affects the value of its resources in developing proactive, natural environment strategies. While these results are informative, following dynamic theory's focus on the "fit" between environmental contingencies and internal configurations may lead to greater understanding of how resources can be managed to optimise value creation, because firms do not operate in a vacuum (Keats and Hitt 1988).

The environmental dynamism concerns the amount of uncertainty emanating from the external environment (Baum and Wally 2003). This is also applicable to the policy environment in which different levels of certainty and uncertainty co-exist. Uncertainty in the policy field is created by instability in the political environment that produces deficits in the political information needed to identify and understand cause and effect relationships (Vining *et al.* 2005). An information deficit affects the way firms must manage resources to create value.

For example, policy uncertainty in industry actions affects the type and amount of political resources needed in the resource portfolio, the capabilities necessary to outperform rivals, and the leveraging strategies required to gain and maintain a competitive advantage (Bonardi *et al.* 2007). Dynamism is reflected by the regularity and amount of change occurring in the policy environment. Thus, changes in the policy structure and the probability of non-market shocks are important elements producing uncertainty in the environment. The next part will try to understand the exogenous and endogenous policy environments in conjunction with the lobbying capability development process.

7.3.1 EXOGENOUS VS ENDOGENOUS POLICY CONTEXT

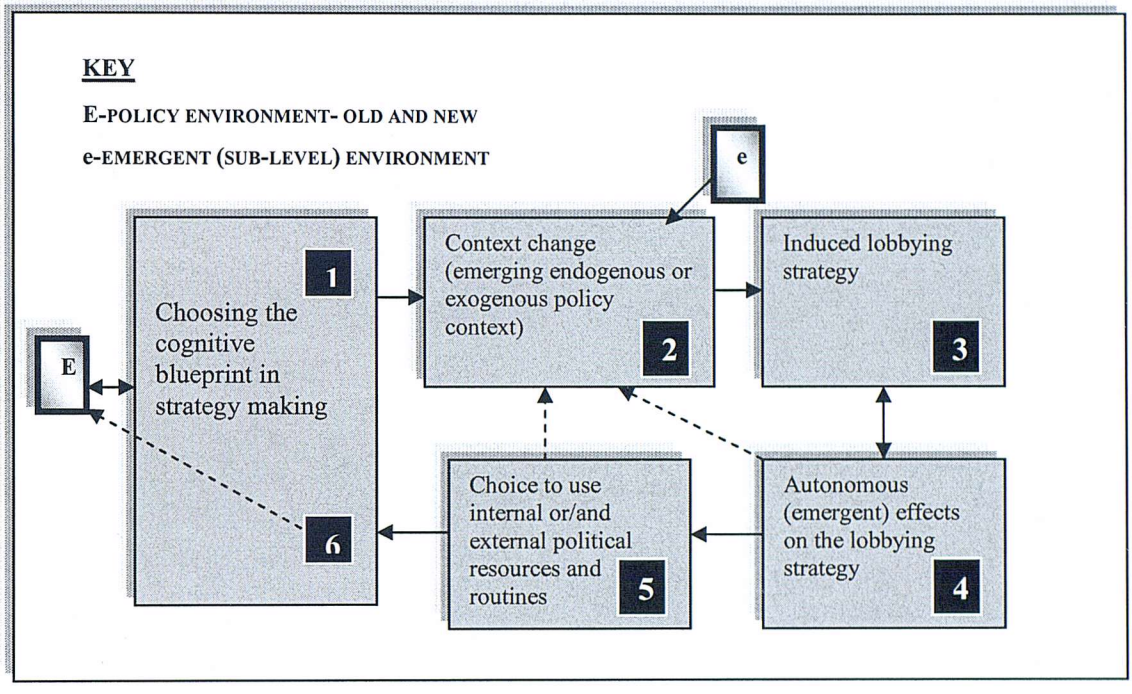
Overall this study suggests that political resources, governance features and policy environment uncertainty levels can be a strong constraint or facilitator in the transferability of micro sources in the development of lobbying capabilities. Past research on dynamic capabilities (more broadly RBV) has emphasised the constraining effect of organisational history, organisational learning, technological trajectories, evolutionary paths created by organisational routines, resources or cognition of top managers which tend towards inertia (Teece *et al.* 1997; Tripsas and Gavetti 2000; Dyerson and Pilkington 2005; Ethiraj *et al.* 2005). Our research identified a range of organisational variables that the airlines were expectedly seeking to change or not change in the endogenous policy (proactive lobbying) context,[2] and unexpectedly seeking to change or not change in the exogenous policy (reactive lobbying) context,[3] as shown in Figure 18. Making these changes in both contexts was mainly viewed not as overcoming inertia or commitment to an existing path of lobbying capability development, but rather as a need for a different realignment of policy management in order to reach what several informants termed "the following stage" of the policy making process. In other words, not all airlines were purposely seeking to create an

[2] Endogenous policy context as per Brink (2004) is a context where the firm has an expected understanding of stakeholders, decisions or actions within a political system. As a result the firm lobbies proactively to advance its interests.

[3] An exogenous policy context (post September 11 2001) is the context where the firm is unexpectedly confronted by policy decisions, stakeholders or actions within a political system. As a result, the firm must react to this policy context.

effective 'lobbying capability' from the time when they came across either the exogenous and endogenous policy contexts, but rather it was about lobbying to reach the next stage of obtaining the "positive decisions from within the political system"[4]. Nevertheless, the decisions were taken by the senior managers in order to defend against or create potential policy impacts.

Figure 18: Cognition and policy environment interplay



As seen in Figure 18, we conceptualised the interplay between the senior management's cognition and the policy environment as a type of cycle. The systematic order from 1-6 depicts the underlining logic from the cognitive blueprint choice to reacting to the emerging policy environment (e), where the organisation has to shift from previous policy environment (E) to the new policy environment (E). At stage 1, the senior management teams are dealing with the day to day activity of a specific policy environment at international and national level with a given cognitive blueprint type. At this stage they choose a new cognitive blueprint or use an existing one to meet the new emerging policy context (stage 1 and 2 are closely linked). At stage 2, the management come across an emerging policy context, whether an endogenous or exogenous policy

[4] Most, senior management were not conscientiously acting to develop their lobbying capabilities; however they did develop their lobbying capabilities following their cognitive blueprints.

type. At stage 3, the senior management introduces a strategy for lobbying, where they decide how to deploy, leverage or reconfigure their specific political resources to either defend or create political advantage. However, stage 3 ties in with stage 4, where the senior management comes across "autonomous" (emergent) effects on the lobbying strategy, either due to "time-frame" or "ownership" structure, which act as a constraint mechanisms to lobbying capability development, causing the path to be pre-determined in some way and offering little fiexibility i.e. as found in state-owned airlines. At stage 5, the senior management have to decide how to configure their political resource base, in order to use generic or idiosyncratic lobbying routines to influence. At stage 6, they must react to the new dominant policy context (E).

The findings on lobbying capability development from the five case studies in the endogenous and exogenous policy contexts are shown in Tables 27 and 28[5]. The tables below provide an overview of each of the five case studies regarding their function and strategic intent to develop their lobbying in the contrasting contexts. When we compared the state-owned airlines to privately owned airlines in both contexts, we found diverging styles to developing a lobbying capability. Moreover, we found that there was a general pattern in place, where state-owned airlines were investing less effort into their lobbying capability development in both contexts. Similar to Carpenter and Fredrickson (2001), we found that organisations reacted similarly and differently to their given environmental context. However, we found that state-owned airlines illustrated that they could not behave in the same way as privately owned airlines. One answer to this difference is that state-owned airlines felt more constraints on resources, which affected their lobbying capability development process. Perhaps this difference was attributed to the fact that there was no separation of control and ownership, which did not align the principle and agent (Williamson 1975; Eisenhardt 1989b). The interests and incentives were different, which perhaps caused some inefficiency on the investment of effort (Rosen 1986; Prenergast 1999).

[5] To see the full lobbying capability development process, please look at appendices 16-25.

Table 27: Summary of the different characteristics of airlines in the endogenous policy context

	KLM Private/State[6]	**Lufthansa** Private/State[7]	**Alitalia** State[8]	**SAS** Private/State[9]	**TAP Air** State[10]
Stakeholder type *					
Purpose of the government office in this context	To influence and exchange information with policy makers	To influence and exchange information with policy makers	To influence and exchange information with policy makers	To influence and exchange information with policy makers	To influence and exchange information with policy makers
Building approach to lobbying capability development	Directive-Bottom-up-Proactive	Directive-Bottom up-Proactive	Non-directive Bottom up-Proactive	Directive-Bottom up-Proactive	Non-directive Bottom up-Proactive
Cognitive blueprints and routine combinations	Mainly idiosyncratic composition then shifting focus to generic routine development	Mainly idiosyncratic composition then shifting focus to generic routine development	Mainly focusing on generic routine development	Mainly idiosyncratic composition then shifting focus to generic routine development	Mainly focusing on generic routine development
Organisational structure investment	Modified early (pre-deregulation)	Modified early (pre-deregulation)	Modified late (After second package)	Modified early (pre-deregulation)	Modifiedlate (After second package)
Network investment	Modified early (pre-deregulation) -Sequence order from national to international political targets	Modified early (pre-deregulation) -Sequence order from national to international political targets	Modified late (After second package) -Sequence order from national to international political targets	Modified early (pre-deregulation) -Sequence order from national to international political targets	Modified early (After first package) -Sequence order from national to international political targets
Human capital investment	Modified early (pre-deregulation)	Modified early (pre-deregulation)	Modified late (After second package)	Modified early (pre-deregulation)	Modified early (After first package)
Competencies investment	Modified early (pre-deregulation)	Modified early (pre-deregulation)	Modified late (After second package)	Modified early (pre-deregulation)	Modified early (After first package)

* "Private" in this thesis refers to the airline having a majority private investor shareholding compared to its minor state shareholding. "State" owned airlines here refer to the government having a majority shareholding in the company compared to the private shareholding.

[6] Less government shareholding, which we refer to it as a privately owned airline
[7] Less government shareholding, which we refer to it as a privately owned airline
[8] Majority government shareholders that we refer to as a state-owned airline
[9] Less government shareholding, which we refer to it as a privately owned airline
[10] Majority government shareholders that we refer to as a state-owned airline

Table 28: Summary of the different characteristics of airlines in the exogenous policy context

	KLM	Lufthansa	Alitalia	SAS	TAP Air
Stakeholder type*	State/Private[11]	State/Private[12]	State[13]	State/Private[14]	State[15]
Purpose of the government office in this context	To influence and exchange information with policy makers	To influence and exchange information with policy makers	To influence and exchange information with policy makers	To influence and exchange information with policy makers	To influence and exchange information with policy makers
Building approach to lobbying capability development	Directive- Top-down Reactive	Directive- Top-down Reactive	Directive- Top-down Reactive	Directive- Top-down Reactive	Non-directive Bottom up- Proactive
Cognitive blueprints and routine combinations	Use both generic and idiosyncratic lobbying routines (Ambidextrous)	Use both generic and idiosyncratic lobbying routines (Ambidextrous)	Use more of generic lobbying routines then idiosyncratic lobbying routines	Use more of generic lobbying routines then idiosyncratic lobbying routines	Use more of generic lobbying routines then idiosyncratic lobbying routines
Organisational structure investment	Modified later	Not modified	Modified early	Not modified	Modified early
Network investment	Modified later: -Sequence order from national to international political targets	Not modified: -Sequence order from national to international political targets	Modified early: -Sequence order from national to international political targets	Not modified: -Sequence order from national to international political targets	Modified early: -Sequence order from national to international political targets
Human capital investment	Modified later	Not modified	Modified early	Modified early	Modified early
Competencies investment	In-house competence not modified. However, modified competence by shifting focus to AEA	In-house competence not modified. However, modified competence by shifting focus to AEA	Modified early-In-house competence modified and AEA competence introduced	In-house competence not modified. However, modified competence by shifting focus to AEA	Modified early-In-house competence modified and AEA competence introduced

* "Private" in this thesis refers to the airline having a majority private investor shareholding compared to its minor state shareholding. "State" owned airlines here refer to the government having a majority shareholding in the company compared to the private shareholding.

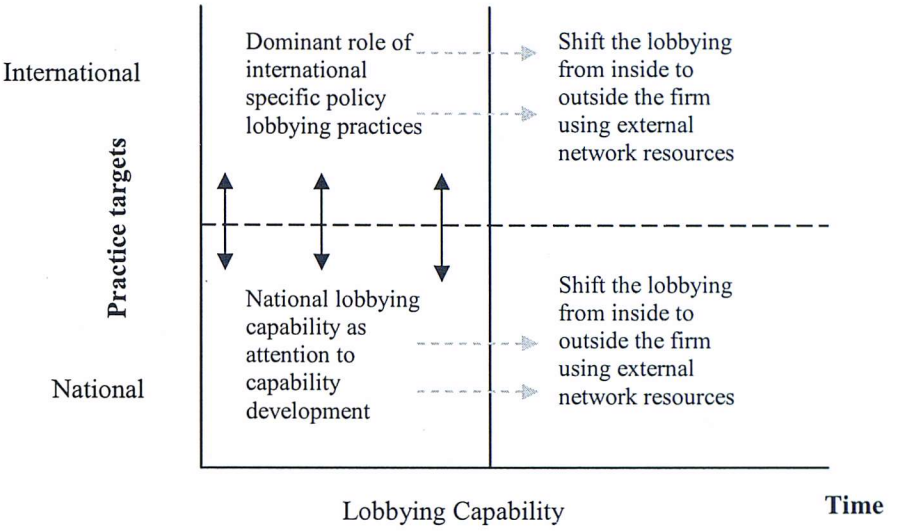
[11] Less government shareholding, which we refer to it as a privately owned airline
[12] Less government shareholding, which we refer to it as a privately owned airline
[13] Majority government shareholders that we refer to as a state-owned airline
[14] Less government shareholding, which we refer to it as a privately owned airline
[15] Majority government shareholders that we refer to as a state-owned airline

From the cross-case analysis shown in the tables above, we found the five case airlines to be lobbying differently in both exogenous and endogenous contexts.[16] In the exogenous policy context, we found both state-owned airlines and privately owned airlines to have been mainly lobbying their national governments from the onset of the context then shifting their attention to EU level. However private airlines were using simultaneously individual influence at the European Commission and European Parliament level (for a longer time) unlike state owned airlines that opted for AEA (association lobbying). Nonetheless, all the airlines shifted their efforts to interest group representation to lobby for three main policy issues in the months after 9/11.[17] As shown in Figure 19, in general senior management teams in government affairs offices developed their lobbying capability by shifting the focus from the national level to the international EU level, as time played a vital role in their decision making. There was a crossover between lobbying between the national targets and international targets, as airlines started to talk to their own governments first, but then realised that AEA was the fastest route to influencing EU actors.

[16] In this context all five airlines were not found to be lobbying the United States at any time for any of the three policy issues, as it was viewed to be the less effective route according to organisational "sense-making process".

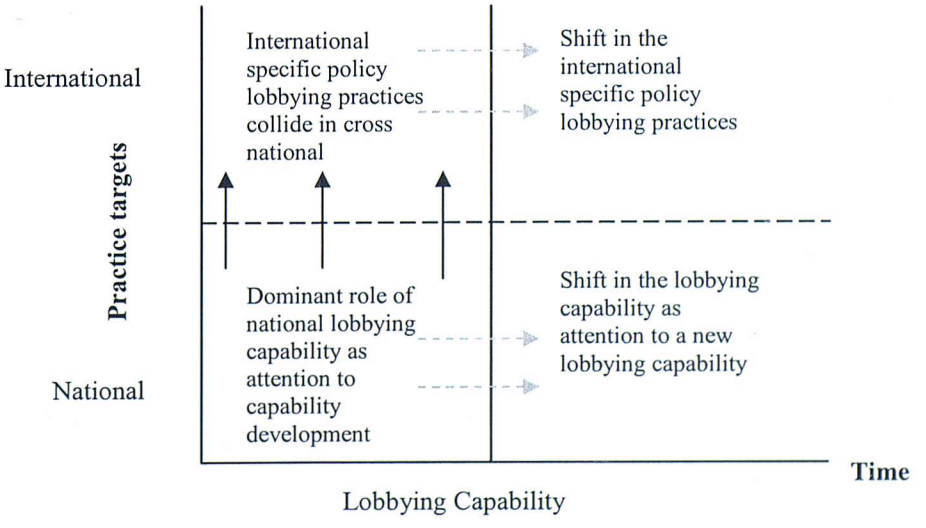
[17] The first policy stimulus, the insurance coverage issue, was related to the insurance industry not wanting to insure airlines due to a high potential risk exposure. Secondly, the security cost policy stimuli that asked airlines to make flights safer for its passengers by adding air marshals, introducing reinforced cockpit doors, screening of catering staff and employee check-ups. And finally, the compensation package stimuli, where airlines wanted European governments or the European Commission to compensate them for their loss in revenues caused by the grounding of their fleets in the US immediately after the September 11 terrorist attacks.

Figure 19: Discrete sub-emergent policy fields around the exogenous policy context



Our cross-case analysis of the five airlines in the endogenous policy context showed divergent results in the lobbying capability development process between state and privately owned airlines, as shown below in Figure 20. State/government airlines and privately owned airline were mainly lobbying their national governments at the start of this context. However private airlines soon started using individual influence at the European Commission, European Parliament, and European Council levels. Moreover, the private owned airlines when compared to state airlines, started earlier in developing their lobbying capabilities.

Figure 20: Discrete sub-emergent policy fields around the endogenous policy context

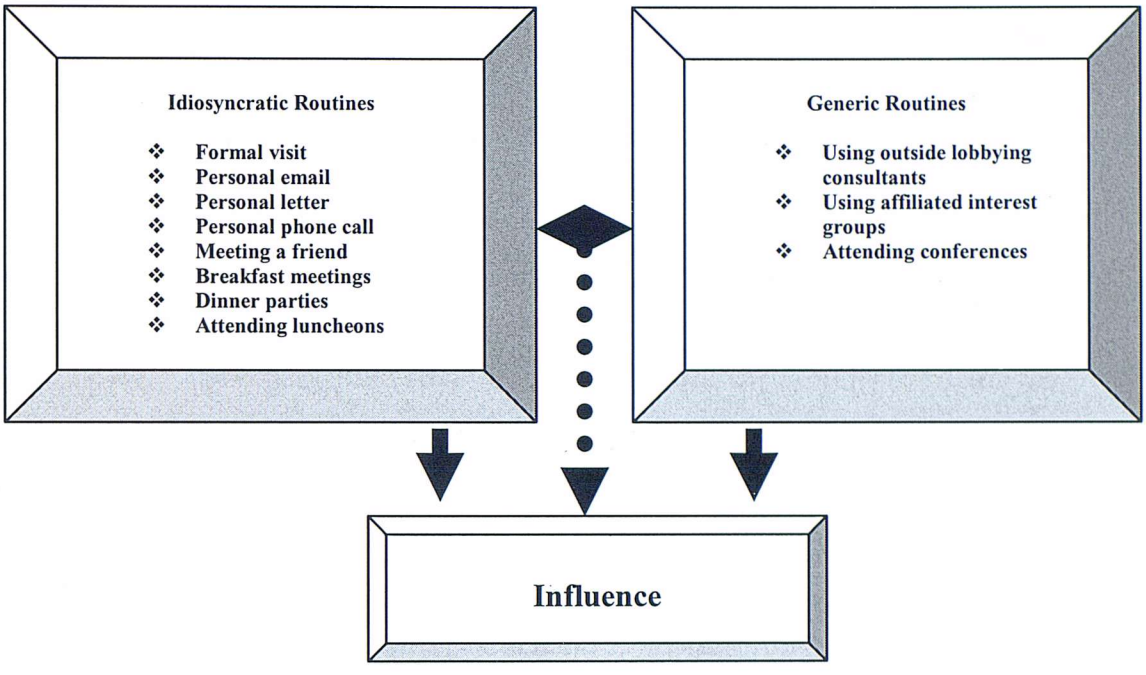


The senior management teams from the state owned airlines developed their lobbying capabilities by shifting the focus from the national level targets to the international EU level targets. However, they opted for using coalition lobbying (e.g. AEA) more then individual lobbying. This happened because senior management at these airlines were limited in their political resources and so felt constrained to lobby like private owned airlines.

7.4 TYPES OF LOBBYING CAPABILITIES, POLITICAL RESOURCES AND POLICY RESPONSIVENESS

Earlier we defined a lobbying capability as a collection of organisational routines and processes that enable senior representatives or representatives acting on behalf of the firm to influence policy-making in a political environment. These routines are always used by senior management in different sequences and combinations (Dahan 2005). In their study, Hochberg *et al.* (2007) looked at lobbying routines but more from the investors; and executives' behaviour side to explore how they finally affected the implementation of the Sarbanes-Oxley Act, mainly using a letter writing routine. Their study does well in using probit regressions to understand outcome, using the opinions of the letter writers, however their study still fails to capture all the lobbying routines. Similarly, King and 0'Keefe (1986) examine the relationship between corporate lobbying and the trading activities of corporate insiders surrounding proposed accounting standards that require to expense oil expenditures with dry holes, but they too fail to capture all the lobbying routines. Therefore, from the two contrasting event windows (exogenous versus endogenous) which we employed to understand the development of a lobbying processes, our research findings indicate that lobbying capabilities could be further categorised as being idiosyncratic and generic in nature (see Figure 21) by assessing the routines that were used for policy issues in an exogenous and endogenous policy context. These heuristics emerged from the data after examining the specific actions of government affairs executives and their departments in conjunction with what occurred before, during, and after both policy contexts.

Figure 21: Lobbying routines used in exogenous and endogenous policy contexts



The idiosyncratic routines and generic routines were used to leverage and deploy three political resource types, which are shown in Table 22. We conceptualised the routines as "idiosyncratic" and "generic". The "idiosyncratic" level represents the routines that are bundled in a way that is particular to the firm (Eisenhardt and Martin 2000). The "generic" level represents the bundle of routines that can be easily accessed by other firms' thus reducing or creating value (Winter 2003). Research shows that firms must strive to create idiosyncratic resources to create more value and high rents (Wernerfelt 1984; Barney 1991). However current research (both didactic RBV and CPA works) fail to look at idiosyncratic and generic lobbying routine combination types in different policy contexts. They also fail to capture what executives believe to be important combination and sequences. Finally, these scholars don't conceptualise political resources or explain how these resources can be used as inputs to develop lobbying capabilities.

On the other hand, Barney's (1991) conceptualisation for resources was divided into physical, human and organisational. This was helpful in our analysis to

define the boundaries of political resources but our analysis indicated more specifically that political resources used in both the exogenous context and the endogenous policy context were comprised of mainly human resources, organisational resources and network resources. However, as depicted in the literature review, physical resources were apparently not a component of the political resource. We found 'network' resources to be an important core component, which was the often repeated word amongst the informers. The network resource was crucial to developing a lobbying capability in the contrasting contexts. Therefore, from the interviews, we conceptualised political resources as being comprised of mainly three sub-divisions, human and organisational (Barney 1991), and the additional network resources (Granovetter 1973). Indeed, the deployment, leveraging or integration of the political resources was viewed by senior management to be important in creating value in the non-market environment by changing it, i.e. during the deregulation period, or to defend their position from non-market environment change i.e. post 9/11 policy issues.[18]

Table 22: Political resources leveraged

Political capital resource	Observations
Human	Knowledge, training, intelligence, insight and experience obtained in areas such as law, economics, politics and management
Network	These networks include formal (e.g. being a member of an association or committee) and informal (e.g. friends and acquaintances within the political system) networks, as well as relations among groups within a firm and those in the non-market environment.
Organisational structure	The formal organisational structure of the department, its planning and coordinating systems.

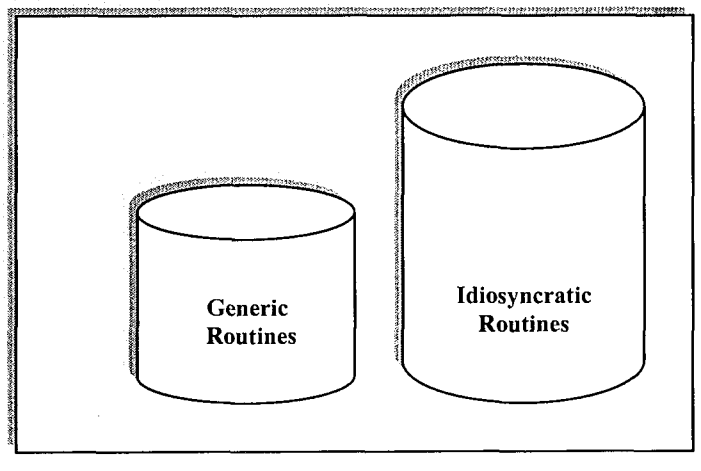
From the case studies, the respondents explained how the human, organisational structure (departmental re-structuring) and network resources were used to

[18] We have attempted to conceptualise the key sources that help in developing a lobbying capability. Similar to Dahan (2005), we contend that the existing typologies are too simplistic and incomplete but in Chapter 8 we will offer some thoughts on the limitations.

develop their lobbying capabilities in the two contrasting contexts. The three sub-level political resources were used to create both idiosyncratic and generic routines. Moreover, we found a combination of idiosyncratic and generic routines that were used by different airlines to leverage and deploy political resources in the contrasting policy contexts.

In the endogenous policy context, according to the respondents, the combination of routines and its concentration level was inclined towards idiosyncratic routines for deploying and leveraging their resources with regards to creating influence, as shown in Figure 22 (a general pattern). We came to learn that the privately owned airlines used AEA minimally to lobby in this period because they had lots more time to manoeuvre and influence. Subsequently, it was believed that the private airlines wanted to leverage their individual relationships more to enhance their competitive positions. On the other hand, the state-owned airlines were less inclined to lobby using idiosyncratic and generic routines due to their complacent positions. These differences might be attributed to poor management and lack of political resources.

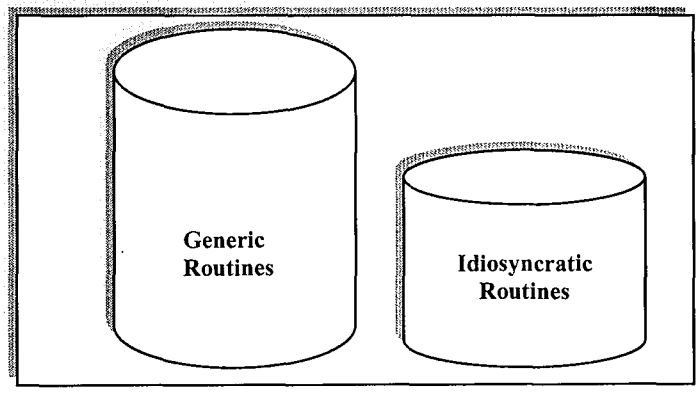
Figure 22: Lobbying concentration levels in an endogenous context



From the case studies in the exogenous policy context, we found an interesting combination of idiosyncratic and generic routines that were utilised by different airlines to deploy and leverage their political resources. Moreover, there was a slightly different utilisation pattern found between state and privately owned airlines in this context. Nevertheless, the two general patterns found were

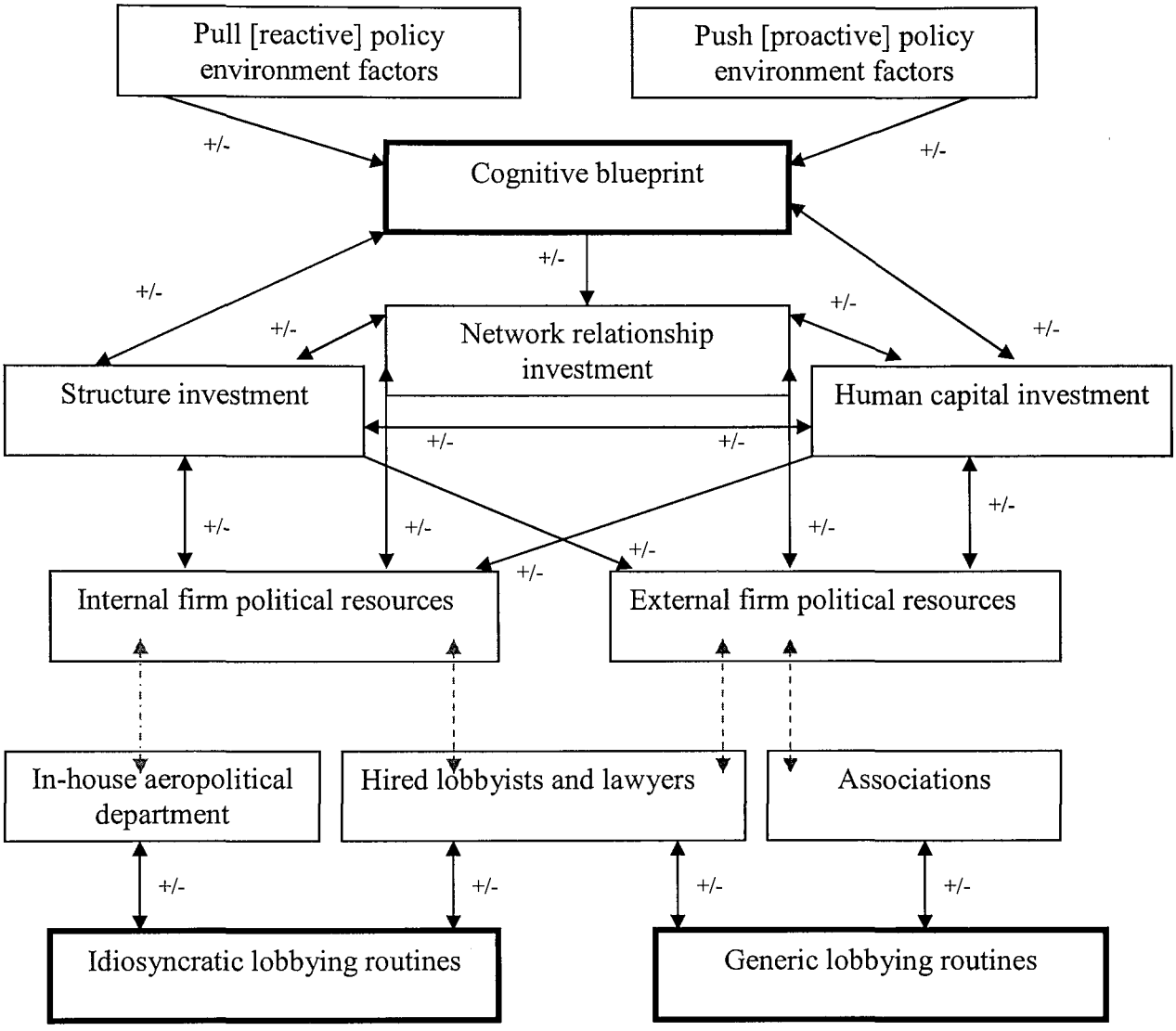
combinations of routines with the concentration level inclined towards the generic routines for leveraging and deploying their resources in order to create some influence, as shown in Figure 23. This was more the case in state-owned airlines then privately owned airlines post 9/11, from the start. Yet according to the respondents, the pattern was fairly similar after a few months for both state and private airlines (apart from Lufthansa, who believed they used a more balanced routine combination). Nevertheless, the shift to the generic lobbying routines occurred because airlines believed that they had less time to manoeuvre and everyone had common interests on the three issues. The decision to leverage AEA's relationships was more to defend their competitive positions (see Appendix 9 for an example of lobbying letters sent by AEA).

Figure 23: Lobbying concentration levels in an exogenous context



We found political resources to be leveraged and deployed using generic routines (e.g. AEA and conferences) and idiosyncratic direct lobbying processes/routines (e.g. sending emails, formal letters, talking to friends and face to face meetings). To be more specific, at a micro level, idiosyncratic or generic lobbying capabilities were used by senior management to create influence, as shown in Figure 24. Our "lobbying capability development framework", illustrates the micro foundations in the lobbying capability development process. This chapter will look at each micro source more carefully.

Figure 24: Framework for Lobbying Capability Development and Leveraging



Respectively, Figure 24 shows how the different levels of efforts (+/-) are needed on the different lobbying components to create influence. Moreover, organisations were either making positive investment or no/little investments at all (+/-) in developing lobbying. The effort here is about "management attention" given to specific lobbying routines and political resources to meet the strategic intent of the organisation (Bouquet 2005). Indeed, this management attention, as shown in the findings, came from the cumulative learning processes, particularly localised learning-by-doing to make sense of the policy environment to reconfigure departmental structure, non-market competency, human capital and network relationships. This played a prominent role in developing lobbying process as a strategic capability (this will be further explored in this section). The

following propositions summarise the nature of actions generated in developing lobbying capabilities to leverage and deploy political resources:

Proposition 1a. Firms rely more on developing idiosyncratic lobbying capabilities then developing generic lobbying capabilities in an endogenous policy context.
Proposition 1b. Firms rely more on developing generic lobbying capabilities then developing idiosyncratic lobbying capabilities in an exogenous policy context.

7.5 COGNITIVE BLUEPRINT AND MANAGEMENT ATTENTION IN DEVELOPING THE LOBBYING PROCESSES IN CONTRASTING POLICY CONTEXTS

A central contribution to dynamic capability literature lies in articulating the casual mechanisms by which firms learn to develop capabilities, in our case the lobbying capability. At the core foundations of the lobbying capability development process was the cognitive blueprint (Child 1972; Weick 1979). It played an important part in developing the content of the lobbying processes. Drawing on framing theory in the social movements literature (Benford and Snow 2000), we suggest that shifts in lobbying opportunities or lobbying defense routines are generated by the emergence of the policy environments. Individuals (in-house lobbying experts) or coalition groups (AEA) propose changes in micro-level investment patterns based on a specific interpretation of the policy environment in order to develop the lobbying capabilities. These 'efforts' or 'management attentions' can be seen as 'cognitive blueprints' in the given context in order for the organisation to defend its competitive position or create advantage (Levy *et al.* 2007).

Looking at capability development in this way opens up the possibility for examining cognition as ''blueprints'', where cognition is individually created or collective, in that it is the product of interactions among people (Lave 1988; Lave and Wenger 1991; Kogut and Zander 1992; Orlikowski and Gash 1994). Moreover, our research suggests that learning by ''doing'' is one part of the process in order to make sense of the context and create "blueprints" (Thomas *et*

al. 1993; Chang, 1995; Anand and Khanna, 2000). Prior literature shows that leaders and managers often possess attributes that make them better at making decisions as they "go along" rather than beforehand through planning (Thomas *et al.* 1993; Chang 1995; Allinson *et al.* 2000). Likewise, the fast pace and situations that need actors to be reactive or proactive makes many lobbying routines and processes less valuable when one has to plan far in advance. Some research contends that executives are better served to learn processes through systematic observation of outcomes instead of through pre-planned materials that may be outdated or obsolete for the current situation (Bird 1988). In this way, our data suggests that in both endogenous and exogenous policy contexts, the composition of lobbying capabilities begins to form before there is any "doing" at all, where senior managers have to create their first blueprint or use their existing blueprint. As one executive informant put it:

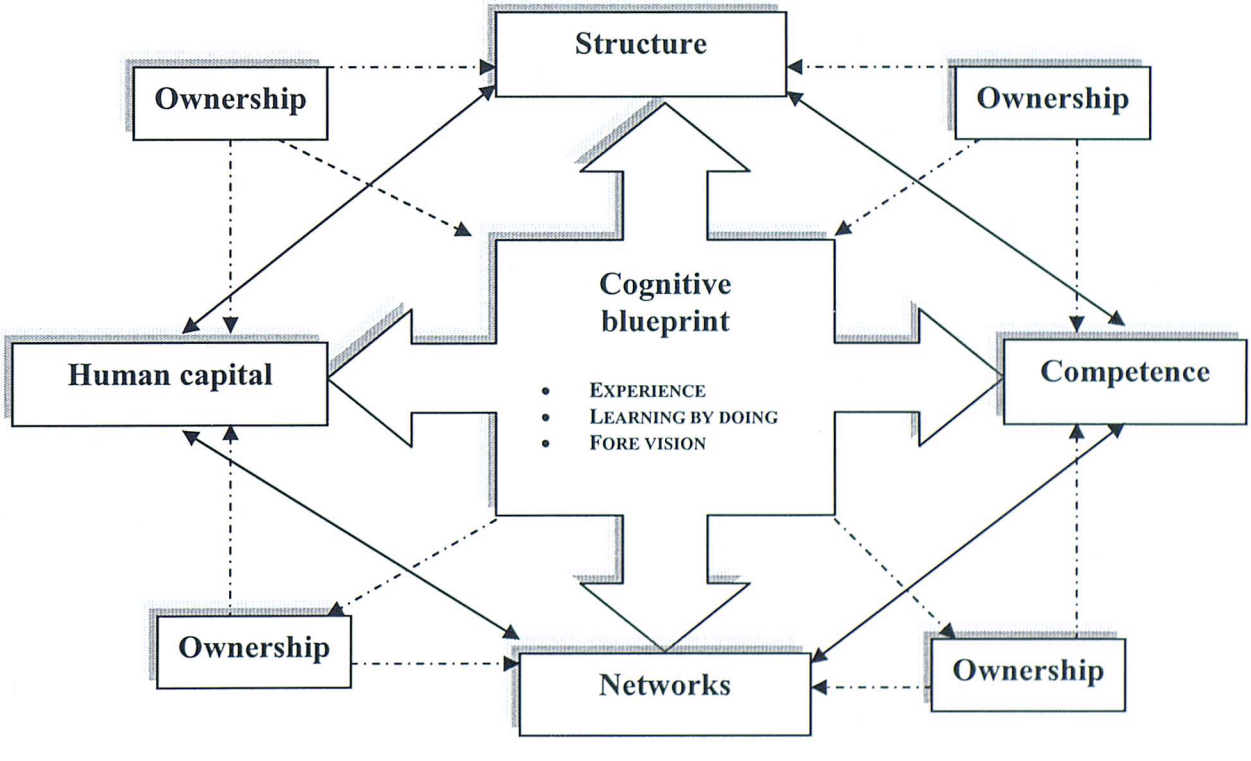
> *We learn by doing, in order to make our thinking clear. I am always learning at home in new events. In fact post 9/11, we built our decision making map first before doing things. I would start to think about the issues on the plate, and then I refer to my library. [A001]*

Rather than jumping in and figuring out the path, directors of government affairs intentionally created new "cognitive blueprints" or just "used existing blueprints" to channel and guide learning during early experience to develop their lobbying. Yet intriguingly, while prior research suggests that cognitive blueprints are usually vague mental models of the world, derived from prior experience (Tripsas and Gavetti 2000; Helfat and Lieberman 2002) and beneficial to learning when they are correct (Cohen and Levinthal 1990; Gavetti and Levinthal 2000), data from this study reveals a different pattern. Cognitive blueprints are clear and not fuzzy. They take the form of specific heuristics for choosing opportunities or threats, evaluating them, making sense of them and a few heuristics for executing them. Data also shows that cognitive blueprints originate not only from past experience but from executive mental planning for the future. They can also be collectively generated by using interest groups or other types of coalitions. In addition, our data reveals that blueprints need not be correct, as they are a construction by an individual who learned from their previous experience and foresight.

As the European flag carrier airlines, and more specifically managers in their government affairs departments, entered the two contrasting policy contexts, they often found their views challenged, prompting them to seek and test alternative approaches to organising and developing their lobbying capability within these emerging contexts. At the process level, the actions taken by these airlines were reflective of lobbying capability development via learning-by-doing instead of trial-and-error learning. Trial-and-error learning refers to changes to firm behaviour because of insights obtained from exposure to situations that refine existing knowledge bases or reduce variation in activity (Argote 1999). However, in this case it was viewed to be very risky to use trial-and-error learning to develop their lobbying capability, as they did not get too many chances.

The way in which top management decision-making was shaped played a very important role in developing the architecture for lobbying processes. Figure 25 shows the main ways in which the cognitive blueprints interacted with the sub-level political resources in order to develop the lobbying capability.

Figure 25: Architectural cognitive blueprint and lobbying development framework



We can see from Figure 25 that the cognitive blueprints took the form of a few boundary rules to integrate, leverage and reconfigure political resources to first develop lobbying and then use the capability to leverage and deploy political resources to maximise influence. These "blueprints" took the form of:

- A few 'boundaries rules', defined as heuristics, about which threats and opportunities to monitor.
- A few 'how to organise rules', defined as heuristics, for capturing target opportunities.
    - How to organise rules included:
        - How to contact and in what sequence within the network.
        - How to structure the department.
        - How to hire or use current people.

Indeed the senior management used these cognitive "boundary rules" and "how to organise rules" to use the micro-level sources, organisational structure, networks, human capital resources and competence investments to develop their lobbying capabilities, with the addition of "time" and "ownership". A Director that we interviewed suggested that:

> *The ownership plays a big role in deciding how to lobby. In our case because we are a government-owned company, we don't have to lobby the same ways as British Airways or SAS. We have to speak directly to the government. It's very effective to have government sitting in your company. [C009]*

While another respondent explained the rationale in more detail:

> *Having being owned by different shareholders puts a lot of pressure on different aspects of your management. After September 11, things had to change. The budget for lobbying had to slightly change and we had to change our formation and thinking slightly. In fact our lobbying became more efficient as a result. I think September 11 made most airline departments more efficient including our institutional relations department. We had to focus more on developing our strengths in order to meet the investing stakeholders. We had to hire new people that had the right networks and expertise. {D017]*

The RBV literature has neglected to look at the effects of ownership on capability development and cognition. In both policy contexts, we found that the capability development process was either supported or constrained by its ownership structure. In the endogenous policy context, we found that the privately owned airlines had a more sophisticated lobbying development process, and relied less on lobbying only their own government. According to the respondents this was the case, as the government empowered the airline to make the most efficient decisions. Therefore, the private airline government affairs offices were lobbying using more combinations of generic and idiosyncratic routines. On the other hand, the state airlines felt that they were constrained by their ownership composition, as they did not have to go far to lobby. As a result, the lobbying cognition at the state airlines was not as inertial (as previously shown by Gilbert 2005), as there were some core rigidities (Leonard-Barton 1992). Similarly, we find the same pattern in the exogenous policy context, where senior management (from government affairs offices) within state-owned airlines felt again constrained by being owned by their government, as they had less dexterity in the lobbying capability development process.

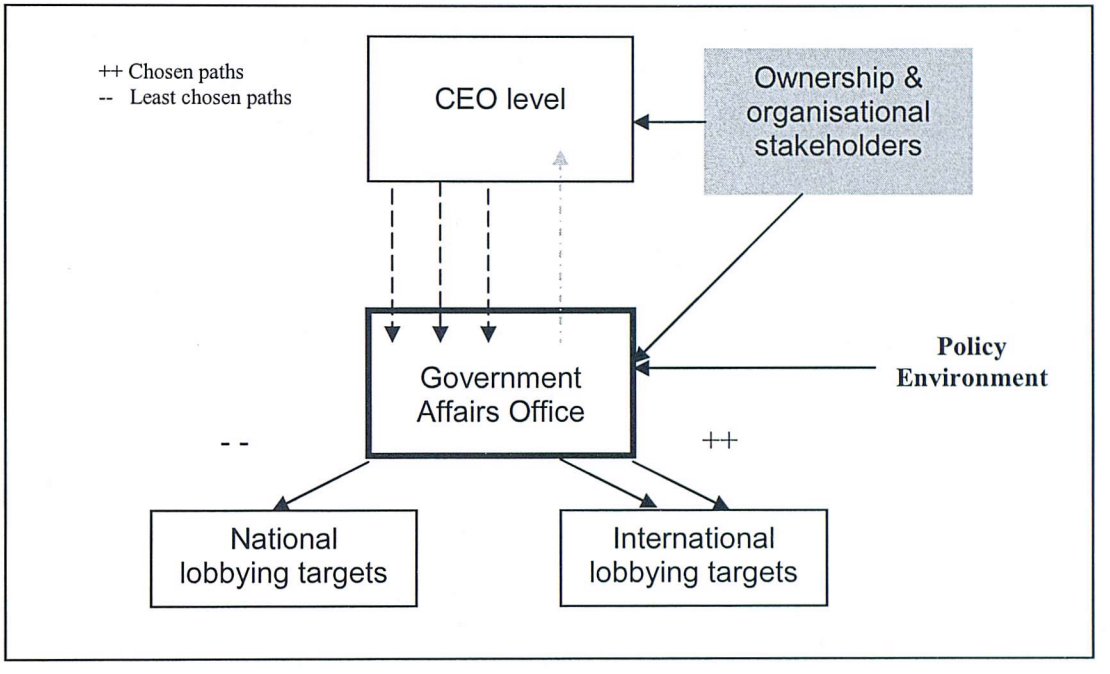
With ownership in mind, the respondents in the state-owned airlines felt that their access and networks to political actors was limited to their own country, while respondents from the privately owned airlines explained that they were better prepared due to ownership structure allowing them to have a good accumulation of political resources, which then allowed them to form better networks and access.

At the centre, the cognitive blueprint decides the target and sequence of networks to lobby at both national and international level; the level of investment in structural reconfiguration and the hiring of specific people with competence. Yet how is this cognitive blueprint created? We found, the cognitive blueprint is not incrementally created but in a "flux",[19] based on mental blueprints from previous experience, current learning and foresight. So in what direction did this knowledge flow to develop the blueprint and lobbying process? To answer this

[19] As used by one of the interviewees (A001).

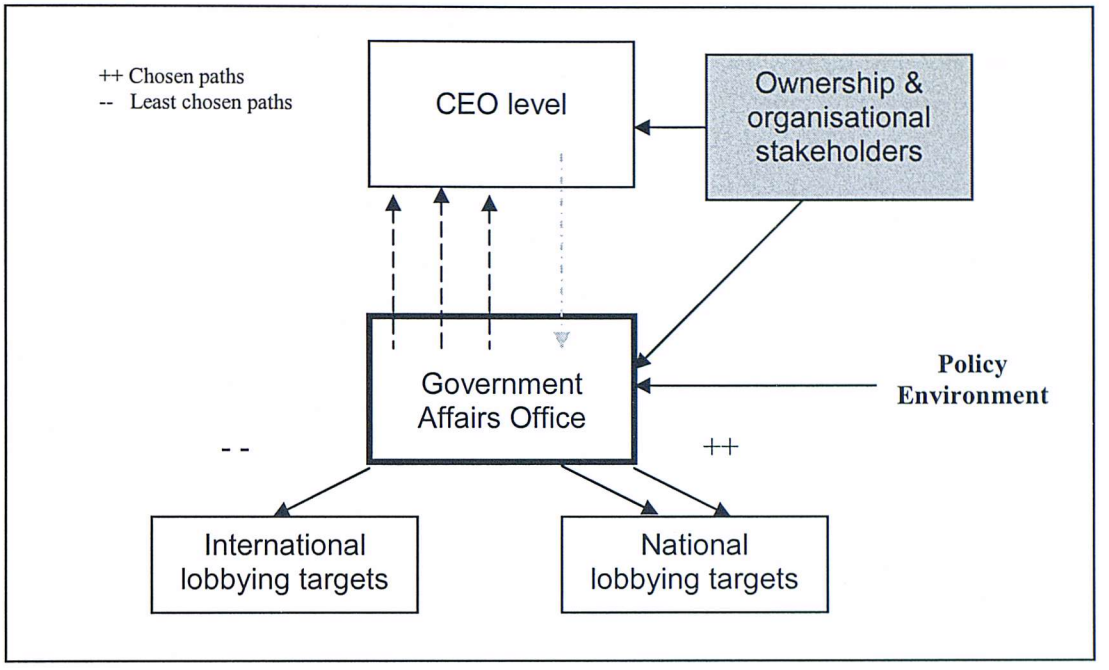
question we will have look at both the contexts in more detail. Therefore in the exogenous policy context, 2001-2005, the lobbying was conducted more at an international level then at a national level, as shown in Figure 26. Moreover, with the temporal context being short, the decisions started at mainly the CEO level in most airlines, where the information on strategy was disseminated to the government affairs office ("top down flow").

Figure 26: General decision-making process in the exogenous policy context



Conversely, we found that during the endogenous policy context (1988-1997), the lobbying was conducted more at a national level then at an international level, as shown in Figure 27. One reason for this could be attributed to the fact that the power had not shifted from national governments to the European Union. Nevertheless, the cognitive blueprint from private airlines still encapsulated the EU level lobbying targets. Furthermore with the temporal context being longer due to the packages format, the decisions started mainly in the government affairs office then shifted upwards (bottom-up flow), where the information on strategy was disseminated to the government affairs office.

Figure 27: General decision making process in the endogenous policy context

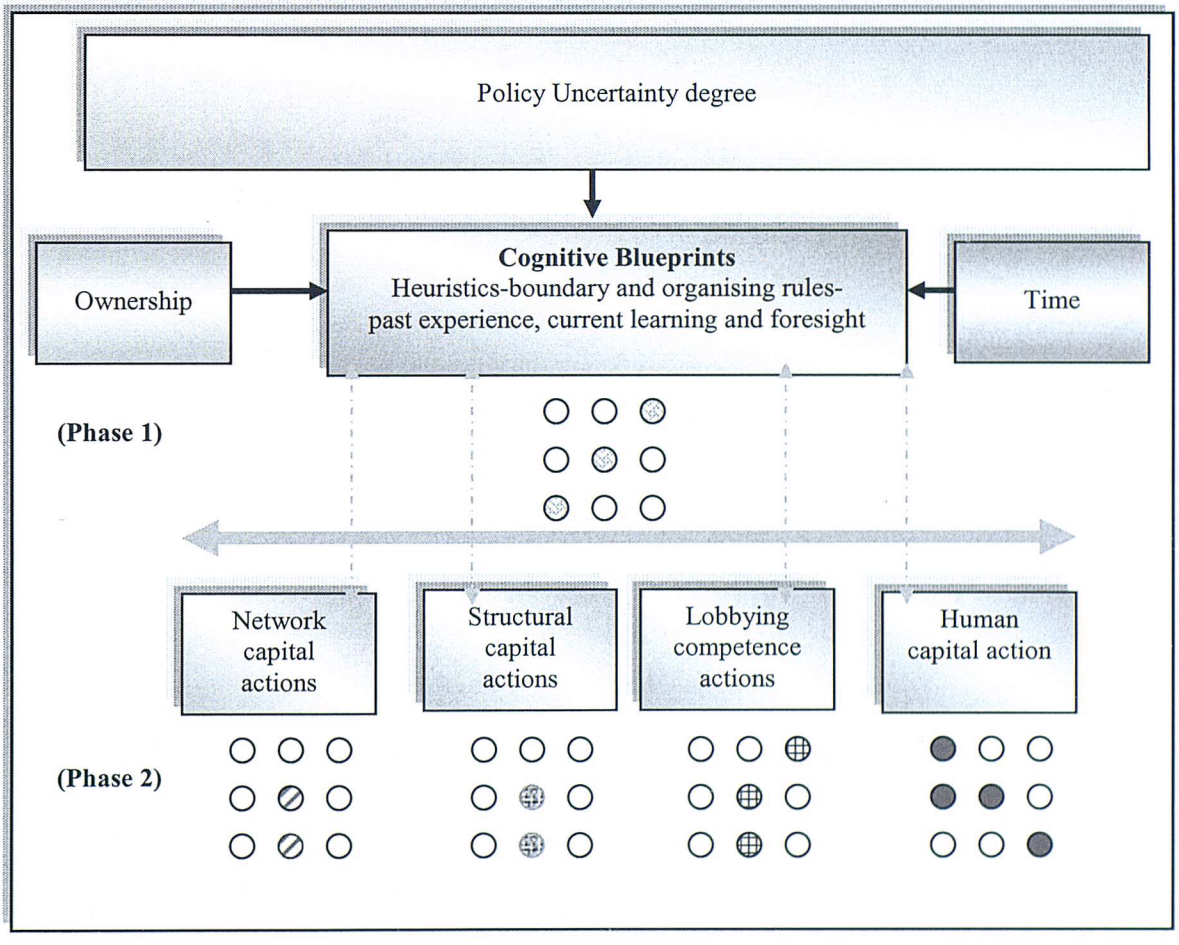


In general, from both contexts, we found that rather than jumping in and using a laissez-faire path in creating strategy, directors of government affairs used their cognitive blueprints from previous experience and learning to channel and fuel their decisions on the lobbying process. The way in which executives and top management think plays a very important role in developing the architecture for lobbying processes. Therefore we can see that cognitive blueprints played a vital role in defining competence, networks, structure, and human resources but we also found the ownership acted as a "core rigidity" (Leonard-Barton 1992; Gilbert 2005). Further, there seems to be an ownership effect in the development process which has not previously been explained in the RBV literature.

According to Piaget, in individual cognition assimilation, or absorption, not shifts the knowledge absorbed, but can in the process of assimilation shift the mental schemas employed in assimilation. This entails seeing e.g. new policy issues or seeing and interpreting policy uncertainty degrees. Figure 28 shows the yields and the source of invention in the cognitive blueprint with the marked balls being examples of combinations of "thought patterns" of an individual senior manager's cognitive blueprint. According to Piaget (1970, 1974; see also Flavell 1967; George and Zheng 2004) the process of assimilation contributes to

the change of mental structure (called 'blueprint') in the following steps, with increasing deviation from previous knowledge structures. As seen in Figure 28 (which illustrates our findings), in phase one and two, *heuristics* (following boundary and organising rules) schema's are confirmed and stabilised in repeated application. Nooteboom (2000) proposed that this may yield a general ''logic of discovery'', applicable also to organisational learning, as a source of variation that is guided by selection. Depending on how competence-destroying a policy environment is, the director of government affairs has to escape from the grip of the existing selection policy environment by configuring his political resources to develop his lobbying capability to meet the lobbying environment needs. It is only when the existing dominant "blueprints" are subjected to new challenges, threatening survival that one is *willing* to make the sacrifices of modifying or replacing proven and efficient blueprints (Kaplan 2005).

Figure 28: Breaking the lobbying of a senior manager's cognitive blueprint*



* The patterns depict an example of a blueprint composition in lobbying development.

The following propositions summarise the nature of actions generated through senior management cognitive processes to leverage specific resources in developing a lobbying capability:

Proposition 2a. In both endogenous and exogenous policy contexts, lobbying capability development is started by the senior management cognitive blueprint, causing them to reconfigure organizational structure, networks, human resources and lobbying competencies to develop lobbying.

Proposition 2b. In both endogenous and exogenous policy contexts, ownership played a role in the senior management's choice of cognitive blueprint, which manifested itself in the decision of which stakeholders to engage with in order to influence the policy process.

Proposition 2c. In both endogenous and exogenous policy contexts, time played a role in the senior management's choice of cognitive blueprint, which manifested itself in the decision of which stakeholders and resources to engage with in order to influence the policy process.

7.5.1 ORGANISATIONAL STRUCTURE MODIFICATIONS IN THE LOBBYING DEVELOPMENT PROCESS IN CONTRASTING POLICY CONTEXTS

A number of RBV writers have pointed out the importance of an organisation's structure with regard to capabilities and the relationship between them and its environment (Brown and Eisenhardt 1997; Eisenhardt and Martin 2000; Winter 2003).[20] Bearing in mind the relationship between organisational structure and environment, scholars like Burns and Stalker (1961) have concluded that if an organisation is to achieve enhanced performance then its structure must fit with or match the rate of change in its environment. Pascale *et al.* (2000, p.197) explain that "*design is the invisible hand that brings organisations to life and life to organisations*". Moreover, organisational structure and design choice are closely entwined (Mabey, Salaman and Storey 2001) with many aspects of human resource management. Thus departmental structure has a key role in the

[20] Mullins (1993) and Mabey, Salaman and Storey (2001) describe the structure of an organisation as the pattern of relationships between roles in an organisation and its different parts. They see the purpose of this structure as serving to allocate work and responsibilities in order to direct activities and achieve the organisation's goals. Structure enables managers to plan, direct, organise and control the activities of the organisation (Mullins, 1993, Mabey, Salaman and Storey 2001). Here is a traditional view of organisational design that uses principles derived from classical and scientific management.

all important human dimensions (networking to competence) of an organisation, and more importantly in lobbying. However, we found that most RBV and corporate political activity researchers have some short comings as they are disregarding the policy environment and its affect on lobbying and structure. We found from our data some interesting interactions in the lobbying capability development process and the contrasting policy contexts.

In both policy contexts, one of the ways through which the lobbying capability was developed, found in all the five organisations, was by "adapting the lobbying capability of the firm". We use the term "adapting" because it was used by several of our informants and adequately reflects the notion. Informants expressed that they were working towards bringing lobbying process to "the following stage" in both policy contexts. The "following stage" refers to a good outcome that either defends their organisation's position or creates an advantage.

In both the exogenous policy context (i.e. lobbying for insurance coverage issues, security cost issues and compensations package issues) and endogenous policy context (i.e. lobbying for route licenses, state aid and prices), different organisations focused on different aspects of management and structural organising in order to develop their lobbying processes to influence political actors. The general pattern of adaptation, more specifically the department's re-structuring, varied between the two contexts. Consequently, we found that this variation in adaptation was a result of the different cognition blueprints that were affected by the different flag carrier's ownership compositions (private versus state) and the context type. As a result, the senior management steered the pace of restructuring in which political resources were leveraged and deployed to develop their lobbying capability.

In the endogenous policy context (1985-1997), we found that in privately owned airlines, the senior government affairs managers were developing their lobbying capability with care, planning and precision. In these types of environments firms have more time to be more proactive and effective (Sharma and Vredenburg 1998). Pre-deregulation (1985-1988), the government affairs offices were learning to deal with the potential impact of deregulation, therefore they structured themselves to influence more effectively and bring in new talent. Their lobbying development was associated with greater levels of interaction with the

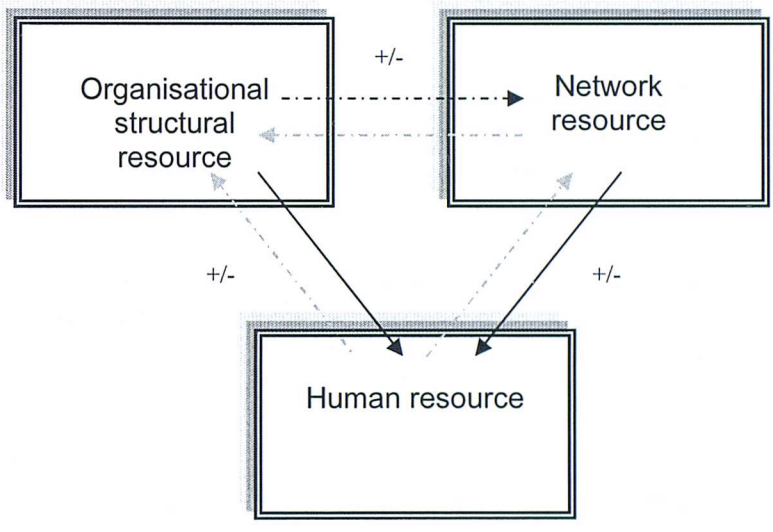
top management teams from other functions in the organisation. They changed their department's structure before and during deregulation in order to facilitate European level political access with additional focus on their national governments. Conversely, the state-owned airlines, pre-deregulation (1985-1988), had a very different approach to developing their capability. They tended to be very small government affairs offices, so they interacted less with other departments. With the nature of lobbying changing after 1997, the government affairs offices realised that they had to change by bringing in new talent with EU level knowledge and networks. Both types of airlines were structured similarly with regards to using their association group (AEA). However, both airlines were seen to be using less of AEA to influence target actors, preferring individual lobbying strategies.

In the exogenous policy context (2001-2005), we found that developing a lobbying capability was associated with greater level of transference of responsibility for strategic decision-making to interest group representation where there was more of an attempt for "joint problem solving". Post 9/11 (in the short term, or first few weeks), private airlines focused on developing both their generic and idiosyncratic lobbying routines in order to be more ambidextrous. For the privately owned airlines, the department's structure did not change much, as they believed that they had the right structure. However, post 9/11 was different for government-owned airlines when it came to developing a lobbying arm. Their lobbying activities in this challenging policy context changed, often leading to structural reorganisation and formal redefinitions of the responsibilities in the office as well as substructures with the government affairs office. Moreover, government-owned airlines were less ambidextrous with lobbying development, shifting their efforts to their generic platforms, instead of using their idiosyncratic lobbying routines. This was the case, as the senior management felt constrained by their structure and lack of political resources. Nevertheless, both airlines were seen to be using more of the AEA to influence high status political target actors, as compared to individual lobbying strategies.

From looking at the contrasting policy contexts, we can see that findings confirm an extant view of lobbying capabilities as constrained by the structural organisation of firms (Eisenhardt and Martin 2000). At the same time it

disconfirms existing views that organisational structures tend to be static and to impede the development of a firm's dynamic capabilities (Teece *et al.* 1997). Our investigation suggested that organisational structure was used to reconfigure the lobbing capabilities, political resources and lobbying competencies that a firm used to exert influence in the non-market place, especially in the endogenous policy context (as compared to the exogenous context), as shown in Figure 29. In this figure we see how both airline types (private and government), and their senior management team (using cognitive blueprints) were either making positive investment in structure (which included human resources structure) or no/little investments at all these structures (+/-).

Figure 29: Micro Foundations of lobbying capability development



As shown in the diagram above, there were some interaction effects between organisational structure and human resources/networks. The extant literature has postulated some important determinants for a firm's dynamic capabilities, with emphasis on its external environment and organisational structure, which are emphasised by the resource-based theorising (Spanos and Prastacos 2004). However, these studies have failed to understand the micro-level dynamics and the development of specific capabilities in conjunction with specific environments, in our case the lobbying capability and the policy environment. As such, we found that structure mainly changed through "either people being taken out or brought in" or "using AEA to lobby", in order to develop a lobbying

capability to increase efficiency for potentially emerging policy issues. Indeed, each policy had a degree of uncertainty associated with it. Therefore we found in each policy context, that there was a sort of push or pull effect on development process for each of the different European airlines. The following propositions summarise the nature of structural modification actions generated through senior management teams to develop a lobbying capability in the contrasting policy contexts and airline types:

Proposition 3a. In an endogenous policy context, private airlines radically modified their government affairs department structure to develop idiosyncratic lobbying routines at the start, with minimal shifting to the generic lobbying routines. (Non-Ambidextrous)

Proposition 3b. In an endogenous policy context, state airlines incrementally modified their government affairs department structure to develop more idiosyncratic lobbying routines at the start, but then shifting to the generic lobbying routines. (Non-Ambidextrous)

Proposition 3c. In an exogenous policy context, private airlines modified no government affairs department structure to develop a more ambidextrous platform by using both idiosyncratic routines and generic routines. (Ambidextrous)

Proposition 3d. In an exogenous policy context, state airlines radically modified their government affairs department structure to focus less effort on their idiosyncratic routines and shift more effort to their generic routines. (Non-Ambidextrous)

7.5.2 NETWORK RELATIONSHIP RESOURCE INVESTMENTS IN LOBBYING DEVELOPMENT PROCESSES IN CONTRASTING POLICY CONTEXTS

As previously explained in Chapter 2, the network perspective has been used in the field of organisational studies for decades, and in recent years it has become increasingly popular as a way of analysing the internal and external workings of the firm (Nohria and Eccles 1992). It has recently been seen through the focal lens of the RBV to understand the dynamics of competitive advantage (Birkinshaw and Hagstrom 2001). As an extension of the resource-based view, the relational view maintains that competitive advantage derives not solely from firm-level resources but also from difficult-to-imitate capabilities embedded in dyadic and network relationships (Lane and Lubatkin 1998; Dyer and Singh

1998).[21] In our research, we found networks to be an important variable to aid the lobbying capability development process, as lobbying involves influencing specific targets in a given network.

We found the development of networks entailed the development of new lobbying competencies which also helped the re-configuring of the lobbying capability in our contrasting policy contexts. Cast in diverse styles of argument (Granovetter 1973; Coleman 1990; Nahapiet and Ghoshal 1998; Finkelstein *et al.* 2006), network capital has become a ubiquitous metaphor in the study of organisations. The compelling metaphor embodied in the notion of networks is implicitly or explicitly present in various research streams that focus on how relationship ties enhance actors' ability to attain their goals. This research identifies two main ways in which networks with political actors can help organisational performance. First, networks between the airlines and specific political actors can facilitate access to information, resources, and opportunities (Campbell *et al.* 1986 and Podolny 1997 and 2001). Thus, actors with networks rich in network capital (sometimes used interchangeably with social capital) have privileged access to resources and information, and this should make them better at leading, organising, and mobilising other actors towards goals.

Research in networks has focused on the value of relationships as conductors of information and channels to access resources or social support (Lin, Ensel and Vaughn 1981). Consistent with the emphasis on relationships, this research has found the strength of the ties between political actors and the top management team within the government affairs office to be very important in facilitating access to the appropriate information and resources. We found two main ways in which the structure of the network surrounding a given top management team can confer advantage on the firm: by facilitating access to information-resources, and opportunities, and by helping overcome dilemmas of collective action (Burt 1997).

[21] Previously explained in this thesis, much to the exasperation of anyone trying to research it, there are many possible approaches to defining network relationships. In this thesis we contest and define networks as having an emphasis on the role of relationships (Nahapiet and Ghoshal 1998). Networks are available to all members of an organisation indiscriminately depending on how much effort you give to building them (Woolcock 2001).

In both the exogenous policy context (i.e. lobbying for insurance coverage, security costs and compensations package issues) and endogenous policy context (i.e. lobbying for route licenses, state aid and prices), different organisations focused on different aspects of network management and organisation in order to develop their lobbying processes to influence political actors. The general pattern of network adaptation, more specifically the government affairs departments' network adaption strategy varied between the two contexts. Consequently, we found that this variation in adaptation was a result of the different cognitive blueprints that were affected by the different flag carriers' ownership compositions (private versus state) and the context type. As a result, the senior management navigated their choice of network configuration in which political resources were leveraged and deployed to develop their lobbying capability.

Looking closely at the endogenous policy context, and more importantly at privately owned airlines, we found that the senior managers and executives in the government affairs departments were developing their lobbying capability very differently to state-owned airlines. According to our research, pre-deregulation (1985-1988), the government affairs offices were learning to deal with the potential impact of deregulation, where they had ample time to react in a manner that would benefit them, using different lobbying routines and resources to lobby people. Therefore they started widening their network base with intention and sometimes organically. Moreover, the senior executives explained that they wanted to develop their network base with the idea of developing their lobbying portfolio of contacts. The privately-owned airlines changed their contact base before and during deregulation in order to facilitate information exchange with political actors and regulators. During the deregulation context, they started to focus on leveraging their investments into network development for packages two and three (1988-1997). After the deregulation period the network base remained static with the government affairs offices just focusing on their own personal agendas i.e. route development etc.

On the other hand, state-owned airlines developed their lobbying differently to privately owned airlines. More importantly we found that their senior management in the government affairs units developing their lobbying

capabilities put little effort or intent in developing the process. As such, pre-deregulation (1985-1988), the directors/senior management had a very different approach to developing their capability when compared to the privately owned airlines. The state-owned airlines tended to have very small government affairs offices and their focus in lobbying was limited to their national governments. According to our research, in the pre-deregulation period, the government affairs offices were aware that they had ample time to react and lobby individually to advocate their interests (for the first package). However, they were reluctant to see any type of manifesto related to deregulation. This was because the state-owned airlines were comfortable in their monopoly positions. From here we found that the directors were reluctant to change their lobbying routines and political resources, and they felt lobbying their national political actor was sufficient to be heard. They went on to explain that they did not want to widen their network base as they believed lobbying through their ownership structure was enough. However, they did use AEA to advocate their interests, as they felt this had to be happening. However, during the deregulation context, they started to invest in EU network development for the third package (1992-1997). They did this because they realised that they "*had to be heard because the power was moving to Brussels*".[22] After the deregulation period the network base remained static with the government affairs offices just focusing on their own personal agendas i.e. route development etc. With the nature of lobbying changing after 1997, both state- and privately owned airlines (more specifically the directors of government affairs) realised that they had to change by bringing in new talent with EU level networks. However, both airlines were seen to be using less of AEA to influence target actors, focussing instead on individual lobbying strategies.

In the exogenous policy context, we found that developing a lobbying capability was associated with using existing individual and AEA networks. Both state- and privately owned airlines had fairly similar strategies; using their current networks instead of developing new ones. Let's first take privately owned airlines. We found from our cross-case analysis that post 9/11 (in the short term, or first few

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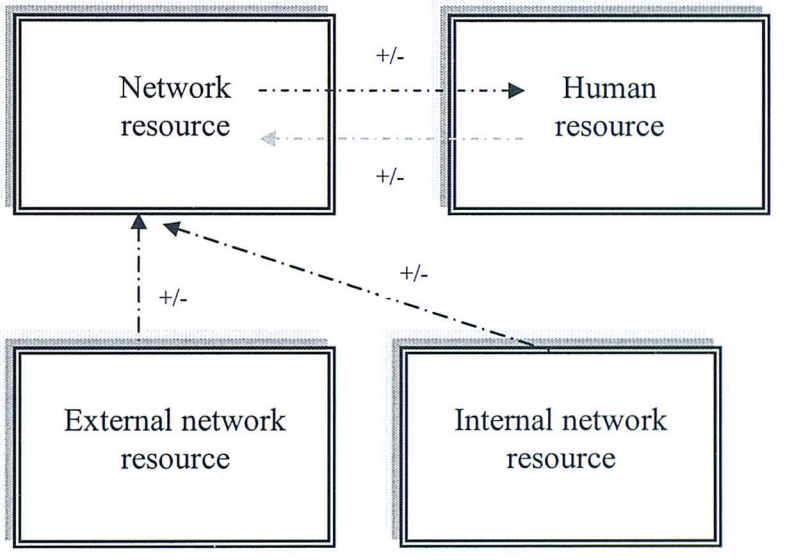
weeks) these types of airlines focused on developing both their generic and idiosyncratic lobbying routines, in order to be more ambidextrous. In other words, privately owned airlines were found to be using both AEA (external network resource) and their own network resources (internal network resource). What is more, the government affairs departments' contact base (network) did not change much as they believed that they had the right contact base to use for lobbying purposes prior to the manifestation of the policy environment.

However, post 9/11 it was a different story for government-owned airlines in conjunction with developing a lobbying arm for the rising policy issues. The lobbying activities undertaken by the senior management teams in this policy context shifted from influencing specific network targets at their national governments to AEA, who lobbied the EU commission on their behalf (see Appendix 9 for letters used to lobby). Moreover, government-owned airlines were less ambidextrous in terms of lobbying capability development process, shifting their efforts to generic platforms (i.e. more AEA and conferences), instead of using their idiosyncratic lobbying routines. This was the case, as the senior management felt constrained by their department which had a lack of political resources, which AEA had from its own people and through the use of other airlines networks. Nevertheless, both airlines were seen to be using more of AEA at different times to influence high-status political target actors, rather than individual lobbying strategies. Using these external resources (AEA) allowed them to develop their lobbying capability with a perceived value added for this type of policy context.

From looking at the contrasting policy contexts, we can see that findings provide a unique view of lobbying capabilities helped by the network resources of firms. Our investigation suggested that the departmental network base was used to reconfigure the lobbing capabilities, political resources and lobbying competencies that a firm used to exert influence in the non-market place, especially in the endogenous policy context (as compared to the exogenous context). The airlines wanted to influence quickly during this period so they decided to use AEA which had extensive networks and resources. The airlines also used a combination of network resources to develop a lobbying capability, as illustrated in Figure 30. However, there is some evidence to suggest that

ownership structure constrained the government-owned airlines from being more ambidextrous, as compared to privately owned airlines. Nonetheless, from the illustration in Figure 30, we can see that the micro-level activity in the development process involved both external (i.e. associations and conferences) and internal (i.e. lobbying individually) network resources. Both airline types (state and private), and more importantly their senior management within the government affairs departments, had to decide the level of investment using their cognitive blueprints, either to make positive investments or no/little investments (+/-) in network modification.

Figure 30: Interaction effects between networks and human resources



While strategy scholars primarily focused on firm capabilities and network scholars examine network base and structure (Zaheer and Bell 2005), we found that airlines with investments in network bases to develop their lobbying capabilities tended to be the privately owned airlines rather than the government-owned airlines (more so in the endogenous policy context than the exogenous policy context). This was done either to defend their firm's performance or create an advantage, as shown in previous studies using other organisational capabilities (Zaheer and Bell 2005). We found that the government affairs directors perceived through their sense-making cognitive processes that their networks needed to be modified to lobby either using internal networks or by the means of

using external resources (McEvily and Zaheer 1999).[23] The following propositions summarise the nature of network modification actions generated through senior management to develop a lobbying capability in the contrasting policy contexts and airline types:

Proposition 4a. In an endogenous policy context, private airlines radically modify their government affairs departmental networks, but tend to focus more effort on their internal network base with a slight shift of focus to an external network base. (Non-ambidextrous)

Proposition 4b. In an endogenous policy context, state airlines incrementally modify their government affairs departmental network, but tend to focus less effort on their internal network base and less effort to an external network base. (Non-ambidextrous)

Proposition 4c. In an exogenous policy context, private airlines incrementally modify their government affairs departmental network, becoming more ambidextrous through using both their internal and external network base. (Ambidextrous)

Proposition 4d. In an exogenous policy context, state airlines incrementally modify their government affairs departmental network, but tend to focus less effort on their internal network base and shift their focus to an external network base. (Non-ambidextrous)

7.5.3 HUMAN RESOURCE INTERACTIONS IN DEVELOPING LOBBYING PROCESSES IN CONTRASTING POLICY CONTEXTS

Felin and Foss (2005, p.451) unreservedly acknowledge the significance of human resource management for dynamic capabilities in their suggestion that "standard operating procedures and rules of interaction are first created and specified by organisational founders or managers, and then individuals interact given these collective structures or constraints". RBV scholars have begun to deal more explicitly with the contribution of HRM to dynamic capabilities (Bhattacharya and Gibson 2005; Bhattacharya and Wright 2005; Evans and Davis, 2005). Colbert (2004) suggests that dynamic capability might incorporate a continual, deliberate reinterpretation of HR principles in the light of organisational change. The process of drafting and reinterpreting HR principles

[23] Network relationships are generally perceived to be a private and public good because, through its creation as a by-product of social relations, it benefits both the creator and bystander (Putnam 2000).

in a manner that combines the intentions, actions and choices of agents within and outside the organisation would be a means of generating resource-based advantage. Bhattacharya and Gibson (2005) argue that flexibility of employee skills, employee behaviours, and HR practices represent critical sub dimensions of HR flexibility and are related to superior firm performance. Bhattacharya and Wright (2005) use a real options approach, arguing that HR practices generate capabilities or ''options'' for managing uncertainties, thereby creating value for the firm. Wright and Snell (1998) argued that some HR practices are aimed at building flexibility to respond to future uncertain events; Bhattacharya and Wright suggest that this flexibility can be seen as a human capital capability.

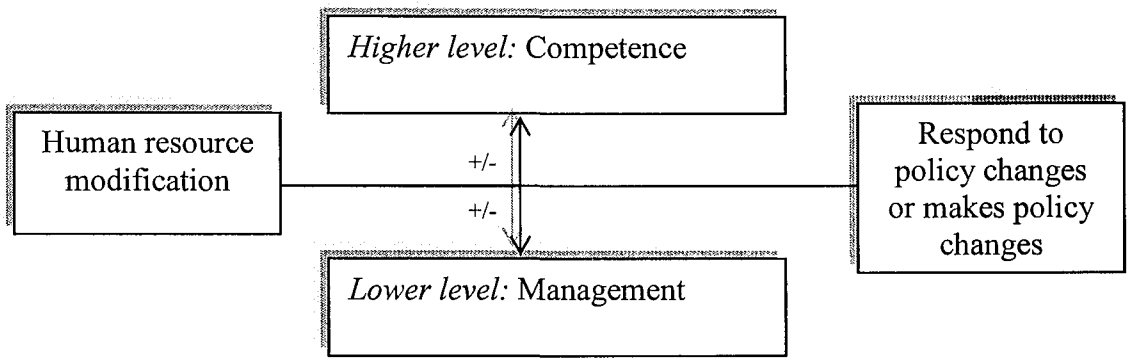
Our research has found that lobbying capabilities originate from individual actions and interactions. Moreover, this important variable confirms ideas from extant research on dynamic capabilities, which links them to changes in specific functional capabilities (Bhattacharya and Wright 2005) and knowledge flows (Helfat and Rabitscheck 2000). Our findings add to this pool of knowledge, by highlighting the greater importance of the role of human capital in the process of developing lobbying capabilities. In particular, it appears that identifying and gaining access to what is considered top talent in the area of government affairs is an important factor in developing lobbying capabilities. As one informant said:

> *Before the deregulation period, we were hiring new talented individuals that had knowledge in lobbying at an EU level, as that was where lobbying was moving. [A002]*

Furthermore, our research highlighted the role of organisational processes not only in developing human capital but also in discovering what new lobbying competencies should be developed. Together these insights suggest that the development of firms lobbying capabilities can be understood as change processes unfolding at two levels (in human capital modification): a lower level associated with the upgrading of the organisation's management in terms of staffing key positions with more experienced, better networks and skilled managers and redefining responsibilities at different levels of the departments hierarchy, and a higher level associated with developing new lobbying competencies in order to respond to changing policy environments. As shown in Figure 31, these two levels are driven by changing perceptions of top managers

about what it takes to succeed in their non-market contexts and what managerial and lobbying competencies are required to respond to the changes or make changes.

Figure 31: Lower level and higher level human resource modifications



In both the exogenous policy context and endogenous policy context, different organisations focused on different aspects of human resource management and organisation in order to develop their lobbying processes to influence political actors. The general pattern of human capital adaptation in the government affairs departments (in the European airlines) varied between the two contexts types. Consequently, we found that this variation in adaptation was a result of the different cognitive blueprints that were affected by the different flag carriers' ownerships compositions (private versus state) and the context type. As a result, the senior management decided how to configure their political resources to develop their lobbying capability.

In the endogenous policy context, from analysing the data across all five firms (privately and government-owned) suggested that the momentum for human resource development in lobbying capabilities came from the top executive teams' cognitive belief about "moving to the following stage" in the policy-making process in order to develop some type of value for its services. Pre-deregulation (1985-1988), this belief was a broadly defined aspiration for changing the level of influence for organisations in the political arena, while other executives from the government-owned airlines indicated the level of

influence they wanted opposed to the general consensus. However, state-owned airlines brought in some people after the second package to make an influence at the European level, while keeping a strong tie with their national government.

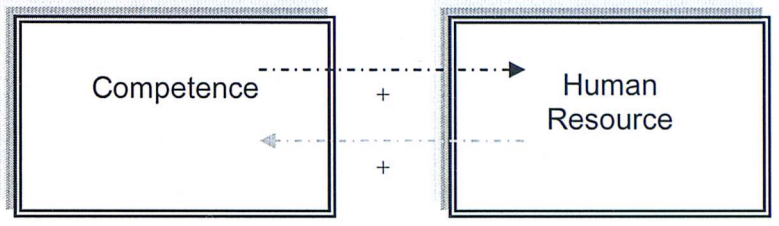
In the exogenous policy context, from our data, we found that the privately owned airlines and government-owned airlines organised their human resources very differently to develop their lobbying capability. We found that privately owned airlines tended to have all the people they wanted. According to the senior management from the government affairs office units, they believed that in order to organise an effective lobbying capability, their current human capital resources were configured in specific way in order to communicate important information to their micro political targets. However, in this timeframe they believed that outsourcing the lobbying or bringing in new people or even downsizing was not needed to develop their lobbying arm. Conversely, the state-owned airlines found configuring human resource to be an important process in developing their lobbying capability. However, in this timeframe they believed that outsourcing the lobbying was needed, with the addition of bringing in new people and downsizing to develop their lobbying arm.

By looking at the two contrasting policy contexts, privately owned airlines had the sufficient type of human capital but the state-owned airlines could not deal with the impact as well. The government affairs units from state-owned airlines intended to restructure in the short to medium term to align their structure to meet the rising issues. As a result they shed some people from their offices. Therefore in the short term, the human capital resources were organised to facilitate quickly lobbying post 9/11, but state-owned airlines realised that focusing more lobbying efforts on their coalition platform (AEA) was the right strategy. Privately owned airlines reacted in a similar way, but they did not shed people from their office and were more ambidextrous in their lobbying, using both people from AEA and their own people.

As shown in the Figure 32, the human resources also had competencies which they used in developing their lobbying capabilities. This interaction effect helped the lobbying development process. Both airline types (government and private), and more importantly their senior management within the government affairs

departments, had to decide the level of investment in human resource modifications to make, either positive investments or no/little investments (+/-).

Figure 32: Interaction effects in lobbying capability development



The level of lobbying development depended on the amount of competencies that the organisation managed to accumulate, which depended on who was hired and worked at the organisation. Therefore, interaction effects and overlaps were found between human resources and competence that played a role in developing a lobbying capability.

7.5.4 LOBBYING COMPETENCIES IN THE LOBBYING DEVELOPMENT PROCESS

Competence or skill is at heart of any successful activity,[24] as we found in our (dynamic) lobbying capability development investigation. Respectively, the variation in the degree of success of business organisations by reference to different degrees and qualities of competence has been a major focus of recent theorising in both strategic management and organisational theory (Hamel and Prahalad 1990; Bogaert *et al.* 1994). From pioneering efforts, such as Selznick's (1957) "distinctive competence", to the more recent and refined notions of core competencies (Hamel and Prahalad 1990) and architectural knowledge (Henderson and Clark 1990) there are decades of investment in sorting out the traits and the boundaries of the phenomena. However, the research on competencies has so far been largely market-oriented and driven by theory building, and theory refutation. Theory has developed more in reaction to the

[24] The heart of competencies is the ability to integrate specific elements of know-how (i.e. it results from the 'learning by doing'), rooted in skills and technical systems-specific assets into wider value-creating competencies, through management systems and processes (Campbell and Luchs 1997). Competitively valuable competencies are entrenched in integration between skills to create value for customers in ways that are not imitable by competitors.

economics-driven industry and the market environment analysis evolution of the business strategy field, instead of focusing on the managerial aspects and the non-environment. It is important to understand the antecedents in the dynamic capability development process, but this work lacks both a solid empirical base and a micro theoretical foundation. This part will explore the interaction between lobbying competence and lobbying capability development in the non-market environment. We use the term "lobbying competencies" to refer here to technical subject matter and know-how in influencing and communicating (hard for competitors to duplicate), that enable firms to influence policy makers.

As the non-market strategy field progresses in the definition of the politics phenomenon, though, it becomes correspondingly apparent that we are still missing a solid account of how organisational capabilities, in our case the lobbying capability, come into existence and of how they evolve over time in different policy contexts. What accounts for the fact that one organisation exhibits "lobbying competence" in some sense, while another does not? And how do we explain the growth and decay of that particular lobbying competence, other than the simple repetition, or lack thereof, of behaviour? Also, the definition essentially "kicks" the learning problem one level up, from single-loop to double-loop learning in Argyris and Schon's (1978) terms, and leaves us with the same problem: how are dynamic lobbying capabilities developed? How do they evolve in different policy context?

As such, we found that at the micro foundations lobbying competence management helped in developing the lobbying capability in contrasting policy contexts, but there were some variations between state- and privately owned airlines. In both policy contexts and all five cases, senior executives in the government affairs departments, directly or indirectly related the development of the lobbying capabilities of their firm to a change in lobbying competencies, which were expected to enable them to influence new policy makers or current policy makers. Either of these strategies, or a combination of them, was viewed as the means for reaching "the following stage". Each of the five cases could be seen as pursuing different means for developing new lobbying competencies.

In the endogenous policy context, for instance, pre-deregulation (1985-1988) the privately owned airlines were "*bringing in new human resources and getting rid of old*" competencies, which was expected to give them access to new knowledge and better networks that they believed they could not have accessed otherwise. One privately-owned airline made a major investment in bringing clear communication and substantial media competence into its government affairs office, enabling it to reach out to more politicians and provide a new means to influence policy-making. Another privately owned airline sought to outsource its lobbying to an external consultant, in order to garner resources from the external experts. There were some important commonalities in the actual processes to which all of these separate moves led. Underlying the diversity was an effort to gain access to specialised expertise, embodied in individuals that were viewed as being among the top in their fields of expertise. This was a strategy described by one informant as "hiring a few good men". These airlines developed sophisticated lobbying competence discovery blueprints that allowed them to target people they believed had the right competence. As such, hiring top experts in areas targeted for developing new lobbying competencies and supporting them through appeared to be the underlying common model for evolving lobbying capabilities in all firms we examined.

However, state-owned airlines behaved very differently in the endogenous policy context. We came to learn that pre-deregulation (1985-1988) they were not changing the portfolio of their competencies. Some informants from state-owned airlines felt that they did not have the right management competence for lobbying pre-deregulation, which resulted in them joining the game latter. However, they did start to modify their competencies portfolio only after the second package (1990-1993), as they were starting to realise the importance of introducing new competence to develop their lobbying. This tactic was viewed as the means of moving forward and aligning themselves with the endogenous policy context. After the second package, the state-owned airlines pursued a strategy of fetching new people that had EU level competence which was expected to give them access to new knowledge and better networks that they believed could not have accessed otherwise. However, from the micro-level analysis of state-owned government affairs department, we found that the ownership structure was

viewed by some of the senior management to have affected their cognitive blueprint and their decisions in developing a new competence capacity. In addition, the state-owned airlines were very comfortable and resting on their laurels and monopolistic positions on specific routes instead of adapting earlier like the privately owned airlines.

On the other hand, in the exogenous policy context (post 9/11), we found from our cross-case analysis that the privately owned airlines were not bringing new competencies into their organisations but were instead using their existing ones with the addition of competencies from their external resources (mainly AEA). They were interacting extensively with different cross functions to attain competence. Their competence discovery process was very much based on the individual's cognitive blueprint. This cognitive blueprint would decide which format to follow; whether to use idiosyncratic or generic lobbying competencies. In this context, this senior management decided to develop both idiosyncratic lobbying competencies and generic lobbying competencies, as they perceived this to be the best path to develop and influence the correct target decision-makers. However, instead of pursuing a policy of fetching new people with EU level knowledge or better networks, they used their in-house lobbying competencies and the lobbying competencies from AEA to lobby national and international political actors. The senior management believed that AEA had access to specialised expertise in-house and from its 31 airline members (AEA Annual report 2002). Therefore they started using AEA as this gave them lobbying competencies in contacting special high status targets. Supporting this ambidextrous mode appeared to be the underlying model for the evolving privately owned lobbying capabilities.

The various types of state-owned airlines also related the development of their lobbying capabilities to a change in their lobbying competencies in the exogenous policy context (post 9/11). In stark contrast to privately owned airlines, we found by looking at the state-owned airlines that they were not bringing new competencies into their organisations, but they were instead focusing on de-layering their government office and shifting their focus to using competencies from their external resources (mainly AEA). This decision to use mainly generic lobbying competencies instead of idiosyncratic lobbying

competencies was taken by the senior management. They perceived this to be the best path to develop their lobbying, as they believed that time, paucity of political resources and a damaged balance sheet put a lot of pressure on them to focus on becoming efficient. Indeed, they did use their in-house competencies, but competencies from AEA to lobby national and international political actors were important to them. The senior management believed that AEA had access to specialised expertise in-house and from its 31 airline members. Therefore they started using AEA as this gave them lobbying competencies in contacting special high-status targets. Supporting this mode appeared to be the underlying model for the evolving state-owned lobbying capabilities.

Selznick (1957) argued that it is the various commitments entered into by organisational stakeholders that defines an organisation's character and bestows upon it a distinctive competence in the conduct of its affairs. For Selznick, commitment is an enforced component of social action; as such it refers to the binding of an individual to particular behavioural acts in the pursuit of organisational objectives. One of the strengths of Selznick's perspective is its emphasis on group and organisational levels of analysis. Support for Selznick's position comes from several quarters. Knudsen (1994) offers direct support and recommends Selznick's (1957) institutional theory as a suitable process-based perspective to augment the outcome-centric view of organisational competence prevalent in the literature on the RBV. Of import here is Knudsen's contention that the deficiencies in resource-based perspectives are countered by the fact that Selznick's institutional theory captures the dynamics of the continuous exchange and interrelationships between an organisation's latent competencies and its structure and processes. Knudsen argues that these are an expression of a firm's accumulated knowledge and are a consequence of human design and ''intentionality'' as expressed by the commitments entered into by the organisation's stakeholders. Selznick's work therefore provides appropriate behavioural foundations for the dynamic resource-based view of the firm, which has hitherto operated from the perspective of bounded rationality, in terms of the design and development of computer-based information. In terms of the design and development of lobbying capability, Bonardi *et al.* (2007) highlight the role of competence commitment in shaping the design of such lobbying process.

However, the interaction between competence and capability development has not been previously highlighted from the political environment view.

We have seen that lobbying competencies involve discovering new network links, creating the need to develop new know-how that is essential to either defend or exploit, for the long term success of the firm. We have shown and argued that cognitive blueprints played a role in allowing managerial attention to be paid to long term and short term situations, and providing the ability to acknowledge and manage tensions created by a series of paradoxes that were key to the renewal of competencies to develop their lobbying capabilities. An interesting question with regard to developing new lobbying competencies is not only what processes enable firms to configure them effectively, but also how firms select lobbying competencies to further develop lobbying capabilities. Several informants describe the process through which new lobbying competencies were targeted, tagging them as "important" during regular managerial meetings, and integrating them into strategic planning efforts. The nature of the accounts regarding lobbying competence acquisitions to develop lobbying leads to the following propositions:

Proposition 5a. In an endogenous policy context, privately owned airlines engage their government affairs departments in high level lobbying competence acquisition to develop their lobbying capability.

Proposition 5b. In an endogenous policy context, state-owned airlines engage their government affairs departments in low level lobbying competence acquisition to develop their lobbying capability.

Proposition 5c. In an exogenous policy context, privately owned airlines engage their government affairs departments in no lobbying competence acquisition to develop their lobbying capability but use their current lobbying competence and an association's lobbying competence.

Proposition 5d. In an exogenous policy context, state-owned airlines engage their government affairs departments in no lobbying competence acquisition to develop their lobbying capability but rely more on using their association's competence and than their own lobbying competence.

7.6 RECOMMENDATIONS AND THEORETICAL RECONCEPTUALISATION

We have seen how lobbying capability is developed in contrasting policy contexts. Managers choose strategic actions to achieve competitive advantage in the short or long term. The plethora of management literature on dynamic capability suggests that a greater understanding of these practices is needed and desirable. Yet, with a few exceptions, organisational scholars know very little about how managers actually construct a dynamic "lobbying" capability. This thesis reports on a case study exploration of corporate lobbying strategy-making to uncover the practices that government affairs managers engage in order to develop lobbying. Results show that senior government affairs managers in their daily practice must engage in path-creation efforts, including problematisation of the current situation, decision and action. To do this, they create specific types of "cognitive blueprints" into the future both in terms of diagnosis (possible trajectories) and prognosis (potential resolutions). But these projections are critically shaped by the past: actors draw on heuristics of accumulated knowledge (the past) which focus their attention and shape their interpretations of the situation. Thus, lobbying development is not simply about making decisions in the present but about how managers draw on the past (in a more or less routinised way) and project into the future (in a more or less creative way). The evidence sheds light on how "cognition" can explain forces for stasis and change. Lobbying capabilities can be quite routinised if they are continuously reproduced; yet, our articulation of a policy environment types perspective (endogenous versus exogenous) suggests that there are few ways that managers may act to lobby in order to influence political actors, e.g. focusing on idiosyncratic versus generic, using political resources. Therefore, we can see "why" lobbying can be dynamic in its own right.

Research on dynamic capabilities, as an explanation for heterogeneous firm response to radical technical change, has brought the role of the manager back to the forefront of theory. Dynamic managerial capabilities are posited to have an effect above, beyond, and (potentially) different from the effects of organisational capabilities, though this has rarely been explored empirically. Similarly, research in dynamic capabilities has moved beyond the stage of simply

proving their existence, and towards trying to understand which types of capabilities matter in which contexts. In this study, we measure different types of capabilities at both the organisational and managerial levels of analysis. In particular, we use a novel measure of managerial cognitive frames to capture one aspect of managerial dynamic capabilities. We present the findings of an investigation of the driving forces behind the heterogeneity in adoption patterns of lobbying routines and processes by European flag carrier airlines in contrasting policy contexts. Preliminary results suggest that a general scientific orientation actually restricts adaptation, while specific scientific capabilities and a strong industry orientation are both conducive to change. We also show that managerial capabilities have an effect above and beyond that of the organisational capabilities, and that the interrelationships between the organisational and managerial levels appear to be fruitful areas for additional research.

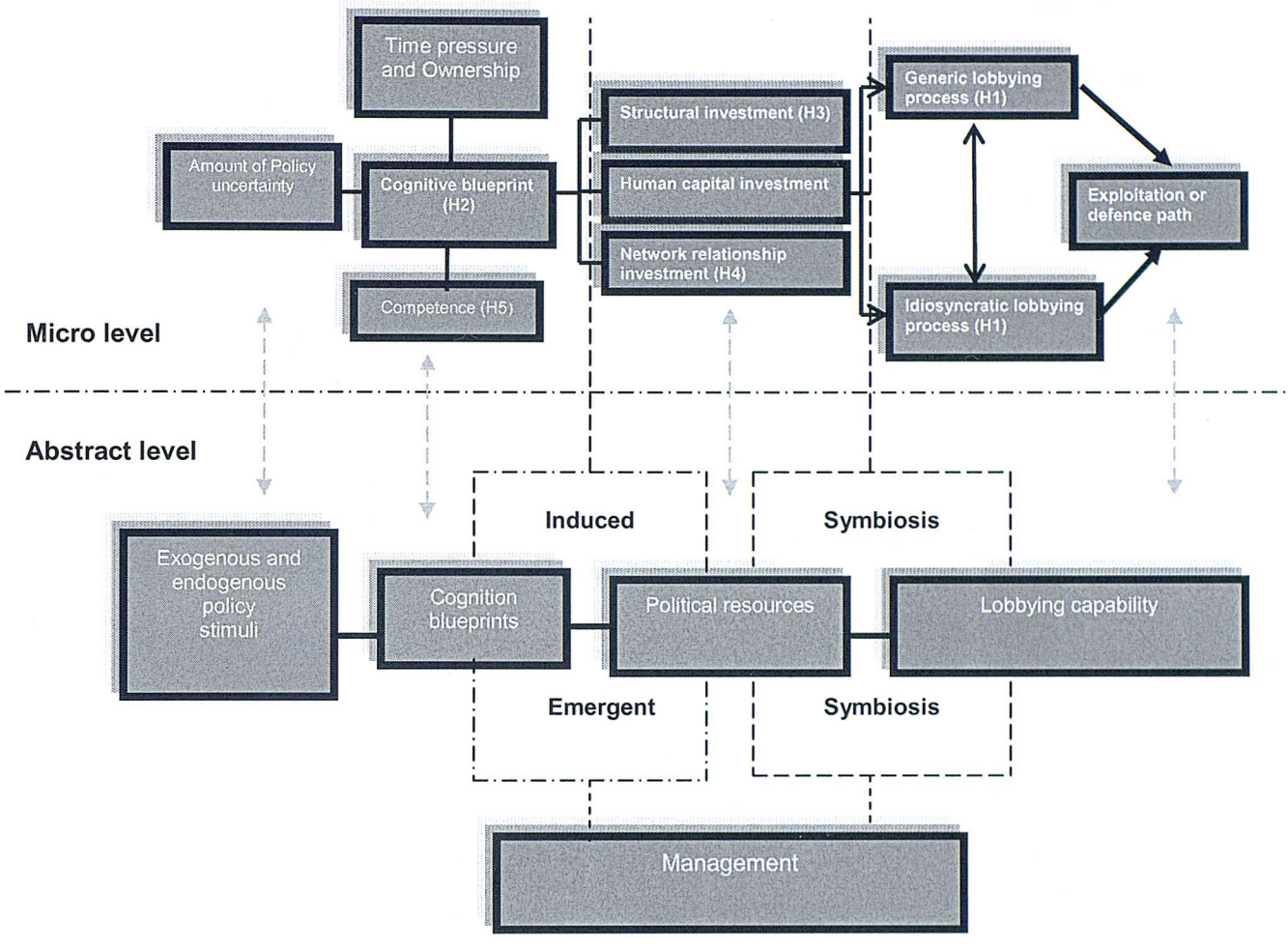
We can see that lobbying capability development played an important role in both the exogenous policy and endogenous policy contexts. We found that in the exogenous policy context, airlines (privately vs state-owned) had little time to manoeuvre to make their interests heard. The privately owned airlines were found to be using an ambidextrous platform of idiosyncratic and generic routines, while state-owned airline focused their efforts mainly on generic lobbying routines to deploy political resources to influence specific targets.

We found that in the endogenous policy context, airlines (privately vs state-owned) had time to manoeuvre to make their interests heard. The privately owned airlines were found to be using more of an idiosyncratic lobbying routine than a generic lobbying routine, while state-owned airline focused their efforts mainly on generic lobbying routines to deploy political resources to influence specific targets.

As shown in Figure 33, from the micro-level analysis of all government affairs offices, we found that there were few variables that played a vital role in

developing a lobbying capability. We found that political resources had a "symbiotic relationship" with lobbying capabilities, which aided the development process. It was evident that political resources were comprised of human, organisational structure and network, which was supported by the lobbying competences. These resources and competencies were used to reconfigure their lobbying capability development process. Cognition played a prominent role in building this symbiotic relationship between political resources and lobbying capability development. The lobbying capability was further divided into idiosyncratic lobbying routines and generic lobbying routines designed to increase influence. Figure 33 summarises the theoretical insights discussed in this section in an inductively constructed model of the processes through which a firm's lobbying capabilities develop. We can see that the development of lobbying capability depends very much on the interaction between three micro ingredients that interplay to aid the lobby capability building process. The emphasis on the two lobbying capability routines (either generic or/and idiosyncratic) is very important for lobbying in different policy (exogenous or endogenous) uncertainty contexts. The cognitive blueprint is also important for influencing the path chosen (whether emergent or induced). This blueprint aids the management and organisation of political resources in developing the lobbying capability. However, the cognition can be heavily affected by "time pressures" and "ownership", which constrain the development process.

Figure 33: Inductive integrative model for developing a lobbying capability



7.7 EXTENSION OF THE DYNAMIC RESOURCE-BASED VIEW AND CORPORATE LOBBYING ACTIVITY

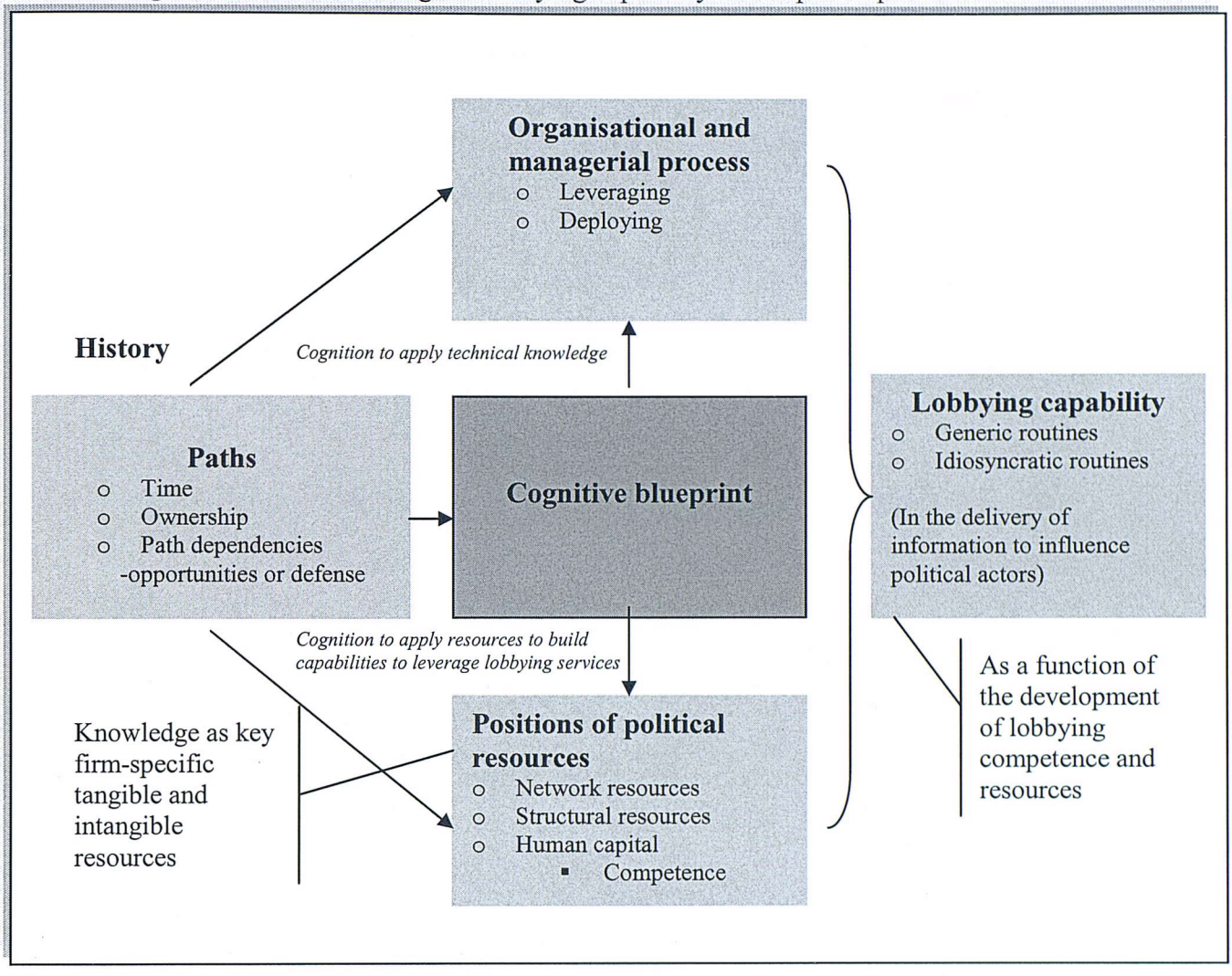
Following Hillman *et al.* (2004), this thesis argues for the importance of theory in the research process because it acts to impose order on disordered experiences to increase human understanding and prediction in the real world. In the positivist perspective of things, theory posits relationships between independent and dependent variables and/or outcomes, while also determining what data is to be collected (Denzin and Lincoln 2000). From an interpretivist scheme (used in this thesis), theory acts to help formulate a prior understanding or to enrich extant understandings of phenomena, in our case the corporate lobbying development

phenomena (Getz 1997). The integrative dynamic resource-based theory presented in this thesis accords well with interpretive perspective.

Having introduced the conceptual components of this study, which are the government affairs office, cognition, lobbying capabilities and political resources, in some detail, this thesis's theoretical model is now presented in Figure 34. Unlike previous conceptualisations, this model is process-based, in that the 'microanalytic attributes' of organisational and managerial processes are further elaborated by the application of Benford and Snow's (2000) theory of "framing" (what we call "cognitive blueprints"), thereby capturing the multi-faceted nature of the phenomenon. The role of the explicit and tacit knowledge as the tangible and intangible resources which underpin capability development is also recognised (Nonaka and Takeuchi 1995; Andreu and Ciborra 1996). Furthermore, the model's scope and constituent concepts map well onto Hillman *et al.*'s (2004) view of the phenomena studied by corporate lobbying activity scholars and its articulation in their conceptualisation of the lobbying artefact and its immediate nomological net.

The extended dynamic resource-based view (dynamic capability) theory as articulated in the integrative theoretical model is as follows in Figure 34:

Figure 34: Understanding the lobbying capability development process



Elaborating on Teece *et al.* (1997); Getz (1997); Eisenhardt and Martin (2000); Holburn (2001); Sirmon *et al.* 2007 and Bonardi *et al.*'s (2007) ideas, we previously described in Chapter 2 a lobbying capability as the corporate political processes, specifically the combination or sequence routines in which managers work together to leverage and deploy resources, which use resources to match or even create non-market change. Moreover, lobbying capabilities are the organisational and strategic routines by which senior representatives or acting representatives achieve influence to match or even create non-market change in the corporate political environment. At a fundamental level, core, enabling and supplemental competencies are applied in lobbying-related activities, e.g. in lobbying for the insurance coverage issue or for tariff.

As lobbying activities are increasingly used to deliver superior value propositions and services to internal stakeholders they have acquired the status of firm-specific (i.e. valuable, rare, appropriate, imperfectly imitable, non-substitutable, and imperfectly mobile) resources. Accordingly, the lobbying capabilities that are used to leverage, deploy and manage political resources in pursuit of business objectives have become core objective for business enterprises. It is important to note therefore that important synergies and relationships exist between business, lobbying capabilities and resources. However, we found that state-owned airlines were not actively investing in these types of activities as privately owned airlines were, which could explain their performances in reality (this could be another study in the future, but is not a focus of this study).

Based on insights from the literature cited previously, and this study's data, which is shown in the previous parts, we find our propositions describe at a high level of analysis the central tenets of this thesis's elaboration of the RBV and the role of commitment in shaping the development and application of lobbying capabilities. The propositions are the product of logical deductions informed by critical analysis of the different dynamic capability schools of thought that surround the RBV. As such they address many of the theoretical limitations of the RBV (Eisenhardt and Martin 2000, Priem and Butler, 2002, Ethiraj *et al.* 2005), while also extending and elaborating the theory of dynamic capabilities, and simultaneously building in a behavioural dimension by applying a theory of cognition that operates on several levels of analysis. In addition, each proposition was deduced from extensive research, which assesses the business and lobbying capability profiles of five organisations: two state-owned airlines (TAP Air Portugal and Alitalia) and three privately owned airlines (SAS, Lufthansa and KLM). The theoretical model therefore prepares the way for future process-based research of an interpretive nature on lobbying capability development and political resources, while also helping to inform the conduct of variance, based on different contexts and ownership structures.

With regards to extending corporate political activity theory, we make several contributions to the existing literature. First, we provide a general model of firms' lobbying capability development process that integrates different aspects

examined in previous studies, including the ideas of policy environment types and micro-level sources from cognition to political resources. The literature so far has remained scattered, with little focus on the antecedents of non-market performance and with disparate theoretical perspectives that lack an inside organisation approach. De Figueiredo (2002) for instance, presents the results of U.S. companies and their lobbying activities – electoral campaign contributions, informational lobbying, advocacy advertising, constituency building – but does not provide any insights about the factors that shape their performance. We believe that the concept of lobbying capability development has the potential to provide such an integrative framework. As argued in this thesis, elements from corporate politics, from the dynamic resource-based view of the firm and from cognitive theory view can be integrated into the framework to provide a comprehensive view of lobbying development process, as well as a basis for future research.

Another contribution of our development model is that we provide a better understanding of lobbying development in the airline industry. Firms in a wide variety of industries are subject to industry-specific agency rule-making, including agriculture, pharmaceuticals and utilities. Therefore, we can provide some insight into some generic patterns that could be applicable to their industries. Furthermore, many other firms are subject to functional regulations that cross industry borders, such as workplace safety, labour standards and environmental impact.

An additional contribution relates to networks and interactions. Existing research finds that the prior experience of firms' board members in political institutions is associated with better over-all firm performance (Hillman *et al,* 1999). In extending the corporate political activity literature we argue that privately owned airlines have more network interactions with both national and international policy-makers, which is likely to be an important mechanism for developing their lobbying capabilities, since they provide an opportunity for firms to learn from experience, make the organisations more flexible and resource-rich; and, critically, enable firms to establish a reputation for credibility with government actors. The latter is essential for overcoming the high transaction costs of

exchange in non-markets. This is consistent with Oliver's (1991) proposition that regulated firms can obtain a degree of legitimacy by conforming to institutional processes.

The inductive model we have presented here has multiple implications for government affairs managers. In particular, managers need to be able to acquire, accumulate (develop current resources), and divest (in external resources; interest groups like AEA) political resources to have the most effective resource portfolio at any given time. Managers should also have the competence necessary to bundle resources to create effective lobbying capabilities. Firms especially need to be able to develop new lobbying capabilities, as policy environmental changes can greatly reduce the value of their current capabilities. Managers must also effectively manage the feedback and learning processes necessary to continuously update their cognitive blueprints and adjust the political resource portfolio and/or the leveraging strategies used.

While other types of capabilities have been extensively studied elsewhere (Henderson and Cockburn 1994; Ethiraj *et al*, 2005; Makadok 2001), as far as we know, this is one of the first empirical studies to directly attempt to understand a lobbying capability development process and its micro sources. Our study also raises an interesting question: if firms create cognitive blueprints from their own experiences, foresight and current learning in particular policy contexts, can they re-deploy these lobbying capabilities to other policy setting? We believe this is a promising avenue for the future.

7.8 CONCLUDING REMARKS

This section has drawn on old and new dynamic RBV strand in strategic management, psychology and politics in order to posit a theory of lobbying capability development, resources and decision-making that spans all three pillars or approaches - regulative, normative and cognitive - to understand micro level organisational processes and structures. In extending and elaborating upon extant treatments of the resource-based view (see, for example, McWilliams *et al. 2002;* Bonardi *et al* 2007), we developed the micro perspective practices of

strategy making in European national flag carrier airlines. We examined the ways actors attempted to transform their own cognitive frames of the situation into predominant blueprints in the organisation. Where blueprints were about choices that were not congruent, government affairs actors engaged in highly political blueprint strategies aimed at making their lobbying capability resonate and at mobilising action in their favor.

Indeed the thesis presents a theoretical model of corporate lobbying (political) activity with a comprehensive perspective on the development and application of lobbying capabilities and political resources in organisations. For example, the model's behavioural RBV theory component views lobbying professionals and organisational actors as intentional, purposeful entities who commit themselves to particular courses of action using their cognitive blueprints. Furthermore, the theoretical model and its associated research framework illustrate that an understanding of the policy environment and organisational mechanisms which shape knowledge in political contexts, and of the commitments which shape and influence the development and application of such knowledge, is vital if the lobbying capabilities (of government affairs professionals), both enabling and supplemental, which are used to build and leverage political resources to deliver valuable services, are to be fully comprehended and explained.

The outcome of this thesis's integration and elaboration of RBV theory, cross-fertilised with corporate political theory, has, we believe, resulted in a logically consistent theory, model and framework that helps explain the processes by which lobbying capabilities and resources are developed and applied in privately and state-owned airline organisations. Secondly it portrays blueprints in strategy-making as both highly contested and tightly intertwined with the political pursuit of interests. It therefore provides a foundation for future academic research on this important topic and the testing of our findings and framework in other industries/market areas.

Chapter

8

CONCLUSION AND FUTURE WORK

This thesis has explored a number of European flag carrier airlines and how they develop their lobbying processes as a strategic capability in contrasting policy contexts. Although initially conceived as a novel approach to managing lobbying capability development in different policy environments, it has an emphasis on the airline industry. This attempt to comprehend the lobbying process has been theoretically conceptualised in the previous chapter from two contrasting policy contexts. The characteristics of a lobbying capability development have been shown to exist in an embodiment of a multidimensional configuration in our inductive framework. This presents a novel conceptualisation as the example here provides a valuable contribution to the relationship between policy contexts, capability development pursuits and the airline industry. While research in strategic management and international business consider market forces significant to the development of a dynamic capability, such views neglect the non-market forces and micro sources in the development process. The following sections will reflect on the empirical and theoretical contributions of this thesis, and consider the future direction of this research.

8.1 SYNOPSIS

The concept of 'development' can be abstracted from biological 'evolution', in 'Universal Darwinism', with only the bare notions of variety generation, selection and replication, and without specification of how those micro processes

really work (Nelson and Winter 1982). However, on the whole this idea can be made to fit the evolution of a capability to a large extent, but with an external view, whereas we need an internal micro view. In this thesis we have attempted to amplify this micro level view and maintain an evolutionary perspective in order to provide a coherent picture of the different combinations of internal and external causes of change in lobbying, and structure, avoiding both an overly rational view of managerial design and a view of environmental determinism without actors. With this thesis, we intend to make a contribution, building on strategic management literature, and focusing on the issues that have been most neglected or incompletely developed in previous literature.

We have seen that this thesis sets out to develop an inductive model of what determines the firm's capability development process in two contrasting policy contexts. Building on dynamic resource-based view and corporate political (lobbying) activity view, we argue that non-market performance is influenced both by the characteristics of the firm's policy environment and by the lobbying capabilities the firm develops over time. More precisely, we create propositions - and find empirical support in the context of European Flag carrier Airlines – stating that the rivalry created by competing demanders of public policies (such as consumers and governments), the ownership, time boundaries, and the political resources of the airlines involved have an impact on the firm's ability to develop their lobbying capability.

Using case study methodology, we uncovered the everyday practices of senior government affairs managers developing a lobbying capability when pre-established lobbying routines are challenged by rapid or slow change in the policy environment. This study examines cognition of lobbying strategy-making by following several lobbying initiatives for specific policy issues over a period of years in two contrasting policy contexts to understand not just the decisions themselves, but how they are produced in the course of situated action (Suchman 1987). Looking at capability development in this way opens up the possibility of examining cognition as ''blueprints'', where cognition is created individually or collectively in that it is the product of interactions among people (Lave 1988;

Lave and Wenger 1991; Kogut and Zander 1992; Orlikowski and Gash 1994). Nevertheless, we specified three issues concerning lobbying development:

- The nature of the lobbying routines (idiosyncratic vs generic) carried out by senior government affairs managers, interpreted as being important in developing lobbying; the sources of cognition, political resources and stability of micro level sources as interactors (i.e. competence, networks, organisational structure, ownership and temporal effects); and the causes and extent of their differences between airline types (state vs private).
- The extent to which organisation can exploit or defend themselves against the policy environment (endogenous vs exogenous) type.
- How lobbying development is and the extent to which it may be guided by the cognition of senior management who design the process.

In an attempt to deal with these issues, we offered an analysis on the basis of mainly a "dynamic RBV theory and corporate political activity theory, but also with some cognitive theory of organization", which is in turn based on an 'embodied lobbying' branch of management literature that yields, among other things, the notion of 'cognitive blueprint' between senior management, carried to the extent that they have developed their cognition frames along different policy environment contexts.

Concerning the nature of lobbying routines (bullet point one), this yields the notion of an organisation as an 'absorption device', which limits the cognitive blueprints for the sake of allowing an efficient achievement of corporate lobbying capability (Cohen and Levinthal 1990). It consists of an individual and collectively generated bundle of blueprints (perceptions, interpretations, meanings and value judgements concerning goals, priorities, jobs and roles, norms and values of conduct and conflict resolution) to develop lobbying capability in the form of generic or idiosyncratic lobbying routine combinations. These yield requisite stability of senior managers as interactors, intra-industry

differences mostly on the governance side, inter-industry differences on both the competence and the governance side, and limited possibilities for integral and instantaneous revision of routines. The analysis also allows us to create stable boundaries of activities as part of the definition of organisations.

Regarding the second issue, with detailed analysis we concluded that while policy environment context types and in that sense evolutionary selection can be inefficient, significant internal selection pressures generally remain (organisation of lobbying can to a greater or lesser extent be moulded by senior managers, singly (i.e. using individuals from in-house government departments) or collectively (i.e. using AEA). Subsequently, the difference between the two contrasting policy contexts was that one had a pull effect (exogenous-defend-reactive) and the other had a push effect (endogenous-exploit-proactive). Indeed, some private airlines created ambidextrous lobbying routines in these pull and push policy environments, while state airlines did not. This brings forward the question of ownership structures and how these seem to hinder or help the lobbying development process.

Concerning the third issue, we gave an analysis of lobbying capabilities (routines and processes) on the basis of communication of information to influence political actors. We argued for the intelligent lobbying development design, lobbying individually or by collaboration, and on a path of cumulative insight and experience, were guided by 'cognitive blueprints'. However, while lobbying their interests, some airlines found much resistance in lobbying information exchange, expansion and transformation of knowledge. This resistance was found to happen at the selection processes using cognitive blueprints, where some airlines (mainly state owned flag airlines) felt they could not develop their lobbying capabilities (as opposed to private owned flag airlines).[1] Overall, the cognitive blueprints were dependent on 'uncertainty degree, time, political resources, competence and ownership composition' in order to develop lobbying.

[1] In other words, the state owned organisations seemed to have more problems lobbying effectively than private owned airlines.

In general, the analysis yields a sophisticated view of capability development for the non-market. We see the ability to achieve novel combinations of existing internal political resources by collaboration with external political resources (i.e. AEA), selecting development paths at optimal levels using cognition and the ability to control policy environment uncertainty. The ability to control emerging policy contexts where sources of novel insight and motives for change is a path of differentiation and hybridisation of knowledge and competence. For the purpose of hybridisation, this includes the ability to optimally select networks, manage departmental structure and human resources, sub level resources of the political resource.

We also see that each component of the political resource management process is individually important, but, to optimise value creation, they must be synchronised. Thus, while managing each component of the lobbying process is important, the integration and balancing of political resource components to ensure accord in the process is necessary to create value for the organisation. Therefore, government affairs managers should view their department as a system/constellation of resources developing and leveraging strategies that match their lobbying capabilities to the policy environmental context. Moreover, creating synchronisation between generic and idiosyncratic processes requires government affairs managers to be simultaneously involved in all stages of the political resource management process and consistently scanning the policy environment.

Likewise, government affairs managers should consistently scan and monitor their policy environment, focusing especially on potential changes that could affect their firm's ability to create value for customers. A firm will likely need to respond both to competitors and to the level of uncertainty in the environment. When competitors introduce changes in their lobbying offerings, which could eliminate the firm's current competitive advantage, swift and significant responses are needed. Significant responses could be initiated in any of the political resource management components (e.g. acquiring new network resources or human capital resources or using external network resources in order to develop a new lobbying capability). Thus, managers need to balance the

need for efficient investments in political resources with the need to maintain the political resources necessary to react flexibly to exogenous or endogenous policy changes, and focusing on investing in existing resources or getting new ones (internal vs external resources).

In conclusion, we extend dynamic capability and corporate political activity literature by looking at the antecedents of a lobbying capability. Moreover, we portray the ability of managers to develop lobbying processes by using specific political resources (networks, human, organisational, structural) in emerging policy contexts that yield opportunities to maintain exploitation or processes for defence. This includes the ability of government affairs managers to choose in emerging policy contexts the different micro sources and directions of change that are sufficiently similar to allow for some continuation, at least initially, of familiar competencies. It also includes the ability to tap from memory concerning earlier experience to engage in defence or opportunity by using corporate political strategies (Baysinger 1984). It also includes the ability to select partners from networks in specific sequences and status orders, for types of policy contexts.

8.2 SUMMARY OF CONTRIBUTIONS

As seen in this thesis, recent contributions aimed at clarifying distinctions among the various dynamic RBV (Eisenhardt and Martin 2000) and CPA (Hillman *et al.* 2004) constructs offer some hope that the problem of proliferating and overlapping terminologies is being alleviated and real progress is being made. As the field of corporate political activity (lobbying activity) and dynamic resource-based view advances, we realise that the micro foundations of the lobbying capability development phenomenon are apparently still missing a solid account of how lobbying capabilities come into existence and of how they evolve over time in different contexts. As a result, this thesis tries to address those questions by providing a theoretical account of the genesis and development of "dynamic" lobbying capabilities within European flag carrier airlines. More importantly, it tries to meet the shortfalls in knowledge by providing "in depth" and "rich" descriptions to fill some gaps.

Indubitably, the thesis attempts to make contributions to the existing corporate political activity and dynamic capability literatures, as previously highlighted. Firstly, it does so by presenting a model of cyclical development of lobbying capability, and then focusing on selected cognitive-based mechanisms that might be responsible for at least part of its function. It does this by providing an inductive framework in that *there may be identifiable patterns of interaction that give rise to situated cognition in organisations*. Our analysis of these patterns suggests that there may be specific combinations of context and blueprints that would provide relatively common yet fruitful testing grounds for our perspective of cognition and lobbying capability development in organisations as transitory and contextually situated. Further investigation of these patterns may reveal new insights that advance our ability to understand and manage lobbying capability development in organisations. For example, one pattern we identified suggests that perceptions of option attractiveness arise through the interaction of context blueprints. This finding suggests that choice in organisations is influenced not simply by the blueprint an individual senior manager holds about a specific decision or event, such as the development of a new lobbying capability, but also the perspectives or pressures that exist from their owners and policy environment.

Secondly, it presents another simple model describing the interactions among the capability-building mechanisms that underlie the development of lobbying routines. It proposes how the lobbying capability-building process can be affected by variation in the fundamental characteristics of the policy issues in hand, from which we derive a set of propositions about the relative effectiveness of the identified mechanisms within different policy contexts and airline types. The propositions integrate two contrasting policy contexts that highlight diverging developments of lobbying capabilities between state and private airlines.[2]

[2] The literature so far has remained scattered, with little focus on lobbying development and with disparate theoretical perspectives that lack a unifying approach.

Finally, we have also seen many corporate political activity studies that are U.S. focused. These studies look at companies and their impacts on various non-market activities – electoral campaign contributions, informational lobbying, advocacy advertising, constituency building – but do not provide any insights into the lobbying development process and neglect to look at Europe. Therefore our study feeds into a new spectrum of European strategy research that is still embryonic. To summarise the full contributions please see the bullet points below:

- EMPIRICAL CONTRIBUTION: The ways in which this research contributed empirically are as follows:
    - Evidence of how different European flag carrier airlines and their senior managers developed specific types of lobbying capabilities in specific endogenous (expected) and exogenous (unexpected) policy contexts.
    - Evidence of why different European flag carrier airlines and their senior managers developed specific types of lobbying capabilities in specific endogenous (expected) and exogenous (unexpected) policy contexts.
    - Evidence of how the micro sources in the lobbying capability development process either encourage or discourage the implementation of specific lobbying strategy. Highlighting the interaction effects at the micro level between political resources and cognitive blueprints in developing lobbying.

- THEORETICAL CONTRIBUTION: The ways in which this research contributed to the literature are as follows:
    - To the literature on RBV theory and more specifically the dynamic capability literature. We created awareness and a linkage of the RBV, more specifically dynamic capability, to the non-market. We provided models and propositions to explain how

these lobbying capabilities are developed in the different policy contexts and for distinct airline types.[3]

- To the literature on corporate political activity. We provide scope to build on the current literature and ideas of corporate lobbying activity where dynamic capability explains the antecedents of why some top managers choose certain routines and resources over others.[4]
- To both corporate political activity and RBV theory. We develop potential solutions to the problematic issues identified in the procurement and development of a lobbying capability and clarify a future research agenda.

- METHODOLOGICAL CONTRIBUTION: The research operationalises lobbying capabilities using a case study approach, instead of a quantitative approach. This ensures an explication of the contextual and social richness that characterises the strategic management process.

The research findings will also be of interest to a wide range of individuals, from people concerned with airline services to those working in lobbying institutions. However, the findings will have specific value in the provision of government affairs in airlines, for both state owned and privately owned airlines. They will appeal to individuals at various managerial levels from government affairs managers to CEOs and government officials. It brings back the idea that "*how you use thinking blueprints in conjunction with uncertainty and political resource accumulation matters immensely in lobbying development process in different policy environments*". As lobbying is rapidly gaining popularity around Europe, the findings will also be of value in countries that are currently experimenting with the lobbying method i.e. India.

[3] In other words, strengthen the theoretical understanding of the antecedents of the development of lobbying processes as a strategic capability by analysing the processes using dynamic resource-based theory.

[4] In other words, it will support corporate political activity literature in conceptualising the relationship between the internal government affairs department, the policy environment and the development of lobbying capabilities.

8.3 PROPOSITIONS

We have seen that the purpose of this thesis was to understand the lobbying capability development process and to formulate propositions to the question of what are lobbying capabilities, how are lobbying capabilities developed in contrasting policy contexts and why specifically are they developed in that way. Indeed, the propositions in chapter 7 were constructed in order to capture the dynamics and relationships between specific variables in the lobbying capability development process. More precisely, in that chapter, we theorized and explored the development and design aspects of capabilities to understand the evolution of lobbying in different policy environments. Subsequently, in the face of these challenges of policies and different airline types, the chapter draws on a recent history of paradigmatic capability design problems, and investigates whether or not airlines were in transition from an environment dominated or not dominated by policy uncertainty (exo vs endo), and where the senior management did or did not embrace design as a primary organizing feature. To this end, it offered several propositions and, hence, RBV and CPA-centered theory for developing lobbying capabilities.

Concerning the design of lobbying capabilities, the thesis allowed us to create a framework of the degree on policy uncertainty and suggested instead management cognition needed to address improvements of design of capability practices, especially by different airline types. It culminated in a sketch of an exogenous design vs endogenous design by state and private airlines. These propositions allow for future research to use a large scale quantitative study, in which the different propositions from chapter 7 can be tested in order to really capture and explicate the notion of competitive advantage.

8.4 LIMITATIONS OF THE RESEARCH

As was highlighted in the introduction to this work, this was a qualitative study in the area of lobbying capability development. Indeed, very little previous work has been done in this area and hence there was a general lack of authoritative

literature arising from past studies. In this particular study, there was difficulty in gaining access when needed to senior respondents in government affairs departments, as they tended to be very busy people with crowded schedules. However, through persistence and using our own lobbying techniques, we managed to gain good in-depth interviews with senior management at five airlines. We tried to triangulate where possible but the fact is it is not possible to gain internal documents and memos from within all the firms for the endogenous policy context (1985-1997) and exogenous policy contexts (2001-2005). Therefore, we used European Commission, AEA, IATA and government web-sites to provide some additional documents.

Given that the aim of this study was primarily theory-elaboration, the theory linkages and propositions should be regarded as being tentative at this stage. For any qualitative study, the limitation of narrow sampling and scope is apparent, and this longitudinal field study of two policy contexts is no exception. The sample was composed of 5 European flag carrier airlines. An improper or inadequate sampling population may provide spurious conclusions, but we did not see evidence of routines or processes as being confounded because of the nature of the sample. The senior government affairs managers we interviewed were familiar with lobbying development and the standards, strategies, resources and routines adopted by their departments. We tried to reduce the process of potential misinterpretation and other halo-effect biases. Although we have tried to limit this bias by checking accounts with the top managers themselves and triangulating with other sources of information, it cannot be completely removed and there is also the danger of placing too much reliance on the perceptions of those involved. We believe our results are encouraging but the propositions have to still be tested in other industries, raising questions about the general applicability of our findings to other settings. We might expect to find that the roles of firm lobbying capabilities, for instance, is less significant in industries that are less heavily regulated than the airlines sector where firm-regulator interactions are relatively frequent. For instance, other industries like utilities also have a unique ability to initiate policy change through the rate review process (Bonardi *et al.* 2007); without such rights, firms in other industries may find it more difficult to gain access to policy-makers and to establish political

markets, making political strategies less effective. Also, while a larger sample is potentially advantageous to any study, we reached theoretical saturation with the patterns that these interviews revealed.

On another note, given more time, more cases may have been examined. Ideally, given more time, a large-scale, statistically-based study could also have been conducted to test the propositions provided. A large-scale quantitative study was eschewed due to theoretical difficulties in describing lobbying capability development and practical difficulties in measuring some components, such as cognitive changes. Having completed this study a more precise definition and operationalisation of lobbying capabilities is now possible but the density of the theory can still be improved.

From a theoretical perspective, we show the different ownership structures impact on the cognitive blueprints choice to design the lobbying capability development. Moreover, we explain the differences in our proposition between the different types of ownership structures and differences in developing lobbying in various environments, but we fail to look too much into the governance structures of the airlines and the country culture effects. This was not done because we wanted to concentrate the focus within the firm, on its behaviour in the two contrasting 'policy' contexts.

On the subject of theory, another limitation is that we don't delve into the lobbying process of the external resources (AEA). The research design does well to find firm-level lobbying capability development and firm-level strategies which seek to understand the cognitive blueprint. However, we do not explore collective action blueprints (AEA) and we fail to really show the blueprint configurations from the interest group representation perspective. This was again due to the time factor and access issue with the AEA.

Nonetheless, future empirical studies now have the benefit of a framework for lobbying capability development in exogenous and endogenous policy contexts. While we could not have generated as much detail without a qualitative methodology, we encourage future studies using both inductive and deductive

approaches to further elaborate on the issues uncovered by our study in other industries.

8.5 FUTURE RESEARCH

There is scope for future work to consider a more fine-grained measure of lobbying capability development and to consider the demand and supply-side conditions in which it will be more or less effective. Firstly, a potential route for developing the lobbying capability model is to examine the interactions between and within demand and supply-side factors; does lobbying competition, for example, have a more powerful effect on profits when the policy environment is more uncertain (exogenous policy environment) or less uncertain (endogenous policy environment)? We believe that addressing this question would provide important additional theoretical insights into the attractiveness of the non-market policy environment.

Secondly, future research requires that particular attention be paid to the country culture on the lobbying development process. For example, how do cultures of different countries affect lobbying development processes and more importantly how do they affect cognitive lobbying blueprints? How do Italian and Scandinavian cultural differences affect lobbying development? Are lobbying capability development paths different in China compared to Europe?

Thirdly, the flows of different types of lobbying knowledge within various industry environments could be mapped, as we did in this thesis. In addition, instead of studying the same firms and industry, the general applicability of the theory and propositions could also be tested with other cases in other industries. In other words, this study examined the effects of endogeneity and exogeneity policy change in the airlines, but the oil and pharmaceutical industries would also provide important information into the lobbying development process. Moreover, understanding the cognitive lobbying blueprints in each of those industries would also be another rich avenue to follow to understand the micro level interactions of the capability development phenomenon.

Finally a future research path could look at conducting a large scale study using quantitative methods. The main problem that could to be resolved would be operationalising the variables. This study identified some of the key components and dimensions of lobbying capabilities but more robust, standardised scales would need to be developed before statistical tests could be used with confidence. The highly dynamic nature of the airline industry would need to be taken into account in any study. A suitable technique to model the changes quantitatively may be a catastrophe model (Oliva *et al.* 1980).[5] This technique is particularly appropriate for modelling discontinuous changes and has been used in the past to model competitive dynamics in industries (Oliva *et al.* 1988; Kauffman and Oliva 1994). A recent study includes this modelling technique in the construction of conflict behaviour to understand the micro level interactions (Yiu and Cheung 2006). Judging by the variables in our thesis, the dependent variable would be impact on lobbying capabilities, the independent variable would be lobbying change and the splitting variable would be policy environmental stability. Suitable quantitative measures would need to be developed for each of the key variables and data on a large enough sample of firms over a long enough period would be required.

8.6 FUTURE ISSUES CONFRONTING THE AIRLINE INDUSTRY

As previously seen in Chapter 3, the airline industry will go through many changes over the next few decades. Moreover, many people within the industry are anticipating a series of new challenges that will loom ahead on the airline industry's horizon. We anticipate that the lobby capability will become a very important integrative process for airlines to make a difference on the non-market environment in the years to come. This part will look at the future contours in more detail.

[5] Catastrophe theory is a mathematical development in topology and an extension of calculus (Thom 1975). It concerns the shape of all possible smooth equilibrium surfaces, which (as proved by the French mathematician René Thom) for four or less underlying factors are reducible to seven elementary catastrophes. It was popularised by Zeeman (1976), where he explained each catastrophe defines an archetypal equilibrium surface in terms of one or two state variables and one to four control factors. One of these seven surfaces, called the *butterfly*, is especially suitable to the conflict helix.

Firstly, there is the issue of airport and air traffic capacity, which in some places has already been reached. The construction of new runways, airports and supporting infrastructure is causing growing headaches for planners and local governments, and is being strongly opposed by citizens groups and environmentalists concerned about the impact of increased noise levels, traffic congestion and habitat loss. It has been estimated, for example, that satisfying the forecast demand for air travel growth in Europe would require a new runway to be built every 4-5 years somewhere in every country (IATA 2005 Annual report). Therefore we believe that lobbying capability will become ever more important on the above issues of infrastructure building, noise levels, habitat loss, and so forth.

Secondly, there is the issue of aviation's growing contribution to greenhouse gas emissions, and hence climate change. Airline emissions are the fastest-growing contributor to greenhouse gases. In 1992, 3.5% of global warming was attributed to flying, yet by 2050 the UN thinks this will rise to 7% (New Scientist report 2007). Momentum has been growing to impose an international aviation fuel tax to account for the environmental costs created by these emissions. Shortly after September 11th, the European Union called on the rest of the world to tax aviation fuel as a way of curbing the environmental impact of air travel. While the timing of the announcement was terrible for the airlines, it signalled the commitment of European countries, led by Germany and Sweden, to embark upon the unsustainable rise in aviation fuel consumption and implement the "polluter pays principle". A paper for the European Commission calculated that to pay for the environmental damage caused by flights passengers would face a charge of about €45 per 1,000 km travelled (BBC News online 2002). This again highlights the importance of lobbying for airlines in the years to come with regards to tax and climate change.[6]

[6] Switzerland and Sweden have already introduced a system linking landing charges on exhaust emissions. Now the British government has introduced drastic increases in airline levies. Environmental taxes have been announced by Chancellor Gordon Brown on airlines to compensate for their damage to the environment. A joint consultation paper by the Treasury and Department for Transport put the "national cost" of global warming caused by air travel at £1.4bn a year, rising to £4.8bn by 2030. At present, carriers contribute just over £800m a year to the UK Treasury in air passenger duty (BBC News 2006).

Finally, unfortunately for the industry, such arguments are not likely to hold the Commission or member governments or airlines at bay for much longer. New technologies are not offsetting current growth in emissions, and if predicted flight increases occur the effects on climate change are likely to be huge. Indeed, by imposing a tax upon landing, the EU could effectively penalise any polluting airline using an EU airport, minimising the discriminatory impacts on European carriers. However, what does this mean for airlines and the introduction of such future policies? We foresee a growing momentum among airlines in lobbying activities over the next few years.

8.7 CLOSING REMARKS

This thesis offers new insights into the micro level sources that affect the ability of firms to engage and develop their lobbying capabilities in conjunction with their strategies in different policy environments. In particular, we conceptualise in our inductive model, using both policy environments (endogenous vs exogenous) and airline types (state vs privately owned), the way in which firms develop lobbying using their cognitive blueprints. The key political resource variables (comprised of network, organisational structure, human and competence) were leveraged, integrated and deployed by airlines to develop their lobbying capabilities. We also found how ownership structure and two types of policy contexts played a large role in developing the lobbying capability path. Indeed, using data from European flag carrier airlines, we find good theory support for this thesis even though much work still remains to be done.[7]

At this point we end, but Mark Van Doren's (Pulitzer Prize-winning poet) long comment on the incompleteness of our knowledge serves two purposes in acting as the last words in this thesis. Firstly, we have discussed only a part of the numerous discussions which goes on within organisations. Secondly, while we

[7] This results in a simpler and clearer causal structure, avoids the existing ambiguities in the RBV, and should pave the way for more rigorous theoretical contributions and applicable empirical research.

have tried to say something novel in terms of how we have tried to understand lobbying capability development, that novelty is part of the on-going discussion both about dynamic capability and about the nature of lobbying. We therefore have not proved anything and instead have tried to describe and illuminate a lobbying development process within organisations. This process however has some bearing on how we can come to appreciate the centrality of micro components in the influencing game. So having entered the parlour of lobbying in airlines, we leave with the words of Mark Van Doren:

> *"Any piece of knowledge I acquire today has a value at this moment exactly proportioned to my skill to deal with it. Tomorrow, when I know more, I recall that piece of knowledge and use it better."*

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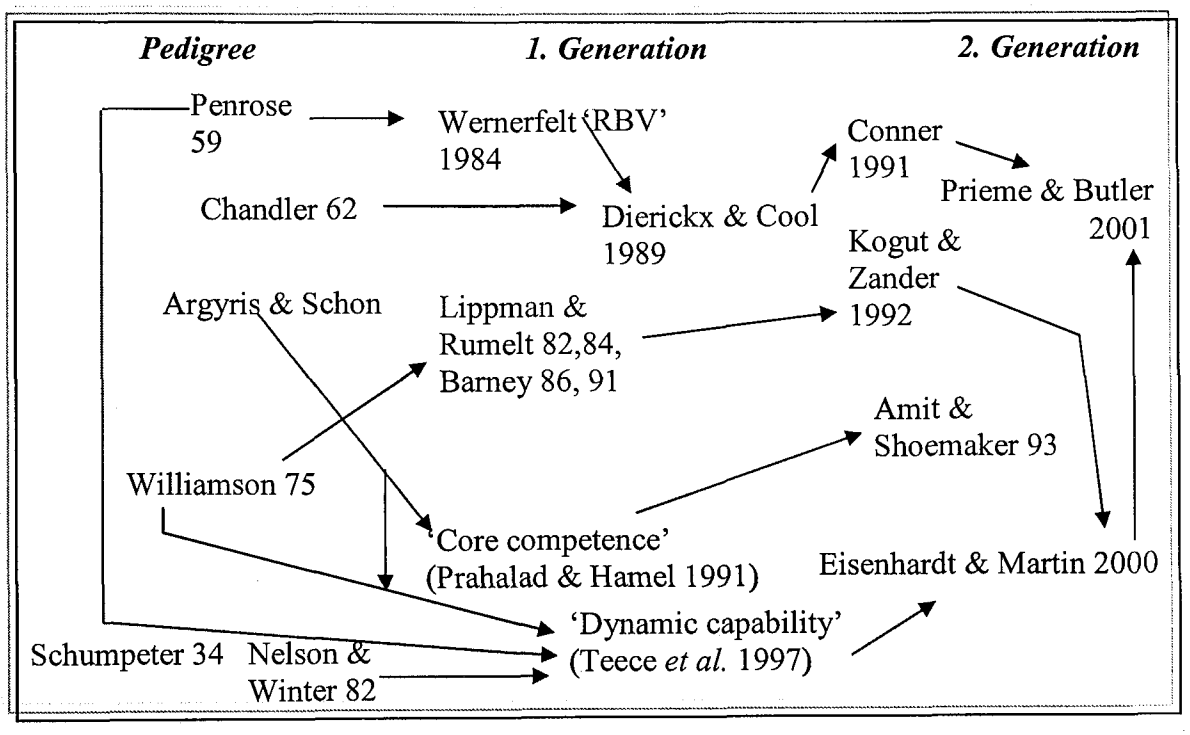
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APPENDICES

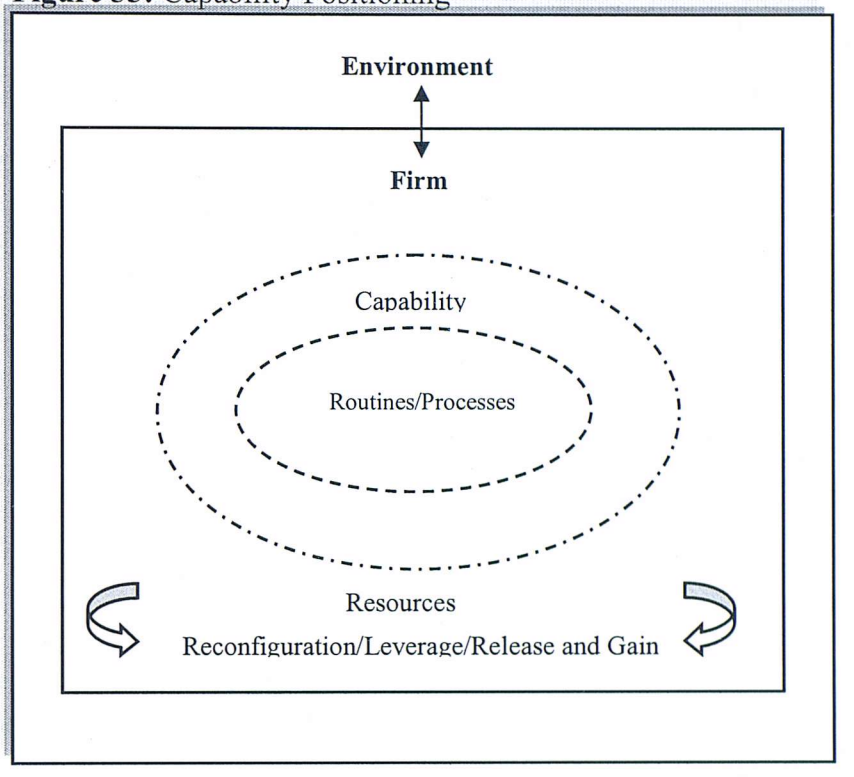
APPENDIX 1

RESOURCE BASE VIEW GENEOLOGY



APPENDIX 2

Figure 35: Capability Positioning



Source: Adapted from Teece *et al.* (1997) and Eisenhardt and Martin (2000).

APPENDIX 3

The European liberalisation process began in 1988 with a package of measures giving some flexibility to increase capacity or adjust fares on European Union (EU) cross-border routes, without the need for a process of negotiation between the two countries concerned (AEA Annual report 1997).

Two successive relaxations of the rules were followed in January 1993 by the Third Package of Liberalisation Measures which effectively deregulated EU cross-border services from that date, with domestic routes to follow in April 1997.

LIBERALISATION WITHIN THE EU IN SUMMARY

Valid from 01.04.97 for International & Domestic, Sched. & Charter, Passenger & Cargo Air Transport.

FREE PRICING

- ☐ However, provisions for States or Commission to intervene in cases of excessively high or low fares.

BLOCK EXEMPTIONS ALLOWING COOPERATION

- ☐ Schedule coordination.
- ☐ Tariff consultations.
- ☐ Slot allocation at airports.
- ☐ Common computer reservation systems.
- ☐ Joint operations on new or less busy routes.

FULL MARKET ACCESS

- ☐ Full access makes it possible for a Community airline to operate any route within the Community, including routes between Member States other than its home country and routes wholly within another Member State (irrespective whether the route is part of one from/to its home country).
- ☐ Access can be limited under public service obligations and on certain new regional routes.

FULL FREEDOM TO START AN AIRLINE

- ☐ If Community ownership.
- ☐ If financially sound operations.
- ☐ If safety requirements are met.

Source: AEA Yearbook (1997)

The scope of the Third Package has been extended to the European Economic Area, bringing Norway and Iceland within its geographical coverage. Several other European countries have signalled their readiness to participate in this Single Market.

Therefore, from April of this year, any airline majority-owned by EU nationals, with the necessary licenses and approvals for safety and financial fitness, can fly at whatever fare it chooses to charge between any of the 446 airports within the EU, Norway and Iceland - and, eventually, any future participants in the single air transport market.

The change from the old regime, based on bilateral regulation internationally and absolute sovereignty over domestic routes, is remarkable, the more so for having been achieved in less than ten years. (In contrast, US deregulation involved no surrender of sovereignty, and the US internal market remains closed to all foreign carriers).

Nevertheless, it should not be anticipated that the final elements of liberalisation which fell into place on 1 April 1997 will lead to major changes in the structure of air transport in Europe. By definition, any fifth-freedom or cabotage market is

a "foreign" one, both in geographical terms and in the sense that it is detached from their hub-based network (AEA Year book 1997).

Subsequent chapters review developments since 1993. Attention is currently focussed on the final phase of the Third Package, and what it might mean for domestic markets. Its greatest impact, however, is likely to be on the cross-border routes, which are already in their fifth year of liberalisation and have already seen major developments.

APPENDIX 4

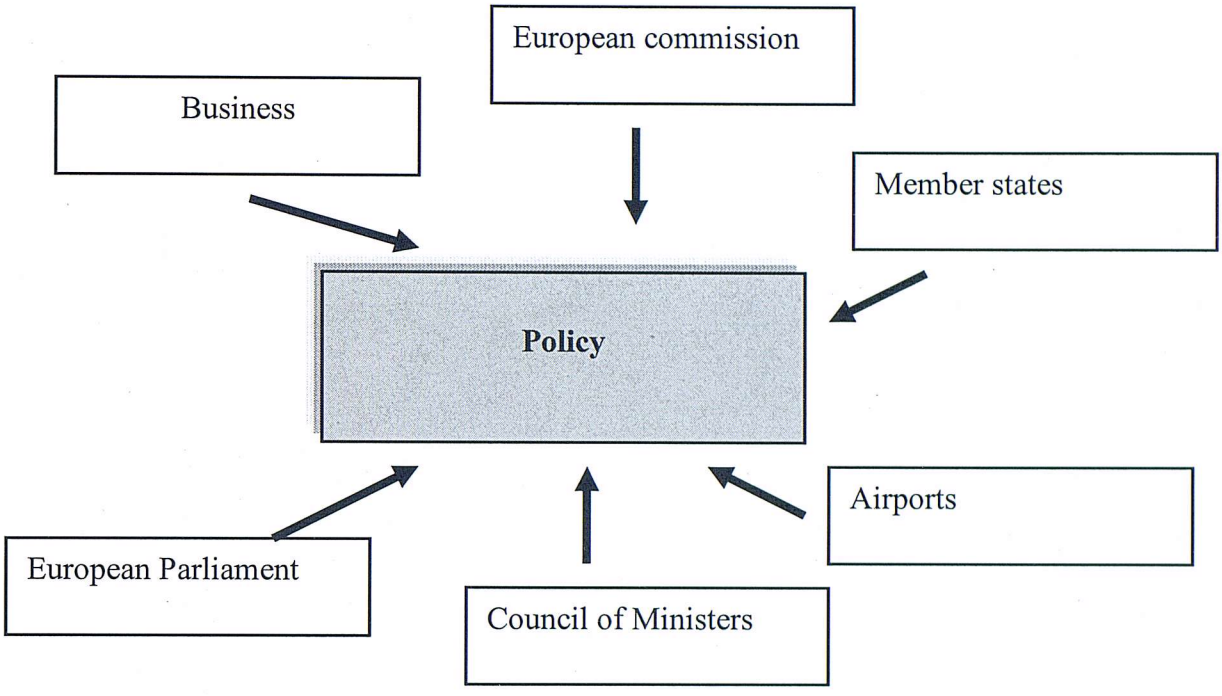


Figure 36: Interest coalition actors for European Airline deregulation

NONMARKET POLITICAL FORCES-EUROPEAN UNION

There are complex institutional arrangements within the European Union (EU). For the airline industry, the most important ones are those regarding non-air transport institutions, such as general competition laws that influence the structure of the air transport supply (Kyrou 2000). These arrangements are products of a variety of factors, not least prevailing political, social and economic theories and the experiences of previous policies. Nonetheless, within the EU, there are several institutional arrangements that airlines target to influence government decision-makers. These are mainly European Commission, European Parliament, European Council and National Governments.

The European Union (EU) is an intergovernmental and supranational union of 25 democratic member states (Bloomberg and Stubb 2003). The European Union is

the world's largest confederation of independent states, established under that name in 1992 by the Treaty on European Union (the Maastricht Treaty). However, many aspects of the Union existed before that date through a series of predecessor relationships, dating back to 1951.

The Union currently has a common single market consisting of a customs union, a single currency managed by the European Central Bank (so far adopted by 12 of the 25 member states), a Common Agricultural Policy, a common trade policy, and a Common Fisheries Policy (Mercado *et al.* 2001). A Common Foreign and Security Policy was also established as the second of the three pillars of the European Union (Bloomberg and Stubb 2003). The Schengen Agreement abolished passport control, and customs checks were also abolished at many of the EU's internal borders, creating a single space of mobility for EU citizens to live, travel, work and invest.

The most important EU institutions include the Council of the European Union, the European Commission, the European Court of Justice, the European Parliament, the European Council, and the European Central Bank (Mercado *et al.* 2001). The European Parliament's origins go back to the 1950s and the founding treaties, and since 1979 its members have been elected by the people they represent. Every five years elections are held in which registered EU citizens may vote (Gabel 1998).

The EU's activities cover most areas of public policy, from economic policy to foreign affairs, defense, agriculture and trade (El-Agraa 2004). However, the extent of its powers differs greatly among areas. In some, the EU may resemble a federation (e.g. on monetary affairs, agricultural, trade and environmental policy, economic and social policy), in others a confederation (e.g. on home affairs), and in yet others an international organisation (e.g. in foreign affairs) (Nugent & O'Donnell 1994).

EUROPEAN COMMISSION

The Commission is considered the most supranational institution in the EU decision-making process. The European Commission (formally the Commission

of the European Communities) is the executive body of the European Union. It is geared towards promoting common European interests, as well as promoting its own position (Rometsch and Wessels 1997, p.214). The Commission is geared towards "promotional brokerage", trying to push the Member States to accept policies that go beyond a purely intergovernmental consensus based on the lowest common denominator. To play its role as promotional broker in the EU legislative process, the Commission needs information about the EEI. The Commission has a substantial interest in this because it can help to identify common European interests.[1]

The Commission consists of 25 Commissioners, one from each member state of the EU, supported by an administrative body of several thousand European civil servants divided into departments called Directorate-General. The term "the Commission" is generally used to refer both to the administrative body in its entirety, and to the team of Commissioners who lead it. Its primary roles are to propose and implement legislation, and to act as 'guardian of the treaties' which provide the legal basis for the EU (Nugent 2004). The role of the European Commission has many parallels with the executive body of a national government, but it also differences (see below for details).

The Commission plays a central role in the EU legislative process. As the analysis in this thesis is confined to legislative lobbying in the first pillar of the "pillar" structure introduced by the TEU,[2] the fundamentals of the Commission's position in the legislative process can be found in Article 149 of the EEC Treaty 9. The Commission's sole right of legislative initiative is based on Article 149(1)

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[1] Alongside the European Parliament and the Council of the European Union, it is one of the three main institutions governing the Union. The Commission originated in the High Authority of the European Coal and Steel Community, which was established in 1951 under the terms of the Treaty Establishing the European Coal and Steel Community (Nugent 2004). In 1958 two further bodies were established under the terms of the Treaties of Rome (Kyrou 2000). These were the Commission of the European Economic Community and the Commission of the European Atomic Energy Community. Finally, in 1967, these three bodies merged to form the Commission of the European Communities, established under the terms of the Merger Treaty. This is the body that continues to exist to this day (Gabel 1998).

[2] In the second and third pillar, the Commission has to share the right of initiative with the Member States. However, the Council of the European Union and the European Parliament are both able to formally request that the Commission legislate on a particular topic. In the areas that fall within the "second pillar" (foreign policy and defence) and "third pillar" (criminal law), the Commission shares the power of initiating legislation with the European Council (Stacey 2003a).

(Stacey 2003a). As agenda-setter, the Commission has the formal right to initiate legislation and is thus responsible for the drafting of legislative proposals. The drafting of proposals takes place in the first phase of the policy-making process and requires a substantial amount of expertise. Expert Knowledge is therefore the critical resource for the Commission's legislative work, and as a result they must work closely with industry. Because of understaffing and severe budget constraints in the Commission, the "institution is dependent on external resources to obtain the necessary expertise" (Spence 1997, p.71).

The Commission[3] also takes the role of guardian of the treaties, which includes taking responsibility for initiating infringement proceedings at the European Court of Justice against member states and others who it considers to have breached the EU treaties and other community laws (Stacey 2003b). It is responsible for adopting technical measures to implement legislation adopted by the Council and, in most cases, the Parliament. This legislation is subject to the approval of committees made up of representatives of member states (Gabel 1998). The Commission also regulates competition in the Union, vetting all mergers with Community-wide effects and initiating proceedings against companies which violate EU competition laws.

EUROPEAN COUNCIL

In stark contrast to the Commission, the Council is the most intergovernmental institution in the EU legislative procedure. As the Union's supreme decision maker, it is the forum for reconciling the distinctive purposes and powers of the Member States. The Council of the European Union forms, along with the European Parliament, the legislative arm of the European Union (EU). The Council of the European Union contains ministers of the governments of each of the European Union member states. It is sometimes referred to in official

[3] The Commission negotiates international trade agreements (in the World Trade Organization) and other international agreements on behalf of the EU. It closely co-operates in this with the Council of the European Union.

European Union documents simply as the Council or the Council of Ministers (Stacey 2003a, 2003b).

The Council has a President and a Secretary-General. The President of the Council is a Minister of the state currently holding the Presidency of the Council of the European Union; while the Secretary-General is the head of the Council Secretariat, chosen by the member states by unanimity (Stacey 2003a). The Secretary-General also serves as the High Representative for the Common Foreign and Security Policy (CFSP). The Council is assisted by the Committee of Permanent Representatives (COREPER), which consists of the ambassadors or their deputies from the diplomatic representations of the Member States to the European Communities (Rometsch and Wessels 1997). COREPER generally prepares the Council agenda, and negotiates minor and non-controversial matters, leaving controversial issues for discussion, and other issues for formal agreement, by the Council (Stacey 2003b). Below COREPER, civil servants from the member states negotiate in Council working groups, often reaching de facto agreement which is formalised through COREPER and the Council of Ministers. The Council and its preparatory bodies are supported by European civil servants (approximately three thousand as of July 2005) providing general advice, qualified legal advice, translation services and impartial negotiation assistance (Stacey 2003a). The Council's Secretariat and its Presidency "embody a sense of collective purpose and collective commitment" and thereby give this intergovernmental institution a supranational flavour (Wurzel 1996, p.273; Hayes-Renshaw and Wallace 1997).

The Council shares its legislative powers increasingly with the European Parliament. It is the Council's task to amend and decide on legislation by reaching a decision that is acceptable to all or, at least, to a majority (Westlake 1995). According to Westlake (1995), there are four main legislative procedures that can be identified: 1) the consultation procedure, 2) the assent procedure, 3) the cooperation procedure, and 4) the co-decision procedure. The Council can influence the final shape of the legislative proposal to varying degrees, depending on the procedure being used. When it comes to decision-making in the Council, the proposal has already been technically elaborated and the demand for

Expert Knowledge from private interests is therefore substantially reduced. To comment on or amend a proposal, a different kind of information is required than that required for the actual drafting by the Commission. At this stage of the decision-making process, the Council is more interested in information that can facilitate the bargaining process among the Member States.

EUROPEAN PARLIAMENT

The European Parliament (formerly European Parliamentary Assembly) is the parliamentary body of the European Union (EU), directly elected by EU citizens once every five years. As a forum for discussions of political importance during the legislative process, the European Parliament has both supranational and intergovernmental characteristics. Although supranational political groups have been established in the Parliament over time, nationality remains a relevant cleavage within the assembly (Kreppel and Tsebelis 1999). Together with the Council of Ministers, it comprises the legislative branch of the institutions of the Union (Corbett *et al.* 1995; Westlake 1994).

The European Coal and Steel Community (ECSC) established a 'Common Assembly' in September 1952, its 78 members drawn from the six national Parliaments of the ECSC's constituent nations. This was expanded in March 1958 to also cover the European Economic Community and Euratom, and the name 'European Parliamentary Assembly' was adopted. The body was renamed the 'European Parliament' in 1962. In 1979 the Parliament's membership was expanded again and its members began to be directly elected for the first time. Thereafter the membership of the European Parliament has simply expanded whenever new nations have joined; the membership was adjusted upwards in 1994 after German reunification.

The European Parliament represents around 450 million citizens of the European Union. Its members are known as Members of the European Parliament (MEPs). Since 13 June 2004, there have been 732 MEPs. (It was agreed that the maximum number of MEPs should be fixed at 750, with a minimum threshold of

six per member state and no member state being allocated more than 96 seats). Elections occur once in every five years, on the basis of universal adult suffrage.

There is no uniform voting system for the election of MEPs; rather, each member state is free to choose its own system subject to three restrictions:

- The system must be a form of proportional representation, under either the party list or Single Transferable Vote system.
- The electoral area may be subdivided if this will not generally affect the proportional nature of the voting system.
- Any election threshold on the national level must not exceed five percent.

In order to understand the Parliament's role in the legislative process, the constituency orientation of the MEPs has also to be taken into account. All MEPs are in fact elected at the national level and therefore retain important links with their electorate back home. In order to increase their chances for re-election, MEPs need information about their national electorate (Hansen 1991). This is why MEPs need information about the DEI, which would provides them with information about the needs and preferences of their voters.

On an industry note, in view of the Parliament's legislative role, its demand for expert knowledge is rather limited. The European Parliament cannot initiate legislation, but it can amend or veto it in many policy areas. Although some basic expert knowledge is indispensable, the amount of technical market expertise needed to amend and take decisions is much lower in the European Parliament. The Parliament particularly needs information from industry that allows it to assess the legislative proposals made by the European Commission. As a directly elected supranational assembly, it is the Parliament's task to evaluate "*the legislative proposals from a European perspective*" (Kohler-Koch 1997, p.12). The specific information the Parliament requires for this assessment is information about the EEI. This good access constitutes the institution's critical

resource because it provides encompassing private-sector information about the needs and interests in the EU internal market.[4]

In some respects, the European Parliament and the Council of Ministers resemble the upper and lower houses of a bicameral legislature (Hansen 1991). Neither the European Parliament nor the Council of Ministers may initiate EU legislation, this power being reserved by the Commission, and the fact that the European Parliament cannot itself propose laws makes it different from most national legislative assemblies.

However, once a proposal for an EU law or directive has been introduced by the Commission, it must usually receive the approval of both Parliament and Council in order to come into force. Parliament may amend and block legislation in those policy areas that fall under the co-decision procedure, which currently make up about three-quarters of EU legislative acts. Remaining policy areas fall under either the assent procedure or (in a very few cases) the consultation procedure; under the former, Parliament has power to veto but not formally amend proposals, while under the latter it has only a formal right to be consulted.[5]

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[4] In certain other policy areas, it has the right only to be consulted. Parliament also supervises the European Commission; it must approve all appointments to it, and can dismiss it with a vote of censure. It also has the right to control the EU budget.Other organisations of European countries, such as the OSCE, the Council of Europe, and the Western European Union, have parliamentary assemblies as well, but the members of these assemblies are appointed by national parliaments. The European Parliament is directly elected by the people of the European Union and has some restricted legislative power (Kohler-Koch 1997).

[5] The European Parliament also controls the EU budget, which must be approved by the Council in order to become law.

APPENDIX 5

FUNDING OF ANTI-TERRORIST SECURITY MEASURES
EUROPEAN AIR TRANSPORT INDUSTRY POLICY PAPER
1 December 2003

Attachment: Examples of additional costs for anti-terrorist security measures borne by air carriers and airports

Staff screening (personnel and equipment):

- Aéroports de Paris (ADP) paid € 19.2 m in 2002 and € 26.4 m in 2003 for screening of staff entering restricted areas. ADP forecasts a cost of € 30 m for 2004;
- Schiphol Airport paid € 21.8 m in 2002 and € 22.8 m in 2003. The airport operator's forecast for 2004 amounts to € 10.6 m;
- Frankfurt airport forecasts the cost of staff screening for 2004 at € 5.5 m, excluding necessary construction costs for modifying the layout of buildings.

Anti-terror training of air crews as well as security and awareness training for all staff working at airports:

- for such training British airways spends € 1.2 m annually alone for its operational bases LHR and LGW;
- KLM spent some € 4 m in the two years preceding 1 April 2003;
- Lufthansa spent additional € 2.5 m since 09/11 for crew training
- the total cost for security awareness training at Frankfurt Airport was € 664,000 for 2003. The forecast for 2004 amounts to € 352,000;
- Aéroports de Paris (ADP) paid € 500,000 in 2003 for security awareness training;
- at smaller airports, such as Malta International Airport, the total cost for security awareness was € 103,500 in 2003 and the forecast for this outlay in 2004 amounts to € 110,400.

Reinforced cockpit doors

- British Airways has already spent € 14.7 m for reinforced cockpit doors (parts and labour, not including dedicated aircraft downtime);
- KLM spent around € 16 m for the strengthening of cockpit doors since 09/11;
- Lufthansa spent € 16.5 m for hardened cockpit doors (phase & and 2) since 09/11.

Onboard means of surveillance and new operational onboard procedures

- British airways has already spent € 9.9 m (parts and labour, not including dedicated aircraft downtime) for these security measures;
- Lufthansa has calculated to spend € 8.2 m for the installation of onboard video systems since 09/11 through 2004.

Intensified guarding of aircraft and patrols around the airport perimeter fence

- ☐ in 2002 and 2003, Schiphol Airport paid € 3 m each year for patrols around the exterior of the airport perimeter fence;
- ☐ During 2003, Zurich Airport paid € 2.13 m for patrols around the airport perimeter fence;
- ☐ In addition to increased costs for airport authorities in the UK for patrols, airlines are required to guard/control access to aircraft at airports. British Airways' cost for this at LHR and LGW are € 12.9 m per year;
- ☐ For additional surveillance activities, KLM spent around € 14 m in the two years preceding 1 April 2003;
- ☐ By the end of 2003, Lufthansa estimates to have spent an additional € 3 m for extra aircraft guarding services at Frankfurt and Munich alone.

Regular background checks on staff and certification of security staff

- ☐ For newly implemented criminal and background checks in the UK, British Airways' total costs in 2003 will be € 2.8 m, but are expected to reduce to about 700 000 € per year;
- ☐ KLM incurred € 350 000 in additional costs for staff background checks in the year preceding 1 April 2003;
- ☐ Since 09/11, Lufthansa incurred € 1.45 m in additional costs for internal background checks;
- ☐ Frankfurt Airport paid € 1.2 m in 2002 and in 2003 for background checks on staff. € 1.2 m was also paid during 2003 for certification of security staff;
- ☐ at a smaller airport, such as Zurich Airport, costs of € 100,000 for 2002 and 2003 were incurred for background checks of staff. In addition, Zurich Airport paid approximately € 50,000 on certifying security staff in 2003.

Indirect costs for catering and cleaning services

- ☐ British Airways' annual costs for these services are € 1.06 m higher, compared to pre 09/11 levels;
- ☐ During the two years preceding 1 April 2003, KLM incurred € 7 m in additional costs imputable to security.

APIS and PNR access provision

- ☐ With each country adding their own national requirements, this is a very worrying subject; PNR access for the USA and the additional costs for implementing, running and maintaining the US/TSA watch lists alone cost British Airways € 580 000 per year;
- ☐ KLM calculated additional € 3 m in costs for sharing PNR data with security/border police in the year preceding 1 April 2003;
- ☐ Since 09/11 through 2004, Lufthansa will have spent an additional € 2.2 m on this.

Moreover, the additional costs for additional security measures given are just demonstrative of some individual air carriers and airports operators. Actually, all sectors and operators of the air transport industry have been and will continue to be affected. The costs illustrated are massive but these may be proportionally higher than smaller carriers and airports that cannot enjoy the economies of scale of the larger airports or airlines.

APPENDIX 6

Table 29: KLM income Statement

Income Statement

Year	Revenue ($ mil.)	Net Income ($ mil.)	Net Profit Margin	Employees
Mar 2005	8,317.3	117.5	1.4%	27,983
Mar 2004	7,154.1	29.2	0.4%	31,182
Mar 2003	7,066.0	(454.0)	--	33,038
Mar 2002	5,688.0	(136.0)	--	33,265
Mar 2001	6,100.0	67.0	1.1%	33,763
Mar 2000	6,018.0	322.0	5.4%	30,159
Mar 1999	5,717.8	223.2	3.9%	28,374
Mar 1998	5,666.2	1,058.8	18.7%	26,811
Mar 1997	5,515.6	125.7	2.3%	26,385
Mar 1996	5,769.3	330.4	5.7%	25,003

Source: Annual reports 1995-2005



Picture shot of economy (1995):
GDP ($ bn): 394.2
GDP per head ($) 25,435
Consumer price inflation: 2%
Current account balance: 16.3%
Exports of goods ($) 172.9
Imports of goods ($) -153.8

Picture shot of economy (2001):
GDP ($ bn): 384.4
GDP per head ($) 24,051
Consumer price inflation: 4.1%
Current account balance ($): 8.1
Exports of goods ($) 204.52
Imports of goods ($) -183.64

Table 30: Lufthansa Income Statement

Year	Revenue (£ mil.)	Net Income (£ mil.)	Net Profit Margin	Employees
Dec 2004	12,009.8	286.0	2.4%	90,673
Dec 2003	11,262.4	(694.5)	--	93,246
Dec 2002	11,087.1	468.3	4.2%	94,135
Dec 2001	10,184.7	(386.4)	--	87,975
Dec 2000	9,583.8	434.4	4.5%	69,523
Dec 1999	7,965.5	392.4	4.9%	66,207
Dec 1998	8,144.3	514.4	6.3%	54,867
Dec 1997	7,826.4	282.2	3.6%	58,250
Dec 1996	7,901.7	209.8	2.7%	57,999
Dec 1995	8,920.4	657.1	7.4%	57,586

Source: Annual reports 1995-2005



Picture shot of economy (1995):
GDP ($ bn): 2,415
GDP per head ($) 29,600
Consumer price inflation: 1.8%
Current account balance ($): -23.9
Exports of goods ($) 380.0
Imports of goods ($) -340.0

Picture shot of economy (2001):
GDP ($ bn): 1,855.0
GDP per head ($) 22,605
Consumer price inflation: 2.0%
Current account balance ($): 2.4
Exports of goods ($): 570.0
Imports of goods ($) -481.4

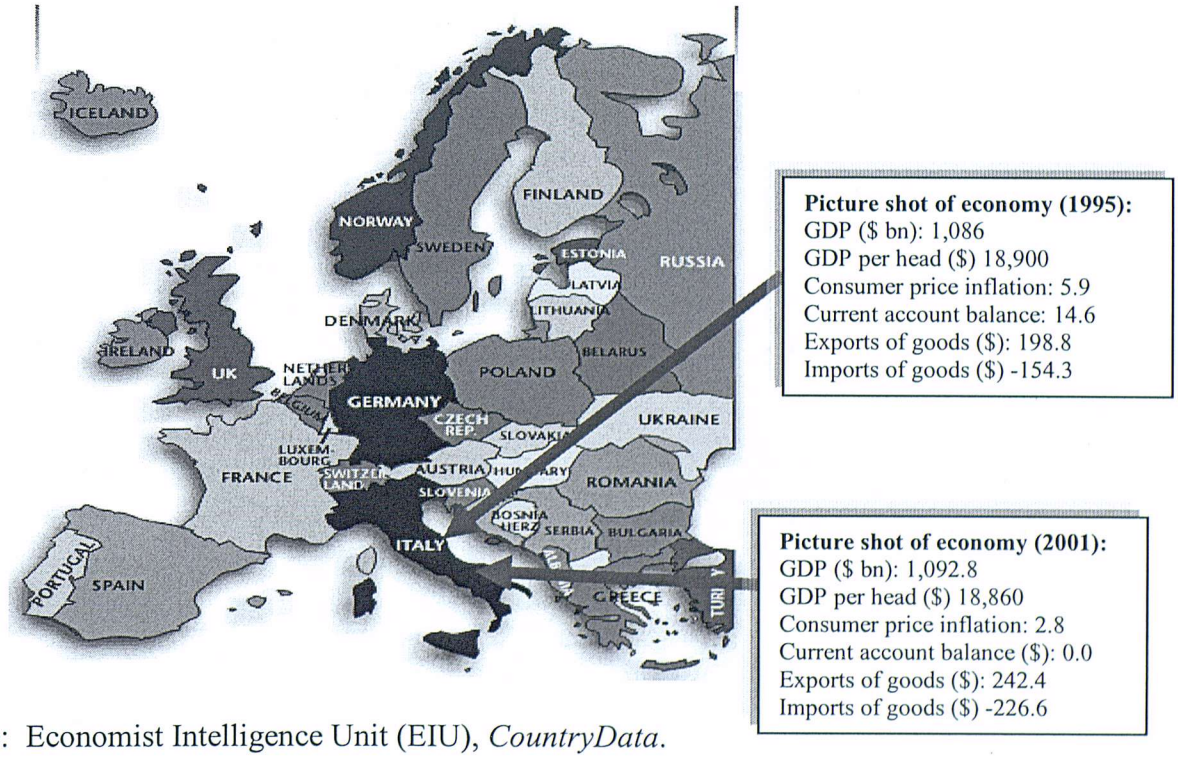
Source: Economist Intelligence Unit (EIU), *CountryData*.

Table 31: Alitalia Income statement

Income Statement

Year	Revenue (£ mil.)	Net Income (£ mil.)	Net Profit Margin	Employees
Dec 2004	2,882.0	(574.8)	--	20,575
Dec 2003	3,039.1	(366.8)	--	22,200
Dec 2002	3,095.5	60.8	2.0%	22,536
Dec 2001	3,358.4	(553.5)	--	22,948
Dec 2000	3,569.0	(161.2)	--	23,478
Dec 1999	3,155.1	3.8	0.1%	20,497
Dec 1998	3,322.0	148.9	4.5%	19,600
Dec 1997	2,998.8	152.7	5.1%	15,740
Dec 1996	3,123.0	(469.1)	--	16,507
Dec 1995	3,181.5	(36.9)	--	17,982

Source: Annual reports 1995-2005



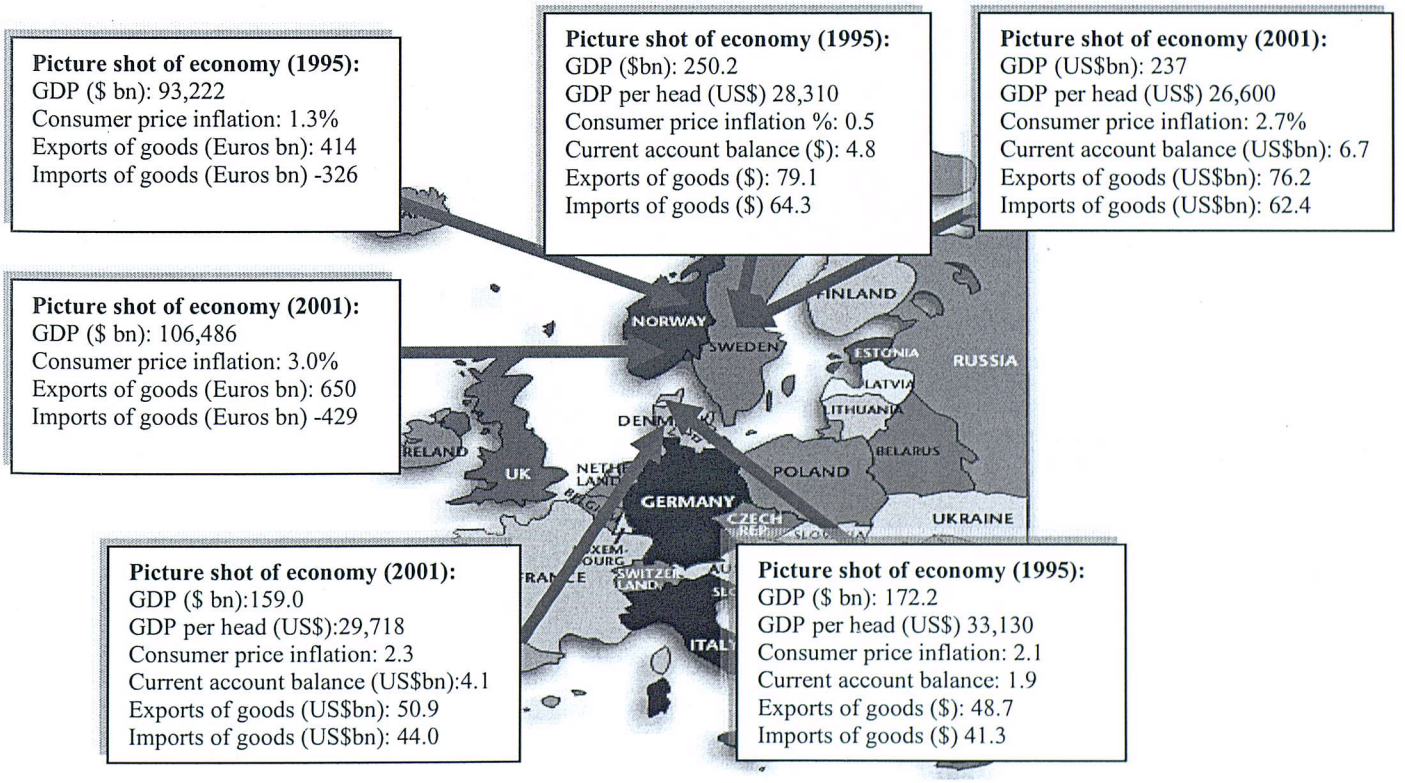
Source: Economist Intelligence Unit (EIU), *CountryData*.

Table 32: SAS Income statement

Income Statement

Year	Revenue (£ mil.)	Net Income (£ mil.)	Net Profit Margin	Employees
Dec 2004	4,557.2	(146.9)	--	32,481
Dec 2003	4,481.6	(109.8)	--	34,544
Dec 2002	4,626.8	(9.4)	--	35,506
Dec 2001	3,351.9	(69.3)	--	30,972
Dec 2000	3,380.6	151.8	4.5%	30,939
Dec 1999	3,009.9	122.3	4.1%	28,863
Dec 1998	3,045.3	210.4	6.9%	27,071
Dec 1997	2,980.2	170.8	5.7%	25,057
Dec 1996	3,038.9	153.4	5.0%	23,607
Dec 1995	3,427.2	228.9	6.7%	22,731

Source: Annual reports 1995-2005



Source: Economist Intelligence Unit (EIU), *CountryData*.

Table 33: TAP Income statement

Income Statement

Year	Revenue ($ mil.)	Net Income ($ mil.)	Net Profit Margin	Employees
Dec 2004	1,159.1	()	--	5,683
Dec 2003	1,246.0	()	--	5,701
Dec 2002	7,54.2	(6)	--	8,357
Dec 2001	1,545.4	(44)	--	8,203

Source: Annual reports 2001-2005



Picture shot of economy (1995):
GDP (Esc bn): 14,401
GDP per head (Esc) 1,664
Consumer price inflation: 5.7
Current account balance (Esc): -229
Exports of goods (ESc): 4,217
Imports of goods ($) -5,789

Picture shot of economy (2001):
GDP (Euro): 110.1
GDP per head (Euro) 7,500
Consumer price inflation: 4.4
Current account balance (US $): -10.0
Exports of goods ($): 25.8
Imports of goods ($) 38.8

Source: Economist Intelligence Unit (EIU), *CountryData*.

APPENDIX 7

Interview Summary

Code	Date	Position	Firm	Approx Time
Pilot interview				
ZZ	18th January 2005	Director of Environment	Z	1 hr
ZZ1	20th January 2005	Director of Government Affairs	Z	50 mins
ZZ2	24th January 2005	Director of Government Affairs	Y	1 hr
Actual Interviews				
A001	27th January 2005	Director Government affairs	A	1 hr
A002	9th February 2005	Director Aeropolitical	A	1 hr
A003	28th February 2005	Director of External Relations	A	50 mins
B004	12th August 2005	Director of Government Affairs	B	1 hr
A005	2nd September 2005	Director of Government Affairs	A	1 hr
B006	21st September 2005	Director of Communication	B	45 mins
B007	4th October 2005	Director of Government Affairs	B	40 mins
F008	4th October 2005	Air Transport Policy Mang/Directorate General	F	50 mins
C009	19th October 2005	Director of Government Affairs	C	1 hr
C010	24th October 2005	CEO	C	1 hr
C011	1st November 2005	Manager of Government Affairs	C	1 hr
E012	24th November 2005	Director of Social Affairs	E	45 mins
C013	29th November 2005	Manager of Government Affairs	C	1 hr
E014	8th February 2006	Director of Government Affairs	E	40 mins
F015	20th February 2006	AEA government affairs manager	F	1 hr
F016	24th January 2006	IATA Director of Government Affairs	F	2 hr
D017	14th March 2006	Director of Institutional Affairs	D	1 hr
E018	20th March 2006	Government Affairs Manager	E	1 hr
F019	10th April 2006	Ex IATA director of Gov Affairs	F	50 mins
E020	20th April 2006	Manager of Government Affairs	E	1 hr
D021	31st May 2006	Vice president of Business Development	D	1 hr
E022	26th June 2006	Director of EU Affairs	E	1.40 hr
E023	28th June 2006	Director of Infrastructure	E	40 mins
Actual interviews and Follow up (*)				
B024*	12th July 2006	Director of Government Affairs	B	20 mins
C025*	15th July 2006	Director of Government Affairs	C	20 mins
A026*	4th August 2006	Director of Government Affairs	A	20 mins
D027*	15th August 2006	Director of Institutional Affairs	D	40 mins
B028*	3rd October 2006	Director of Government Affairs	B	20 mins
B029*	7th October 2006	Director of Government Affairs	B	20 mins
A030*	13th October 2006	Director of Government Affairs	A	20 mins
E031*	16th October 2006	Director of Government Affairs	E	20 mins
F032	17th October 2006	AEA Secretary General	F	1 hr
C033*	20th October 2006	Manager of Government Affairs	C	20 mins
D034	22nd Jan 2007	Manager of Public Affairs	D	20mins
D035*	22nd Jan 2007	Vice president of Business Development	D	10 mins
F036*	1st February 2007	AEA government affairs manager	F	50 mins
F037	4th February 2007	AEA government affairs manager	F	40 Mins
F038	26th February 2007	Citigroup Vice President (Aviation)	F	30 Mins
D039	28th February 2007	Director of Marketing	D	1 hr

A –Lufthansa
B–SAS
C– Tap air
D–Alitalia
E– KLM
F–External Expert
***–Follow up interview**

APPENDIX 8

INTERVIEW SCHEDULE

Contact summary Form: with coded themes

Time: _____

Interview type: ____

Type of contact: Director _____ _____ _____ Coder_____

With whom Place Date Data Coded_____

Page	Salient Points Themes/Aspects
1	
2	
3	
4	
5	
6	
7	
8	
9	
10	
11	
12	
13	
14	

DEVELOPING A LOBBYING PROCESS AS A STRATEGIC CAPABILITY: A STUDY OF EUROPEAN FLAG AIRLINES IN CONTRASTING POLICY CONTEXTS

Interview Schedule

Introduction

A. The case covers two policy contexts, which are the introduction of the third air transport liberalization package in 1993 (we refer to this as a proactive policy context) and Post September 11th Terrorist attacks in 2001 with focus mainly on the lobbying efforts of (NAME OF THE FIRM) for a compensation package and lobbying efforts for not to pay for the anti-terrorist security costs (we refer to this as a reactive policy context).

B. I want to write a more detailed account of how firms developed their lobbying processes, lobbying routines and lobbying skills to deploy and leverage certain political resources in two contrasting policy contexts.

C. Data will be confidential and I shall provide a summary or give you a copy of the report to check before releasing it.

D. There are some questions that will be repeated indirectly as a means to enhance validity.

E. Time of the interview is approximately 45 mins.

Background

- What is your role? What is the function of this department?

- How long have you had this position? Number of years? What job did you have prior to joining (NAME OF FIRM)?

- How long has (NAME OF FIRM) been lobbying individually on a national and trans-national level (i.e. EU level)? Do you remember when you joined AEA? What other associations/groups do you belong to other then AEA, IATA?

DEREGULATION CONTEXT

- During the deregulation period of the European airline industry, did (NAME OF FIRM) play a role in the formulation of the third package before it came to function or did another institution play a part on your behalf, i.e. civil aviation authority? AEA?

- During the deregulation period (1988-1997) did (NAME OF THE FIRM) have a corporate government affairs or external affairs or political/regulatory affairs office, or did you just have a few structured positions shared within your organisation? Please elaborate on the positions and responsibilities.

- Can you recall before the introduction of the first package (1988-1997) what did (NAME OF THE FIRM) mainly lobby for? What was your decision-making process? Talk about your thinking?

- With regards to lobbying on a national and EU level, what lobbying routines did (NAME OF FIRM) start to develop in the run up to the introduction of the 3rd package in 1993, e.g. trying to get traffic rights? Step by Step? For example, direct methods (routines around personal visits, personal letter, phone calls, association/group)? Indirect methods (Friends inside the system, consultants, affiliated interest groups, debates, firm organised cocktails, dinner parties, breakfast meetings)? Combinations?

- Did (NAME OF THE FIRM) hire lobbyists, consultants or lawyers outside its firm before the introduction of the third package? If so, were they in Brussels or your home country during the deregulation time and why did (NAME OF THE FIRM) not just develop it in-house?

- What new routines did you start to develop after the third package was introduced, if any? Did you carry on the same lobbying routines after deregulation was introduced or did you start to introduce new routines due to other rising important issues? For example, direct methods (routines revolved around personal visits, personal letter, phone, public action group)? Indirect methods (friends inside the political system, consultants, affiliated interest groups, dinners, cocktails, debates)?

- In your view and opinion what lobbying routine/activities or combination of routines/activities was most successful in creating influence for your firm? Indirect way or direct way? Combination? Did you lobby the Commission, the European parliament and the Council of Ministers? Is it different for each group? Does the lobbying style change depend on who was in power?

- Where did the decisions originate to deal with the introduction of the third package? Top down/CEO or bottom up/Department level?

- What expertise and experience did you have in place to deal with this policy context? People's previous background in law? Knowledge in law? Skills? Outsourced? Trained at your firm or do they have expertise from previous jobs?

- How did these lobbying routines emerge with regards to the introduction of the third package? Did your company react to the external environment or was it based on your company's own initiative?

- How did you build new thinking within your department during this period? Learning by training? Having meetings with other departments?

- How much effort and time did you spend on training people within your department to improve their abilities during this period?

- How much time, effort and money did you spend on building formal relations with other political actors during the deregulation period? Did you try to provide EU and national level political decisions makers recreational services like seminars, company visits, dinner parties, cocktails etc?

- How was your position when you came across this policy context? For example, Ambiguous? In Control?

- How did you protect your processes, routines and people (skills) from being copied? Did you use pay or do you have other mechanisms?

- How would you describe your networks and relationships during the deregulation period? Extensive? Built over time? How do you build these relationships?

- How would you describe the structure of your department? Large or small after the deregulation? How many people were working in the SAS Aeropolitical affairs office from 1993-1998? What were their positions? How centralised was your company, i.e. centralised or decentralised? Did it change much from before the third package was introduced to after? Why did you choose this structure?

- Why did you use different forms and combinations of corporate political activities for this specific policy context?

- In your view did (NAME OF THE FIRM) invest a lot of time, and effort into lobbying activities before the introduction of the third

liberlisation package? If so, why did (NAME OF THE FIRM) invest time and effort into lobbying before the introduction of the third liberlisation package?

POST TERRORIST ATTACKS 9/11 CONTEXT

- Do you recall when you first heard of the terrorist attacks on the twin towers on September 11th? What was your department mainly focusing its effort on before this event took place? Acquisition of traffic rights, just monitoring or lobbying other issues? Would you say your department's routines (day to day activity) were stable before this event?

- After September 11th did you still maintain a fully utilised corporate government or external/political affairs office? Did you have to change or create new positions or restructure this office after September 11th?

- After September 11th, did (NAME OF FIRM) lobby the European Union and your national government for compensation package? Did (NAME OF FIRM) hire lobbyists, consultants or lawyers outside its firms. If so, then why in your opinion did you hire them?

- What lobbying routines did you start to develop the day after September 11th to lobby for the compensation package? For example, direct methods (routines revolved around personal visits, personal letter, phone, public action group)? Indirect methods (friends inside the system, consultants, affiliated interest groups, debates, firm cocktails, dinner parties, breakfast meetings)? Combinations?

- Did you carry on the same routines after the EU introduced the compensation/rescue package or did you develop new routines for another new focus? For example, direct methods (routines revolved around personal visits, personal letter, phone, public action group)? Indirect methods (friends inside the system, consultants, affiliated interest groups)?

- In your view what lobbying routine/activities or combination of routines was most successful in creating influence for your firm? Indirect or direct way?

- Where did the decisions originate to lobby for the compensation package after September 11th? Top down or bottom up?

- What expertise did you have in place to deal with this policy context? People? Knowledge? Skills? Outsourced? Trained at your firm or did they have expertise from previous jobs?

- What experience did your company have to deal with this uncertain policy context in which you had to react quickly?

- How did these lobbying routines emerge? Did your company react to the external environment (environmental pull) or was it based on your companies own initiative (organisational push)?

- How did you build new thinking within your department after September 11th? Learning by training? Having meetings with other departments?

- How much effort did you spend on training people within your department to improve their abilities during this period?

- How much time, effort and money did you spend on building formal relations with other political actors after September 11th? Did you try to provide EU and national level political decisions makers recreational services like seminars, company visits, dinner parties, cocktails etc?

- How was your position when you came across this event? For example, ambiguous?

- How did you protect your lobbying routines and people from being copied? For example, knowledge, routines and processes? Do you have some kind of mechanism like pay or other ways?

- How would you describe the structure of your department? Large or small after September 11th? How many people were working in the SAS Aeropolitical affairs office from 2000-2004? What were their positions? How centralised was your company, i.e. centralised or decentralised? Did it change much from before the policy was introduced to after?

- Why did you use different forms and combinations of corporate political activities when trying to get the compensation package? Did you lobby the Commission, the European parliament and the Council of Ministers? Is it different for each group? Does the lobbying style change depending on who was in power?

- In your view did (NAME OF THE FIRM) invest a lot of time, effort and money into lobbying after September 11th for the compensation package? If so, why did you invest time into lobbying? Was money spent on training your in-house lobbyists, or more on external of the company (with lawyers, consultants, trade associations)?

Conclusion

- Do you have any archive documentation on lobbying activities or routines during those times? Thanks.
- Other people I should talk to within your firm? Someone below you? (Vice president public affairs office) (European vice president of corporate strategy)
- The contact details of the law firms, consultants, lobbyists.

APPENDIX 9

Association of European Airlines

Avenue Louise 350 B - 1050 Brussels
Tel. +32 (0)2 639 89 89 Fax 639 89 99
E-mail aea.secretariat@aea.be

Direct Line 32 (0)2 639 89 79
E-mail K-H.Neumeister@aea.be

22 February, 2002

With our letter of 13 February we informed you of the problems the aviation industry in Europe encounters with **insurance coverage of war and terrorism risk** over and beyond 31 March 2002.

With this letter we submit a more detailed proposal on how, with the help of Governments, our problems could be resolved over time.

Special attention is now drawn to points 1 - 8 of the enclosed document. The idea is to establish a European fund to which airlines, airports and related service industries would contribute. The amount of this extra coverage would be 1.5 bn US dollars per event. For a limited time we need the help of Governments in order to close the gap between the aggregated volume paid by industry and the guaranteed amount. The fund would be under the supervision and organisation of the European Commission and open to European countries outside the EU. There would be compatibility with the emerging ICAO model.

May we kindly ask COREPER Transport Attachès to inform their colleagues in charge of ECOFIN. The same request is made to ECAC DGCAs and AEA Presidents with regard to their Ministers of Finance.

Yours sincerely,

K-H. Neumeister

Sent to: COREPER Transport Attachès (2 copies), ECAC DGCAs
Copy to: AEA Presidents

Adria Airways, Aer Lingus, Air France, Air Malta, Alitalia, Austrian Airlines, British Airways,BMI British Midland, Cargolux, Croatia Airlines, CSA, Cyprus Airways, Finnair, Iberia, Icelandair, JAT, KLM, Lufthansa, Luxair, Malev, Olympic Airways, SAS, Spanair, Swissair, TAP Air Portugal, Tarom, Turkish Airlines.

Information

Association of European Airline

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E-mail aea.secretariat@aea.be

POSITION PAPER OF THE AEA

Meeting between the Commission, Vice President de Palacio, and the AEA Presidents Committee, 20 September 2001.

THE US TRAGEDY AND ITS AFTERMATH

Overall position of the AEA

- The AEA emphasises the need for a common European response and position. It looks at the Community Institutions (Commission and the Council) to take the lead.

- This is the moment of truth for the Community to stand together and to act collectively as the main partner of the US in dealing with the issues.

- The AEA expects and indeed demands, that industry will be a full partner in the internal European discussions. Specific reference is made to the work of the ad-hoc multi-disciplinary group formed by the Council and the Commission.

- The US is already taking decisive steps in response to the crisis. Europe therefore, needs on its part, respond quickly indeed.

- We have to ensure that there is no discrimination or distortion of competition. Europe and the US need to act in a co-ordinated and balanced manner.

Adria Airways, Aer Lingus, Air France, Air Malta, Alitalia, Austrian Airlines, British Airways.BMI British Midland Midland, Cargolux, Croatia Airlines, CSA, Cyprus Airways, Finnair, Iberia, Icelandair, JAT, KLM, Lufthansa, Luxair, Malev, Olympic Airways, Sabena, SAS, Spanair, Swissair, TAP Air Portugal, Tarom, Turkish Airlines.

Our Industry is in dire need

We are facing an emergency situation that affects all. This situation is caused by external factors, beyond the control of the airlines. It is because of this that we address the Community.

We are not seeking state aid. We are seeking support and expect just compensation for damages caused by political events now and in the future from our European Community, in order to survive this storm.

This storm threatens the vital role that air transport plays in our economy. By affecting the airlines and the aerospace industry it also has a knock-on effect on the travel industry, business, tourism, and the public.

The European airline industry is an important contributor to the European economy and to European employment. Attached we present you some relevant data. It is a vital European industry.

Our business was already facing a difficult situation, because of a combination of economic slowdown, weak passenger demand and increasing labour and external costs (fuel, infrastructure). The industry was addressing this situation. Airlines were readying themselves for recovery and actively working to achieve this. This meant curbing employment, deferring further investments and reducing capacity.

An Exceptional Situation

The shut down of Transatlantic operations and the loss of the US market for more than three days including the slow start-up of the system, the closure of markets in the Middle East, added to that the disruption in the schedule of European and Far-East markets are costing the AEA members a substantial amount of money. The US carriers have immediately lost between 2-3 billion USD, European damage will not be much below that.

Heightened security will come at a price. Additional measures, stringent application of security and resulting delays in the operating schedule will affect the airlines cost structure negatively. Declining traffic and increased costs are resulting in declining and thus disappearing margins, with resulting loss of employment. This is all happening at great speed!

As a result from the immediate measures and the following crisis, the US carriers expect a decline of revenues ranging from 60% in September, going down in October 40%, the rest of 2001 about 25 % per month and up to June 2002 up to 15% each month. This has already resulted in major financial problems, ranging from acute liquidity problems (Approximately 24 billion USD is needed additionally; from an expected positive cash balance in 2002 of 8.5 billion USD it is now expected to be over 15 billion USD negative) to more structural problems.

In the US worst-case scenario approximately 33 billion USD will be needed in government assistance.

The US government measures immediately after the tragedy have also severely affected the European carriers. If US carriers are able to obtain compensation for the damages resulting from these measures, then affected European carriers should have similar opportunities.

As far as the resulting crisis is concerned, the position of European carriers will naturally be severely affected by this situation also. While the position in Europe undoubtedly differs from the US, we will – and already are - suffering the negative consequences. For this reason, the airline industry welcomes the proposal by the Commission to set-up a working group to assess the situation and quantify the effects for European air transport.

What can the EU do?

Security

The AEA Members support the conclusions of the Special Transport Council of last Friday, 14 September. The airlines would like to emphasise that:

- The financial consequences of enhanced security measures should be carefully considered. Security is an obligation to the public. It should therefore also benefit from public funding.

- Industry should be a full part of the Multi-disciplinary group that focuses on Security issues.

- We need to look at realistic actions in the short term based on a common European approach. These measures should be implemented in a common manner in all European States.

- There is a need to focus on the outcome of the ECAC meeting, and in particular those elements of Document 30 that can be implemented in a common, efficient and cost-effective manner.

- Europe should closely liaise with the US in order to ensure compatibility, non-discrimination, and avoidance of conflicting measures. The US and Europe should at least ensure equivalent measures!

Legislation and Policy

- Current legislation should be applied in a flexible manner. To give the most critical issues:

  As regards the application of the **Slots Regulation** the "use it or lose it rule" would need to take into account the current difficult circumstances. The industry needs an immediate reprieve from this rule. The value of the current Article 10 which allows the Commission to take account of events like this must be applied to the fullest extent possible.

  As regards the application of **Competition rules**: given the extraordinary circumstances and in light of possible intervention by the US Government in the aviation market, we may need an accelerated review of airline mergers, restructuring of capacity and, in exceptional circumstances, the ability to co-ordinate schedules and capacity.

- Pending legislation

  Lately, we have seen a number of legislative proposals that increase the burden on the industry. We propose a reassessment of all pending legislation and current policies in view of the recent events and the financial consequences of the crisis.

In particular the proposals that increase the burden on airlines need to be reassessed. Slots and Denied Boarding Compensation are of special concern. Europe needs to focus on helping its industry survive!

The White Paper also needs to be re-evaluated to take into account the economic effects (both in general and air transport terms) of this situation.

Needless to say, the implementation of the Single Sky would actually enhance safety and security while, at the same time, improve the industry's position!

- Insurance premiums

Premiums are rising both on passenger liability (1.25 USD per passenger; with more than 850.000 passengers per day, this translates into approximately 500 million Euros per year for the AEA airlines) and war-risks (15 fold increase!). Here, as in the Gulf crisis, Government intervention or at least involvement could reduce the burden for carriers and passengers.

An approach could be contemplated that would aim to cover excessive risks beyond the normal commercial risks that would apply without a crisis situation. Moreover, political intervention could help prevent excessive third country pressure on the level of premiums and the limitations of coverage. Such intervention should preferably be implemented in a co-ordinated manner, Community-wide.

- Taxation issues

Possible tax relief measures should be contemplated to assist the industry and be co-ordinated on a Community level to ensure fair implementation and non-discrimination.

This should be co-ordinated with the US which is currently considering tax-holiday facilities for US airlines. European airlines would look for equivalent treatment in this respect.

The proposed kerosene tax would further deteriorate the financial position of the airlines. Therefore, discussion on this topic should be halted for the time being.

- Structural Issues

  Incentives for the structural reduction of capacity should be considered. Similar schemes were implemented in other sectors of European industry. Such reduction could focus on older and less environmentally friendly types of aircraft.

- Labour issues

  In view of the expected losses in employment, the Community could alleviate the consequences for employees by assisting in re-employment and temporary assistance programmes.

- Financial issues

  Assistance should be made available to allow the European industry survive this crisis. Unlike in the US, we are not asking for state-aid. We are asking for damage compensation, damage control and assistance. We also need to balance the burdens and achieve some benefits.

  US carriers are sponsoring a damage assistance programme before Congress that will probably amount to an immediate cash infusion of up to 5 Billion USD, and measures amounting to 24-33 Billion USD in assistance.

  As the US is currently doing, the Community would need to start a debate on the future of its airline industry in the light of the effects of this crisis and its aftermath. The debate should include (1) the creation of a specific EU assistance fund to deal with this major crisis, and (2) clear common guidelines on the provision of assistance in a non-discriminatory and balanced manner.

Finally

The AEA considers that all measures should support or at least not contradict the inevitable consolidation of the European airline industry.

Information

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26 November 2001

THE IMPACT OF 11 SEPTEMBER ON THE AIR TRANSPORT INDUSTRY

Address by Karl-Heinz Neumeister, AEA Secretary General, to the European Parliament Committee on Regional Policy, Transport and Tourism

I am speaking to you today on behalf of an industry which, in less than three months, has seen called into question almost everything it used to take for granted.

In more than 50 years since the War, the European airline industry has only once posted an annual decrease in traffic. That was in 1991, when the Gulf War, and the recession which followed it, combined to produce a minus 6% in passenger volume.

The subsequent crisis in our industry lasted for four years. The European Commission created the famous 'Comité des Sages' / 'Wise Men Committee' which, for all its good work, could recommend little more than 'don't burden us with costly regulation'. It saw a number of European national carriers brought to the brink of extinction, saved only by the 'one time, last time' round of State Aids. The same period saw the adoption of the Third Package of liberalisation measures.

So, where are we now? This time, the economic downturn came before the war, so by the end of August we were registering only a cumulative 0.6% traffic increase, although the intra-European market was still fairly buoyant. But true, this situation already caused us a problem. Experts tell us that 'the industry was already in trouble' before September 11th and 'the airlines are trying to hide their internal problems behind the US tragedy' - the first part is true but the latter is totally wrong.

Adria Airways, Aer Lingus, Air France, Air Malta, Alitalia, Austrian Airlines, British Airways,BMI British Midland Cargolux, Croatia Airlines, CSA, Cyprus Airways, Finnair, Iberia, Icelandair, JAT, KLM, Lufthansa, Luxair, Malev, Olympic Airways, Sabena, SAS, Spanair, Swissair, TAP Air Portugal, Tarom, Turkish Airlines.

For us, 'trouble' is zero growth. Between September 11th and November 4th, we saw North Atlantic traffic fall by 35%, a decreases of more than 10% in Europe, and more than 17% to the Far East. With figures like these, we lack the words to express our astonishment. They bear no relation to anything we have ever seen. This industry has its skills in managing growth, not the reverse. If you plan for an increase of, say, 6% and 'overnight' you find yourself looking at a decrease systemwide of, say, minus 19%, then you have a problem of one-quarter magnitude - for your whole business.

What does this mean in money terms for the totality of AEA member airlines? Well, our revenue loss in October, if it were sustained over 12 months, would amount to 10 billion euros. I hope this gives you some idea of the scale of the problem.

I admit, my ten-billion figure refers to revenues, and not to profit, but how are the airlines going to take an equivalent sum out of their cost base? If they cut back on their flying, they still have to pay the ownership costs of the aircraft which are standing idle. Reducing staff numbers in this magnitude is a very painful – and very expensive – exercise.

Our worst-ever annual loss - in 1992 - was 2.4 billion USD. This time it is going to be much more.

As I mentioned, the airlines were in a difficult, but by no means insupportable, position prior to September. Last year (2000), the AEA airlines, collectively, made a small profit, thanks to a very small number who were doing well; most were already making losses and in the early part of this year were trying very hard to put in place realistic business recovery plans. Who is to say those plans would not have worked? Now, for Sabena, and for Swissair, it's all too late.

Our textbook economists tell us that this is all for the best and that there are too many airlines in Europe anyway. The medicine prescribed is: RESTRUCTURING. Do people really know what they are talking about? For some restructuring is another word for going out of business or going bankrupt! For me restructuring is consolidation or mergers. But this is exactly what is not possible on a cross border basis. In the EU it is feasible but such a company would lose its traffic rights with third countries. Its scope would be limited to the Single Market only.

So rescue from outside for both Swissair and Sabena is very limited because, as of today, bilateral air agreements between States (worldwide) stipulate that "substantial ownership and effective control of the airline designated should be in the hands of nationals of the designating party". The politician's should change this.

I don't know in detail the plans of the airline that is in the process of replacing Sabena, but my understanding is that they are concentrating on the intra-European market, which I believe is economically very wise. But the fact remains that with the disappearance of Sabena, some 20 cities outside Europe were, overnight, no longer linked directly to Brussels, and many more cities within this category were handed over to non-European competitors. Some 27 European destinations so far monopoly routes of Sabena, may be rescued by other Belgian carriers.

Let us ask the 'experts' again. The vacuum will be filled, they say. There will be three or four global airlines in Europe, and these, plus a number of so-called 'no-frills' carriers, will meet all of Europe's needs.

Do you believe that? Do you believe that Air France, Lufthansa, British Airways or KLM, will be falling over each other in the rush to serve the Brussels long-haul market, with direct flights? They will not - for the simple reason that they have no traffic rights in Brussels to destinations outside the Single Market. Will the 'no frills' carrier establish a network in Brussels to link, say, all capitals of the Single Market? Will the 'no frills' replace the 27 destinations in Europe Sabena used to fly alone? They will not, because, as with the charter carriers, 'no frills' concentrate on a limited number of point to point routes - they don't offer networks.

Travellers from Brussels have at least a choice of neighbouring hubs to help them on their way around the world. Some of these hubs are even reachable by train. If Lisbon, or Dublin, or Athens were to suffer a similar loss of service, I seriously question how the integrity of the Single Market could be maintained.

The traditional government help line (State Aids) does not function any more. The willingness of the Swiss and Belgian business communities to help re-establish hub airlines in their home countries should not be regarded as exercises in questionable nationalism. They are the clearest possible expressions of the importance to a national economy of a locally-based airline.

Here's another expression of the importance of a vigorous airline industry: just days after the September 11th outrage, the US Government set up the Air Transport Stabilisation Board – its own 'Wise Men Committee' - armed not merely with words, but with funds. To be precise, five billion dollars in cash and ten billion dollars in loan guarantees and three billion for reinforced aviation security. A total of eighteen billion. By the way, five billion cash is the equivalent of two weeks of revenues systemwide for the US carriers. Eighteen billion equals fifty days. In Europe we talk about a compensation of four days for North Atlantic only, which equals half a percent of AEA carriers' yearly total revenue.

Make no mistake, I am not complaining about the US: I think the US government does it right and we, in Europe, do it wrong. In the US there is an administration that appreciates the need to keep its citizens flying. The political will demonstrated by the US is in total contrast to the grudging attitude of the Europeans, who reluctantly seem to have accepted that there is damage but are unwilling to accept the bare minimum of compensation.

Take the insurance question: governments, i.e. their respective security agencies, did not do their job well because they could not prevent civil aircraft from being used by terrorists as powerful rocket projectiles.

After the event, governments declared war, and, in Europe, turned to their civil airlines with the sarcastic advice to see to it that they get a war risk insurance at market conditions. A war risk insurance at market conditions - what a bad joke! There is no market and no market conditions for insuring war. (Military is not insured either.) The behaviour of European governments is highly unfair and unjust and with such an attitude they will continue to weaken European airlines.

Again, this is in sharp contrast with the support given by President Bush. The US government has taken over the third party liability for terrorism and war risks for 180 days. The war risk is where it belongs, namely with the US government. Airlines, airports and insurance companies can concentrate on their real business .... and this is difficult enough nowadays.

One word on security! Each tragedy of major significance triggers off new security measures. In other words, we always learn from these sad events.

Passenger screening and hand baggage search was introduced more than 20 years ago following the Mogadishu incident.

100% hold baggage screening was triggered off some ten years ago as a consequence of the Lockerbie disaster. It will come on stream in Europe in one to two years time.

The September 11th tragedy of 2001 will also leave its security marks which will stay with us for ever. However, these measures have long lead times and hasty political actions are not of great help.

What we need now is to fight complaisance and properly apply existing rules! As a next step we need harmonisation of security standards, along with enforcement - a good new task for the EU.

On Security, we should not mix up responsibilities. The main defence for airline security is on the ground. I call the ground 'the first line of defence' because there is also a second line of defence, namely on board the aircraft.

'First line defence' should make 'second line defence' obsolete. We simply must prevent criminals reaching our aircraft. The responsibility for this is clearly with the States. The airlines' interest in this dossier is facilitation, procedures acceptable to their passengers. Both airlines and airports are convinced that the responsibility and the cost of security on the ground should be borne by the States.

The second line of defence (hopefully not to be used at all) is on board the aircraft. The responsibility lies with aircraft manufacturers, aircraft operators and their crews and we are taking care of it.

In the long run security measures need to be harmonised with the US (and the world at large). I am sure you are aware, there are remarkable differences in what is best practice between Europe and the US.

In conclusion, I am questioning the theory that textbook economics be applied to a crisis which results from, or is at least exacerbated by criminals, terror and war.

After the Gulf War, we recovered with the industry intact. We shall recover from this setback too, but the industry will not be intact. There will be gaps. Cities will lose networks. Local economies will be placed at a disadvantage vis-à-vis their competitors.

And, of course, thousands of people will be out of work. Some will be re-hired when the market picks up again. Others will be less fortunate because their employer has ceased to exist ..... all because of a single act of terror which took place 5,000 kilometres away.

Thank you for listening.

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APPENDIX 11

GENERAL VIEW OF THE DUTCH GOVERNMENT& THEIR AIRLINE POLICY

Apart from the issue of the granting of licenses, KLM's relationship with its government has always been important due to their majority holding which their governments have held in share capital. Furthermore, the Netherlands, being a small state dependent on international trade, has always been a proponent of free trade and travel for many decades. As a corollary, the Dutch government maintains liberal policies towards foreign direct investment. The only Dutch sectors exempted from the application of the OECD Code of Liberalisation of Capital Movements are air transport, maritime transport and banking and financial services. Apart from these exceptions, foreign firms are able to invest in any sector of the economy and are entitled under the law to equal treatment with domestic firms.[6]

With respect to airlines, the Dutch government was in favour of a relaxation of the ownership rules during the early 1990s. Together with other member states of the EC, it has therefore asked the European Commission to develop initiatives to that effect and to raise these within ICAO.[7] In addition, the Netherlands promoted the realisation of a so called Transatlantic Common Aviation Area, an 'open skies' agreement between the EC as a whole and the US. It is expected that under such an agreement the US would allow airlines of EC member states to be substantially owned and effectively controlled by nationals of the EC (Pedler and Van Schendelen 1994). This would give the Community ownership and control provision in the EC licensing regulation full effect. According to the Dutch Minister of Transport, it would be interesting for KLM and for European aviation

[6] http://www.oecd.org/daf/investment/country/netherls.htm and *Netherlands Investment Climate Statement*, U.S. Embassy The Hague, Economic Section, August 1999, http://www.usemb.nl/usduinv.htm.

[7] Letter by the Minister of Transport to parliament, 7 November 2001, *Kamerstuk* 21501-09, no. 136, p. 9.

in general to come to a European ownership and control.[8] Mergers between European airlines would enhance their competitive competition vis-à-vis the United States and would, according to the Minister, thus prevent the US from dictating the market.[9]

Already in 1991, in its explanatory memorandum attached to the proposals for the three Regulations finalising the internal European aviation market, the European Commission stated that: 'It is, however, clear that the ownership limitations may hinder a normal business development in the interests of Community air carriers. It is, therefore, desirable to introduce a possibility to conclude more liberal agreements with third countries on a mutually beneficial basis, without prejudice to international commitments'.[10] However, despite continued requests by the European Commission during the last decade, at the time of writing there is still no agreement among the EC Council of Transport Ministers to give the Commission a mandate to negotiate the exchange of traffic rights on behalf of the EC with third countries. The Netherlands is among the member states in favour of such a mandate.[11]

[8] Council Regulation 2409/92 of 23 July 1992 on Fares and Rates for Air Services, *Official Journal* (1992) L240/15.

[9] Minutes of a meeting between the Minister of Transport and the Parliamentary Committees on Transport and European affairs, 11 October 2001, *Kamerstuk* 21501-09, no., 137.

[10] *Completion of the civil aviation policy in the European Communities. Towards single market conditions*, 18 September 1991, COM(91) 275 final, p. 9.

[11] *Idem.* Letter by the Minister of Transport to parliament, 7 November 2001, *Kamerstuk* 21501-09, no. 136, p. 9.

APPENDIX 12

GENERAL VIEW OF THE GERMAN GOVERNMENT& THEIR AIRLINE POLICY

Lufthansa's rise to market power took place in a highly regulated business environment. As a consequence of the Versailles Treaty of 1919 and the dismantling of the German air force, civilian aviation remained the only way to maintain a German air fleet. The Federal Ministry of Transportation actively sponsored commercial aviation and bore the responsibility for mergers and realignments in the German airline industry. After the bankruptcy of Germany's main aircraft manufacturer, Junkers, in 1925, the government decided to combine the two major players under a new corporate name, Lufthansa (Lufthansa website 2006).

Since the 1920s, meticulous research reveals considerable governmental involvement in the highly regulated and heavily subsidised German aviation market during the interwar period (Fischer's 2003). Since then the main objective of the German government was not to create a friendly environment for healthy competition, but to establish one powerful national airline with sufficient means to stimulate research and development in aviation. High federal subsidies at this time were meant to foster an industry that would otherwise have been strangled by the high costs of aviation. Although a few Lufthansa shares were distributed to private shareholders, the government dominated Lufthansa's supervisory board and appointed all its senior managers between 1920 to1950. Because of its position as the main provider of funds, the government exerted tight control over Lufthansa's schedules and, above all, over its fleet. Lufthansa was politically obliged to follow the army's recommendations regarding its fleet policy. The new Lufthansa aircraft served as prototypes for future bomber planes. Fischer points out convincingly that the relations between the German armed forces and Lufthansa cannot be interpreted simply as either a principal–agent problem or as evidence of the primacy of the military, but rather as a convergence of mutual interests.

Fischer (2003) analyses the evolution of German aviation policy and the interplay between federal and state transportation agencies in considerable detail. Because of its overarching interest in establishing an economically strong and technologically innovative airline in a nascent and highly vulnerable market, the German government was strictly opposed to allowing any real competitors to gain entry to the aviation field. Both the administrative elite and the academic advisors on transportation considered the prospect of competition between carriers as economically ruinous and technologically counterproductive, claiming that a monopoly in aviation was determined by technological and economic factors. A heated conflict between the Federal Ministry of Transportation and the state (*Länder*) governments of Bavaria and Saxony ended with the states being forced to accede to the federal position, which meant accepting that Lufthansa's demands overrode the transportation needs of the states.

But German aviation policy was not unique among the major nations and therefore did not necessarily indicate militarisation of transportation or a general trend toward state capitalism. Despite its monopolistic tendencies and the strong links between military and civilian aviation, the high levels of subsidies were not exceptional, nor were they without international precedents. In the United States, for example, airlines would not have survived without the indirect subsidies of the Postal Service, which covered most of their operating expenses. Both the Ministry of Transportation and the Transportation Committee of the German Parliament *(Reichstag)* became increasingly critical of the waste and lack of accountability that characterised Lufthansa at the onset of the Great Depression. Although the company continued to depend on subsidies in the 1950s, there was growing evidence that its management was moving toward a more commercial orientation in the 1960s. From 1970 to the present the German government has always made it very clear that Lufthansa would function like a commercial entity, moreover, it would no longer rely on government money to drive it forward (Fischer 2003).

APPENDIX 13

GENERAL VIEW OF THE ITALIAN GOVERNMENT & THEIR AIRLINE POLICY

Alitalia's rise to market power took place in a highly regulated business environment. Following the Second World War the Partito Socialista Italiano (PSI) and the Partito Comunista Italiano (PCI) joined coalition governments led by Alcide De Gasperi of the Democrazia Cristiana (DC) to run Italy. However, in 1947, as relations between the West and the Soviet Union became fraught, the US and the Church intensified their opposition to the presence of the PCI in government. Consequently, the DC dissociated itself from the left, resulting in its exclusion from government. De Gasperi was determined that as Europe divided, Italy would be firmly in the western, US-led camp, and in the 1948 election the DC obtained an absolute majority in parliament (Economic intelligence unit, Italian political report, 2006). Indeed, from the interviews we found, De Gasperi wanted a national airline to be created, so he invested in creating Alitalia in 1946 to follow other European Airlines after the Chicago convention. As a result, Alitalia got off the ground in 1946 as Alitalia Aerolinee Italiane Internazionali, where the airline was 40%-owned by BEA (British European Airways, later part of British Airways) and 60%-owned by the Italian government.

Between the 1950s and 1980s and throughout much of the 1990s, the loss making national airline, Alitalia, which is 65% state-owned, was hampered in its efforts to return to profitability by strong trade union resistance to restructuring. This change was evident when one of Italy's most prominent and richest businessmen, Silvio Berlusconi, unexpectedly entered the political arena before the March 1994 general election. In just two months support shifted in favour of his centre-right coalition, the Polo delle Liberta, subsequently renamed the Polo per le Liberta and later the Casa delle Liberta. At the end of 1997 Alitalia entered into an alliance with a Dutch carrier, KLM, but this deal collapsed in early 2000, when KLM withdrew from the partnership, after delays in privatising the Italian company and problems with the new airport at Malpensa outside Milan, which KLM and Alitalia had planned to use as a hub. However, in December 2000 the

European Commission approved the use the Malpensa airport as an international national hub, but Alitalia's problems have continued, and the company, which lost almost €1bn in 2004, came close to collapse in September 2004 (Economic intelligence unit 2006).

A government-backed rescue envisages the creation of two new firms, AZFly, regrouping the profitable core activities of Alitalia, and AZService, regrouping other activities to be sold or liquidated, but this has not yet been fully implemented, as trade union resistance continued until as recently as January 2006. In October 2004, the European low fares airline association, which comprises 11 airlines including Ryanair, challenged the legality of the restructuring in a letter to the European Commission, on the grounds that it constituted illegal state aid. In June 2005 the Commission approved the plan, providing that the government behaves as a private investor and does not provide state aid.

APPENDIX 14

GENERAL VIEW OF THE SCANDANAVIAN GOVERNMENT'S & THEIR AIRLINE POLICY

The Scandinavian region, especially the governments of Denmark, Norway and Sweden, agreed to create SAS to bring the region closer together. More importantly, they agreed to create and merge the national airlines of Sweden (ABA), Norway (DNL), and Denmark (DDL) in 1946 to create SAS airline. These three governments still have some relationships with their airlines. Let us now look at the chronological play between the different governments, parties and SAS.

Looking at the first element of the Scandinavian composite and more importantly SAS, in this case the element is "Denmark"; it can be seen that this country was nearly always governed by the centre-left Social Democrats (SD) during the 1950s (Economic intelligence unit, Denmark political report 2006). The party supported the idea of bringing Scandinavia together and improving the region's transport system. This pattern was broken in 1982 with the election of a centre-right administration. However, in 1993 the Social Democrats returned to power following the resignation of center-right Prime Minister Poul Schlueter over an immigration scandal. The Social Democrats' hold on power was reaffirmed by general election victories in 1994 and 1998. This was cut short in 2001 when the center-right coalition led by Prime Minister Anders Fogh Rasmussen won the legislative elections, repeating the victory in 2005. Marking a drastic shift from the 20th century political structure, the Social Democrats were very much for making SAS an important independent entity that would function without the aid of any Scandinavian government (Economic intelligence unit, Denmark political report 2006).

The second element of the SAS composite is Norway; its labour party dominated Norwegian politics for the most part between 1930s to the early 1970s (Economic intelligence unit, Norway political report 2006). They held power from 1935 to 1965, forming a coalition in exile during the Nazi occupation of Norway in 1940-45. It lost office for just one month in 1963, when Norway was

briefly ruled by a centre-right coalition, which returned to power in 1965-71. This labour party believed that SAS was an important way to bring all the Scandinavian countries closer together in order to enhance their competitive positions. However, the coalition resigned over the question of membership of the European Economic Community (EEC, now EU), and a minority labour administration was formed. Following the collapse of the centre-right government, Mrs Brundtland was appointed as Prime Minister for the third time in 1990 to 1994. Thereafter her predecessor took the helm.

The final element of the SAS composite is Sweden. The Swedish political system is based on consensus among the major organised groups in society. It was evident that during the 1940s Sweden wanted to help create wealth in the Scandinavian region, therefore creating strong links with other countries in the region was seen as a good way to do this. Therefore, it helped to merge ABA (their flag carrier) with the other two country airlines to create SAS. Nonetheless, after achieving remarkable levels of economic growth in the 1950s and 1960s, the decline of the Swedish economy had called into question the continued viability of Sweden's considerable welfare state (Economic intelligence unit, Sweden political report 2006). While the Swedish public were largely supportive of maintaining Sweden's high level of welfare provisions, the government had begun to address the high costs by introducing some reforms. Government action in this area was considered one of the reasons that the Social Democrats were punished at the polls in the 1998 parliamentary elections.

Indeed, in the parliamentary elections of 21 September, 1998, the Social Democrats lost substantial support, winning 36.4 percent of the vote and 131 seats. The Moderates won 82 seats, the Left Party won 43 seats, the Christian Democrats won 42 seats, the Center Party won 18 seats, the Liberals won 17 seats, and the Greens won 16 seats. The Social Democrats formed another minority government after the election with the support of the former communists in the Left Party and the Greens.

Sweden was scheduled to hold its next parliamentary elections by September 2002. With regard to foreign policy, the election campaign centred on the

advantages and disadvantages - both economic and political - of Swedish membership in the EMU. In terms of transport policy, the strategy focused on making the transport system better and greener. Reform of the expensive Swedish welfare system figured highly on the domestic policy in 2005.

APPENDIX 15

GENERAL VIEW OF THE PORTUGUESE GOVERNMENT & THEIR AIRLINE POLICY

Portugal's Air transport network has always been deficient relative to its main European partners, despite the significant improvements made in the mid-1990s with the help of EU structural and cohesion funds. However, TAP Air in its infant years has always been plagued with problems and has historically always been supported by its governments and their transport policies. They still have a strong relationship to this day. Let us now look at the chronological play between government, parties and TAP from the 1930s to the present.

In 1932, Mr Salazar became prime minister and established the so-called *estado novo*, a corporate state based on vague but generally rightist ideals. Politically, he wanted to preserve Portugal as a rural and religious society, where industrialisation, democracy and other modernising influences would be excluded (Economic Intelligence unit 2006). However, going against most of Salazar views, in 1945 the director of the Department of the Secretary of Civil Aeronautics created Portuguese Air Transport (TAP) after discussing the ideas with Mr Salazar. Portugal stayed out of the Second World War, but in the post-war era the economy continued to fall short of its potential, and in the 1960s there was a massive wave of emigration (Dienel and Lyth 1998). By 1974 around one in five Portuguese citizens had emigrated elsewhere in Europe or the Americas. Portugal had become the poor relation of Europe, in contrast to its comparative affluence in the 1930s. The economy was further debilitated by the burden of fighting colonial wars. Portugal was the last large-scale colonial power in Africa, controlling Angola, Mozambique and Guinea-Bissau on the mainland, as well as São Tomé and Príncipe, and the Cape Verde islands. The maintenance of this colonial role helped to create an identity for Portugal, but the financial burden rose inexorably, and by 1974 almost one in five men of military age were in the armed forces (or engaged in related activities).

In 1968, Mr Salazar suffered a paralysing stroke and was succeeded by another academic, Marcelo Caetano. However, he and his aids wanted air transport to flourish in Portugal; therefore they created Lisbon airport and new facilities for TAP in 1971. The dictatorship ended in 1974 when a coup, supported by most of the Portuguese people, was mounted by army officers tired of war in Africa. The new forces in power were deeply divided about the future of the country. From 1974 until mid-1975 there was a shift in power to the left, notably towards the Portuguese Communist Party (PCP). Major sectors of the economy were nationalised (including banking, insurance, shipbuilding, air and road transport, cement and beer production), and the African colonies were granted independence. The left's hold on power was broken in August 1975, when the Socialists and the Popular Democrats (now the Social Democratic Party, PSD) formed a new, more moderate government.

The country's first two democratic governments were led by the moderate Socialist leader, Mario Soares, who confirmed Portugal's European orientation by applying to join the European Community (EC, now the EU). The centre right Democratic Alliance (AD) coalition, headed by the charismatic leader of the PSD, Francisco Sá Carneiro, achieved a parliamentary majority in the 1979 election and increased its margin in the 1980 election. However, Mr Sá Carneiro was killed in an air crash later that year and his successor, Francisco Balsemão, was unable to steer the government in any clear direction. The PS re-emerged as the largest party in the general election in April 1983 and, with the economy deteriorating rapidly, a national coalition between the PS and PSD was formed, with Mr Soares as prime minister. An IMF austerity programme was agreed and implemented for 18 months, while negotiations over EC entry entered the final phase.

In 1989, Portugal's long honeymoon period, following entry into the EU in 1986, came to an end and the economy fell into recession. However, the TAP group still received lots of money to buy a fleet of new airbuses. A general election in late 1995 and a presidential election in early 1996 marked the beginning of a new political era. In 1995 the PS was returned to government after ten years of PSD rule, and although it fell four seats short of an absolute majority, it was able to

form a fairly strong minority government under the leadership of Mr Guterres. In 1996, meanwhile, Mr Soares stood down as president after serving two successive five-year terms, and was replaced by Mr Sampaio, the former Socialist mayor of Lisbon, who thwarted the presidential ambitions of Mr Cavaco Silva in that year's elections (Economic Intelligence unit 2006). Nevertheless, there were three international airports in continental Portugal by 1997: Lisbon, Oporto and Faro. Guterres pushed for a fourth airport to be opened in Ota. However, the decision to delay the construction of a new international airport for Lisbon, was introduced due to financing issues in 2000.

APPENDIX 16

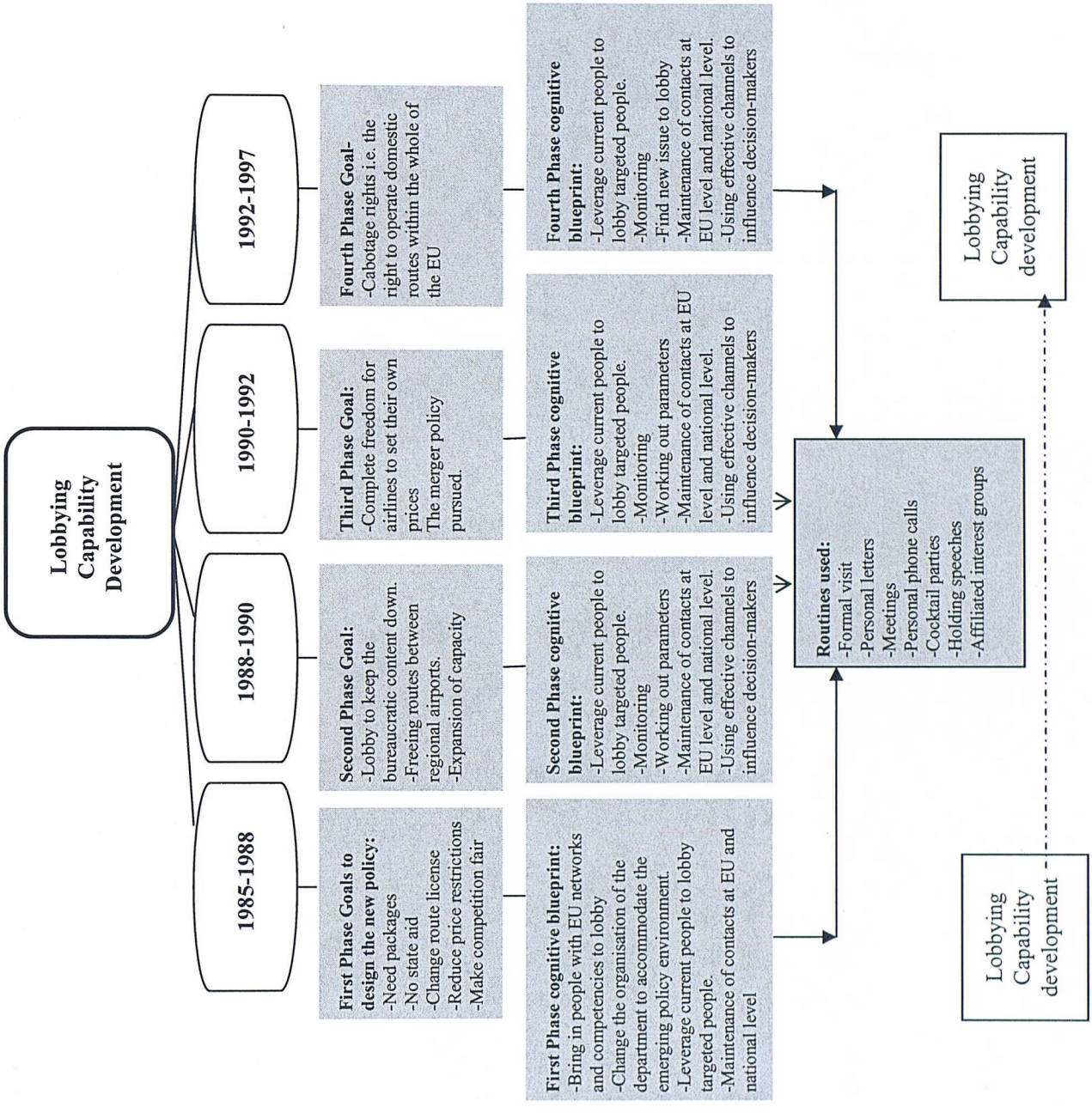


Figure 37: KLM storyline map cluster in the endogenous policy context

* The different epochs were chosen to simplify the different years within the chosen context. The epochs were chosen from interviewees who highlighted those dates. These epochs in the map clusters were used for all the airlines in both policy contexts.

APPENDIX 17

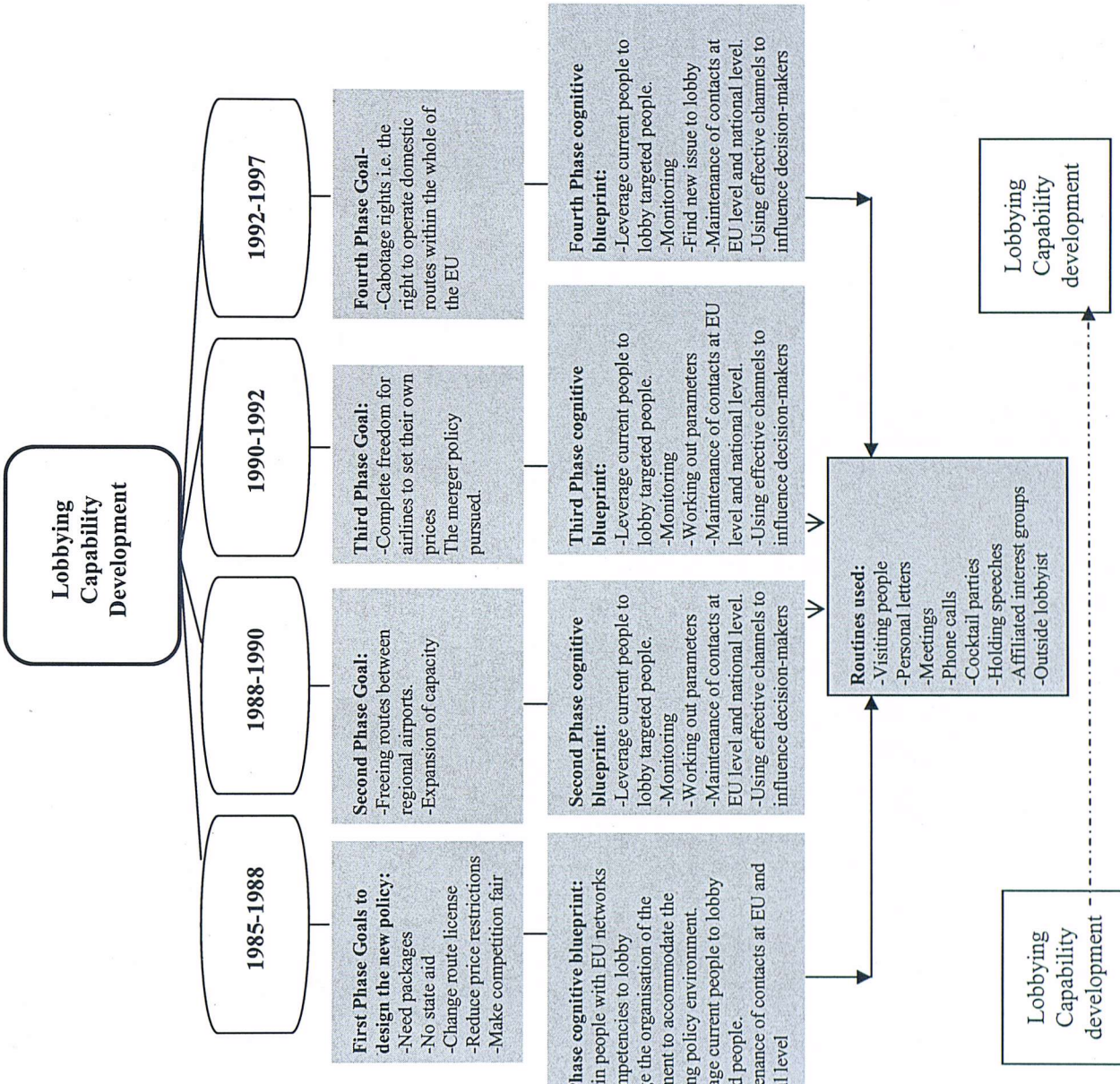


Figure 38: Lufthansa storyline map cluster in the endogenous policy context

APPENDIX 18

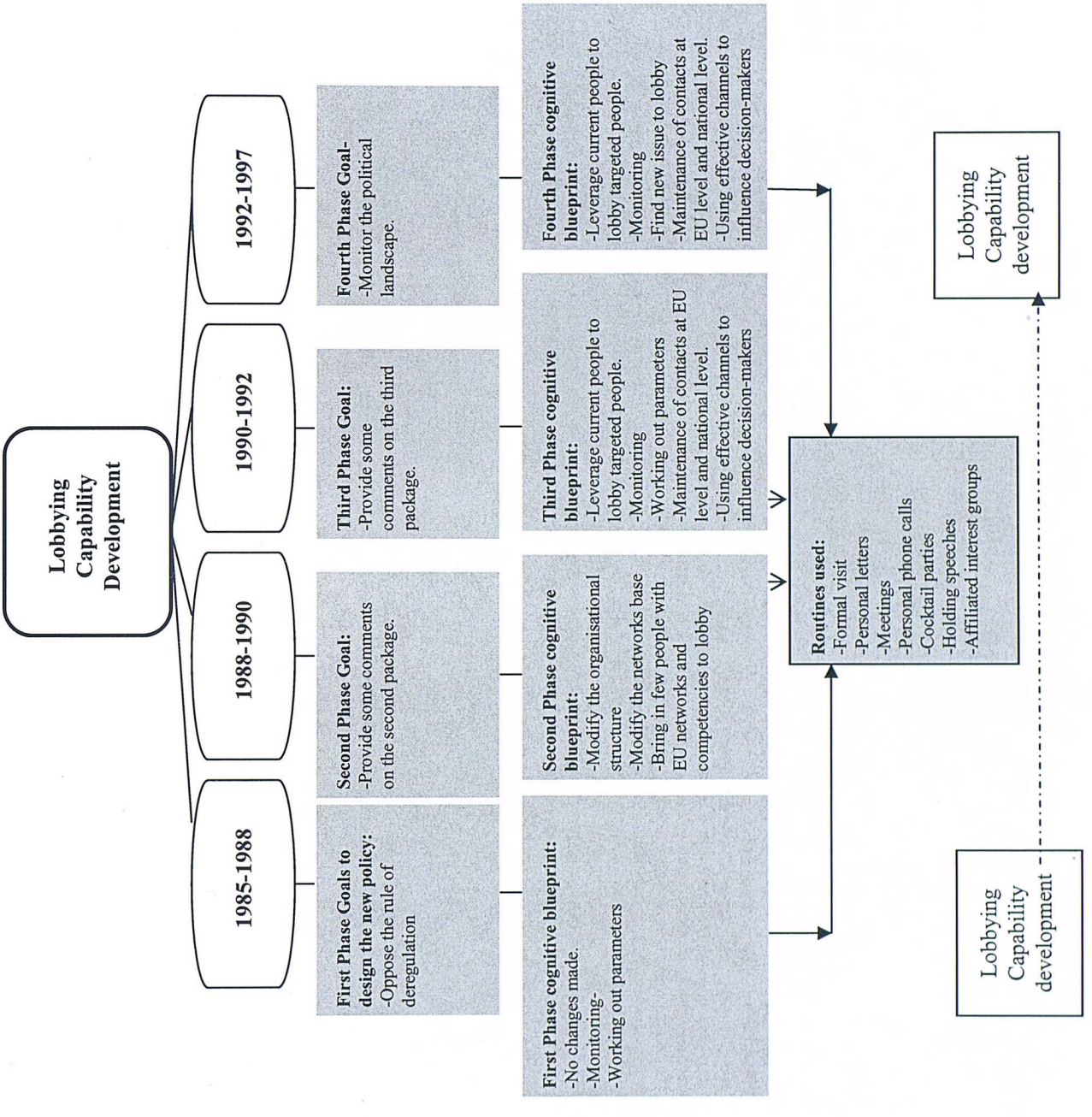


Figure 39: Alitalia storyline map cluster in the endogenous policy context

APPENDIX 19

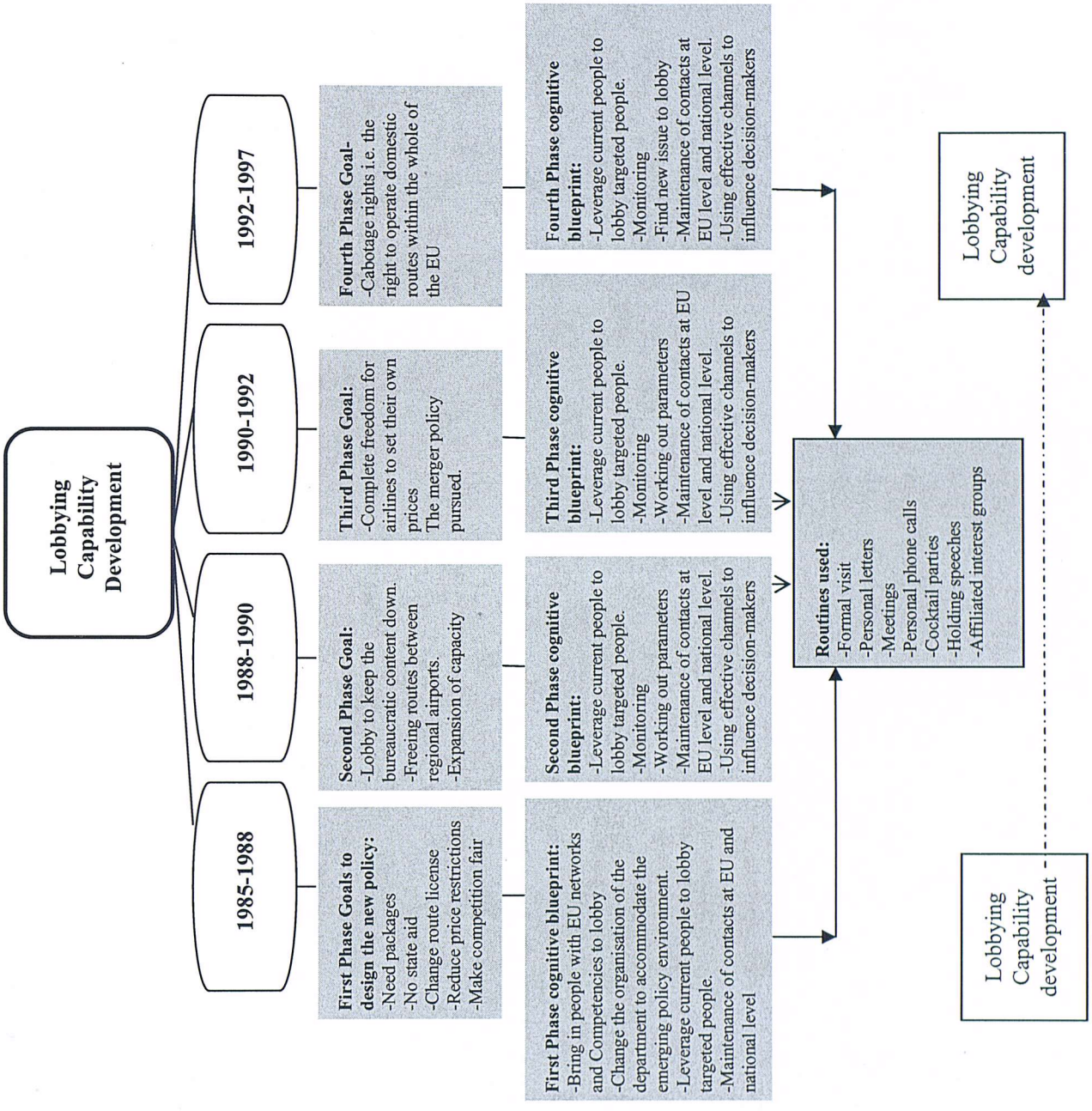


Figure 40: SAS storyline map cluster in the endogenous policy context

APPENDIX 20

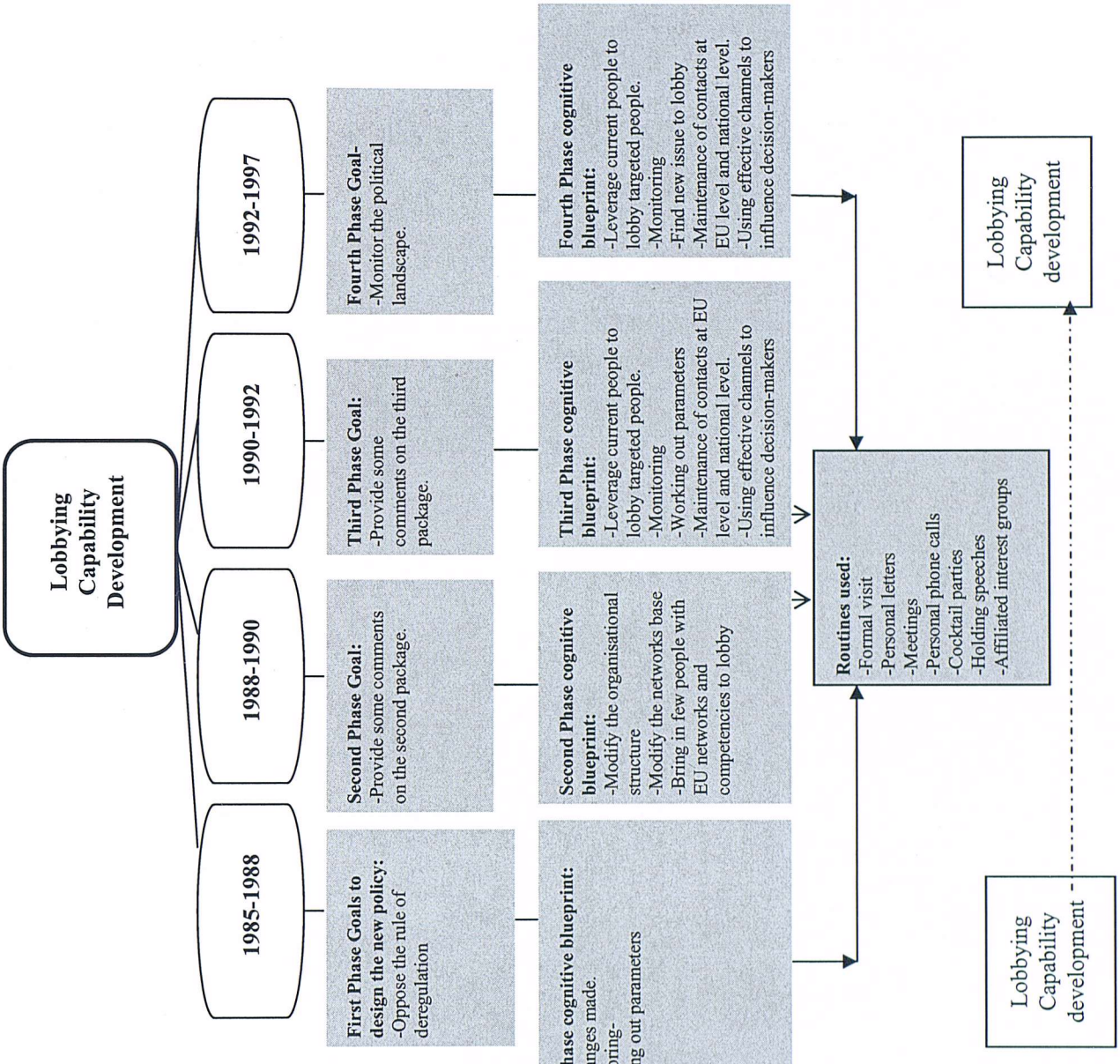


Figure 41: TAP Air storyline map cluster in the endogenous policy context

APPENDIX 21

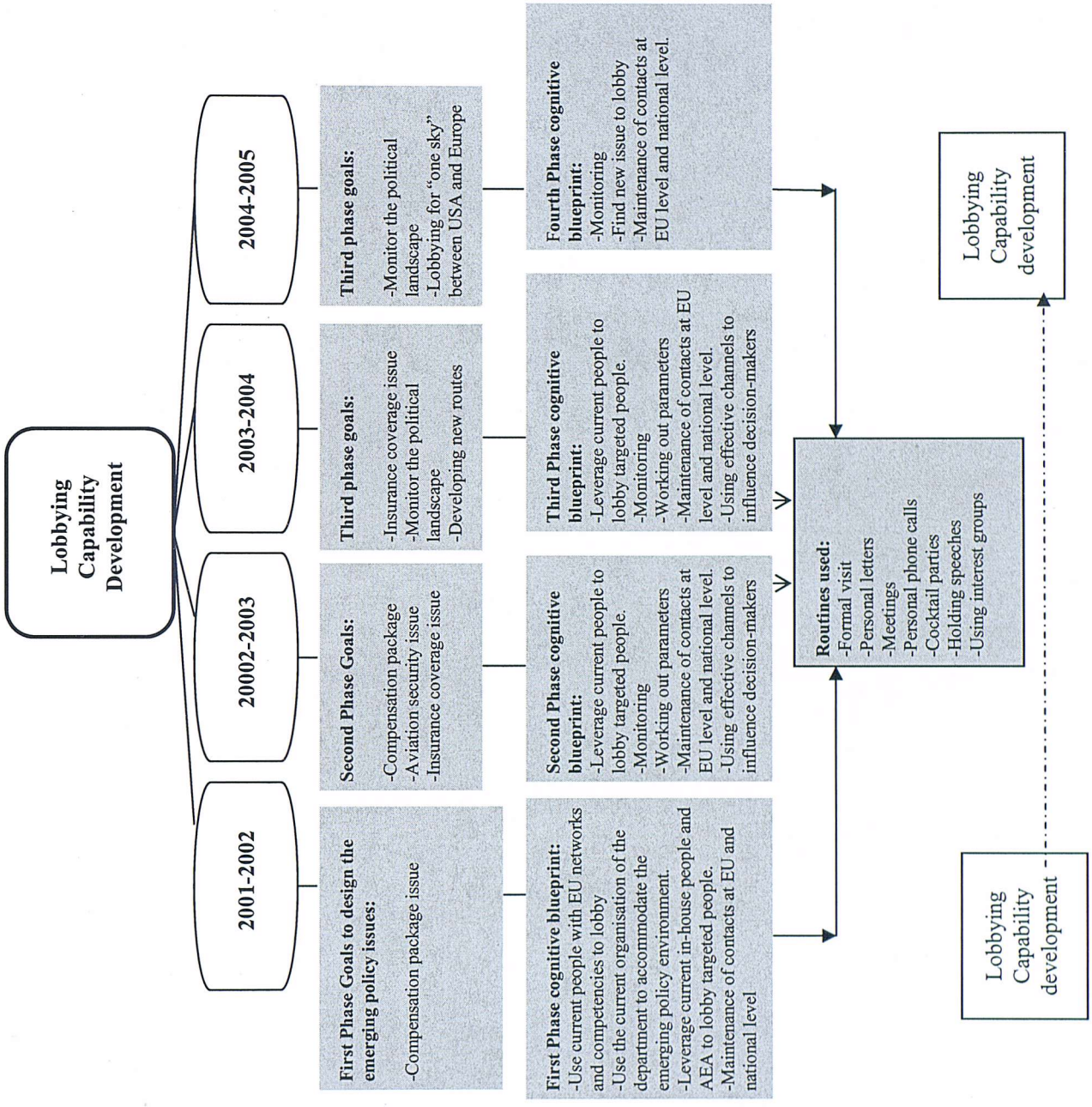


Figure 42: KLM storyline map cluster post 9/11

* The different epochs were chosen to simplify the different years within the chosen context. The epochs were chosen from interviewees who highlighted those dates.

APPENDIX 22

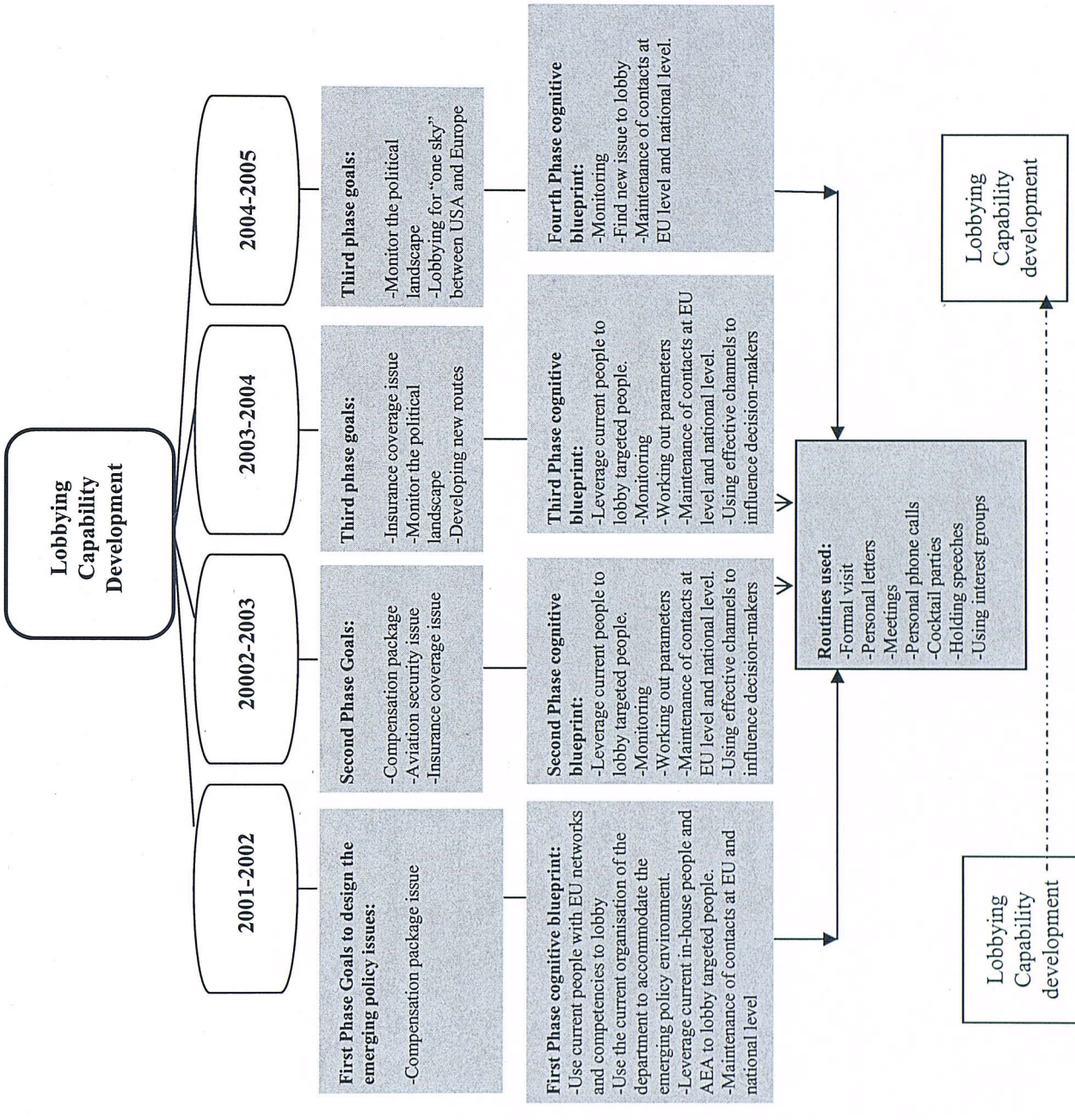


Figure 43: Lufthansa storyline map cluster post 9/11

APPENDIX 23

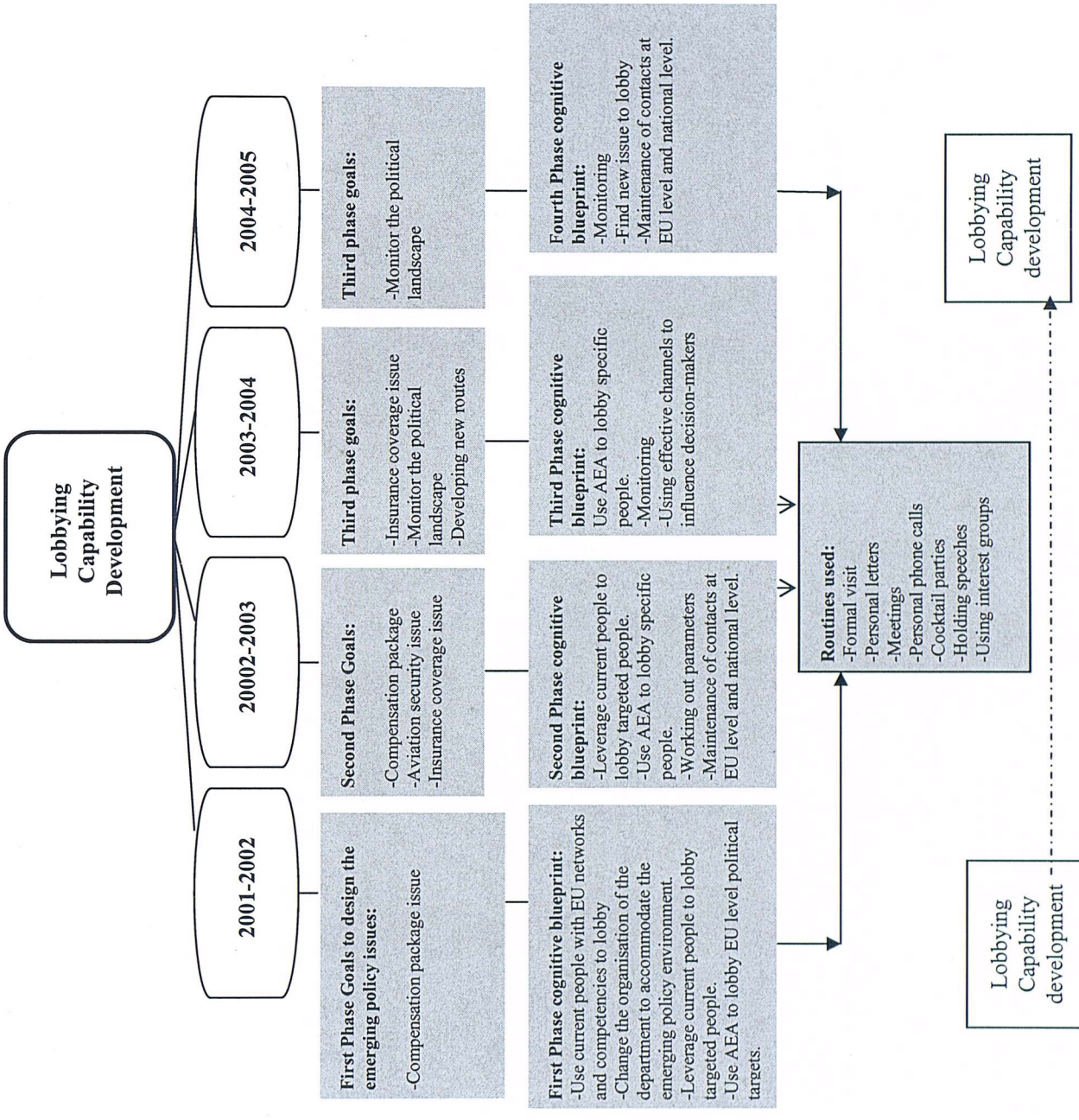


Figure 44: Alitalia storyline map cluster post 9/11

APPENDIX 24

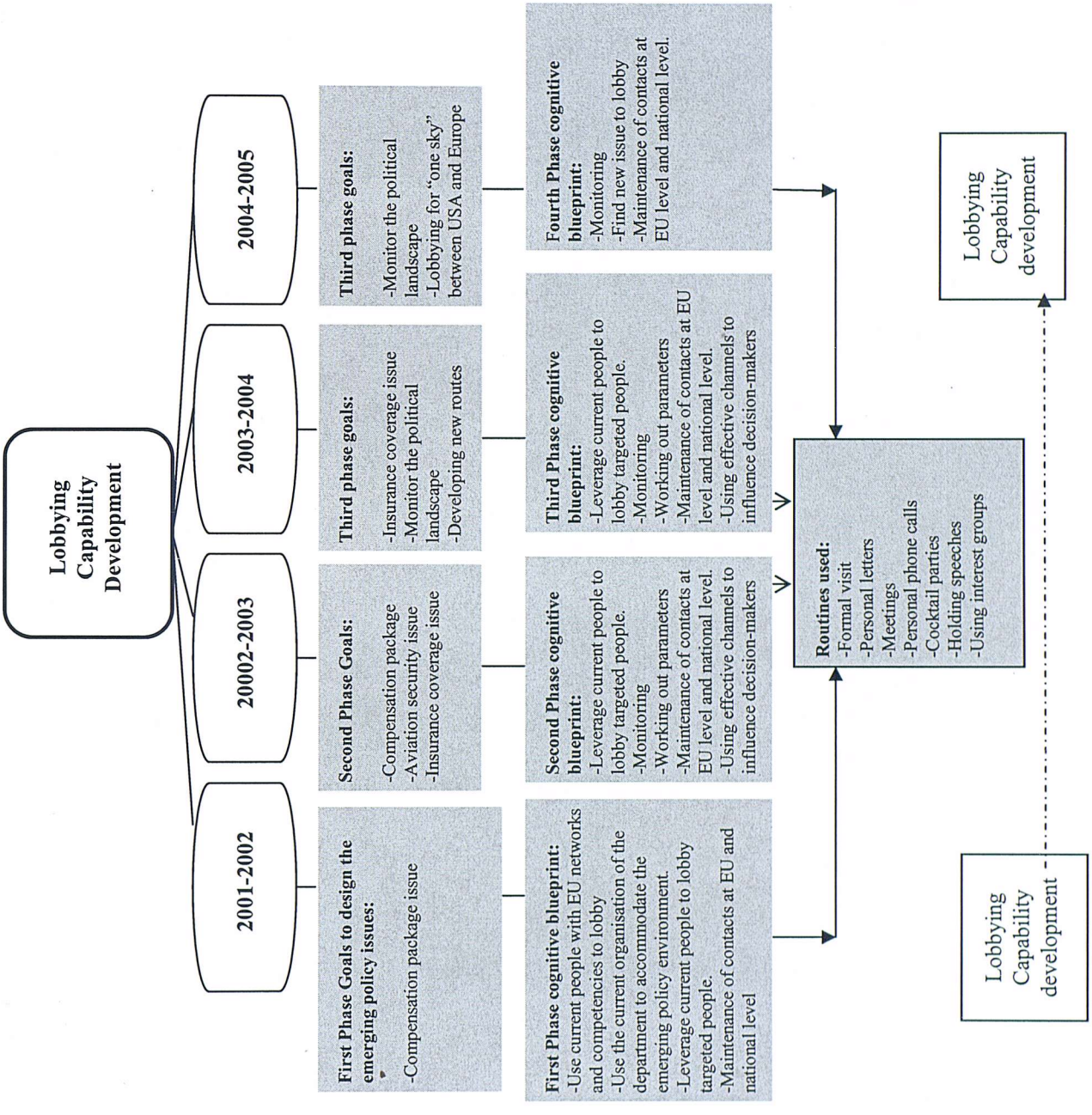


Figure 45: SAS storyline map cluster post 9/11

APPENDIX 25

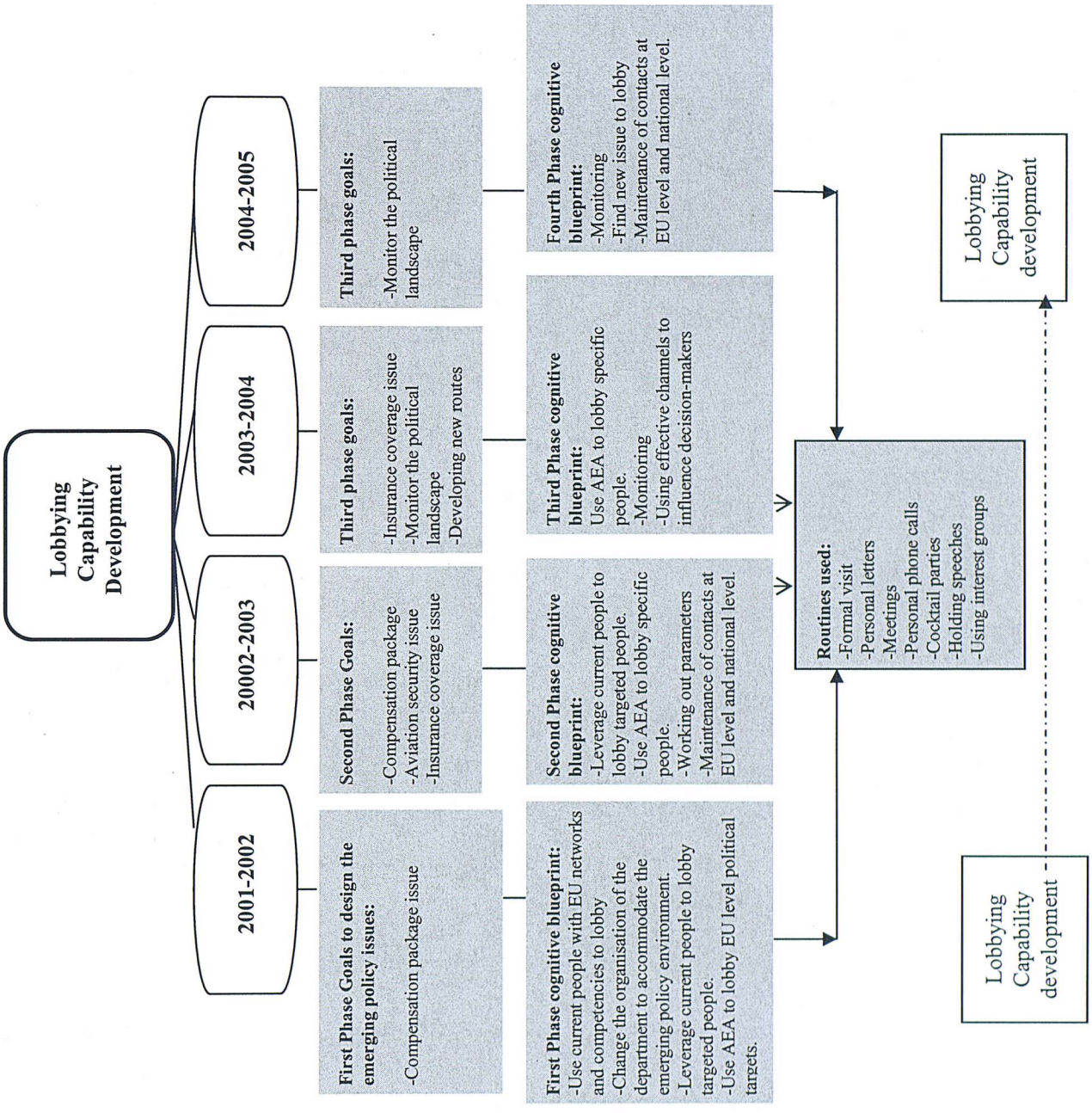


Figure 46: TAP Air storyline map cluster post 9/11