DESIGNING LOBBYING CAPABILITIES:

MANAGERIAL CHOICES IN UNPREDICTABLE ENVIRONMENTS

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ABSTRACT

Purpose – The purpose of this paper is to explore how, in unpredictable policy environments, specific managerial choices play a vital role in designing lobbying capabilities through the choice of levels of investment in human capital, network relationships and structural modification.

Methodology/approach – Using an inductive case study approach, data was collected through 42 in-depth, semi-structured interviews and documented archival data. Cross-case pattern sequencing was used to construct an interpretive model of lobbying capability design. Data was framed by the dynamic resource-based theory of the firm.

Findings - Heterogeneous lobbying capabilities are adapted differently in private and state-owned airlines as a result of diverse ownership structures and time compositions that interplay with organizational processes. The result is a divergence between private and state-owned airlines in how they engage with governmental actors and policies.

Research implications/limitations - We contribute to ongoing discourse in and between the dynamic capabilities and corporate political activity literatures, particularly on how state/non-state owned airlines design their political lobbying capabilities. The research is limited in so far as it only studies the European airline industry.

Originality/value – The paper illustrates how a specific and far-reaching unanticipated external policy stimulus (the 9/11 terrorist attacks) impacted on management choices for lobbying design in the European airline industry.

INTRODUCTION

The creation and preservation of competitive advantage is a core challenge for all strategic managers but political lobbying is often underestimated as a means of directly or indirectly creating and sustaining industry or market advantage. Building on the resource-based view (RBV) of the firm and conscious of the difficulty in establishing causality with performance, the concept of dynamic capability has emerged as a primary construct for explaining how firms can improve efficiency and effectiveness and lay the foundations of competitive advantage (Teece et al., 1997; Zollo and Winter, 2002; Helfat and Peteraf, 2003; Bowman and Ambrosini, 2003; Ethiraj et al., 2005; Helfat et al., 2007; Teece, 2007; Sirmon et al., 2007; Ambrosini et al., 2009; Easterby-Smith et al., 2009). Adopting more of a process approach than existing RBV concepts, dynamic capabilities are the bridge between firm resources and business context, focusing on how firms can create best practice, if not industry or market advantage, through the reconfiguration, integration and deployment of competencies in conditions of market change (Ambrosini et al., 2009). As such, dynamic capabilities can constitute the underpinnings of competitive advantage in rapidly changing environments (Teece, 2007). Although not exclusive in earlier definitions, the focus of most research has been on 'market' change. A number of scholars have suggested that firm resources can be cross-fertilized into a nonmarket environment, in particular to the corporate political context (Baysinger and Woodman, 1982; Baysinger, 1984; McWlliams et al., 2002; Bonardi et al., 2006; Frynas et al., 2006; Oliver and Holzinger, 2008; Capron and Chatain, 2008). However, the criticism of some of these studies from the political focal lens is that they are not paying attention to the managerial coordinative activities by which firms assemble and leverage knowledge assets in given policy environments.

The aim of this study is to examine how lobbying capabilities are designed by both state and non-state owned European airlines, and more importantly their senior management in uncertain, unpredictable policy contexts. In other words, we seek to understand how Europe's long established network carriers (so called 'legacy' airlines) design their lobbying capabilities to influence European and national institutions and related agents during the 2001-2005 timeframe. We argue that a lobbying capability is a high level capability that most firms have embedded in their practices as a basis for competitive advantage, but we aim to explicate the dynamics and interactions between its micro foundations (Eisenhardt and Martin, 2000; Bonardi et al., 2006; Oliver and Holzinger, 2008).

Following the typical format of inductive research, our paper addresses the criticism of neglecting managerial coordinative activities, business-government relations and the given context (Hillman et al., 2004; McWilliams et al., 2002). It contributes to the current academic debate in RBV by providing empirical evidence on design choices in corporate lobbying activities that is contextualized in a given policy environment. Building on previous studies that highlight how firms appropriate value through influencing policy (Hillman and Hitt, 1999), we argue that lobbying capabilities are a set of specific and identifiable strategic and operational processes that are used by firms to leverage political resources in the nonmarket environment. The findings of politically active airlines demonstrate how ownership structures and uncertainty moderate strategic choices in capability design.

THEORETICAL FOUNDATIONS

Firms engage in both market and nonmarket strategies to create shareholder value (Baron, 1995, 2001). Whereas market strategies involve decisions such as product positioning and pricing, nonmarket strategies are actions taken by the firm in its political, regulatory, and social environments for the purpose of increasing or defending firm value (Baron, 1997). Political behavior includes such company activities as lobbying a legislator or regulator, litigating a case in court, and making campaign contributions. Two aspects to understanding lobbying activities are: first, how much lobbying behavior corporations are likely to undertake; and second, whether lobbying will be undertaken from inside a firm or externally using professional lobbyists or trade associations within the industry sphere. These questions are important as they relate to both corporate strategy and the boundaries of the firm. Put another way, an inquiry into senior managers' choice in designing their internal or external lobbying capabilities will demonstrate that under conditions of uncertainty, managers must make judgments about the correct course of action (Peteraf and Reed, 2007).

Lobbying capabilities and their value to firms is acknowledged in international business and strategic management literature (Baysinger et al., 1985; Getz, 1997; Boddewyn and Brewer, 1994; Hillman and Hitt, 1999; Henisz and Zelner, 2003). It has preconditions for influencing decision shaping and decision making (Coen, 1998). Keillor et al. (2005) suggesting that firms involved in using their lobbying capabilities have three motives for engaging in political behavior: domain advantage, domain defense and domain maintenance. The implied reason for engaging in political behavior 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 behaviors 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; De Figueiredo and Tiller, 2001; Henisz and Zelner, 2003; Hillman et al., 2004). The resulting benefits to the firm can include reduced environmental uncertainty, reduced transaction costs, and increased long-term sustainability (Hillman et al., 1999). Governments represent major sources of uncertainty for firms because they often control critical resources and opportunities that shape industry and competitive environments (Jacobson et al., 1993; Baron, 1995). As a result, many firms engage in lobbying strategies: proactive or reactive actions to affect the public policy environment in a way favorable to the firm (Baysinger, 1984).

Previous studies have shown that dynamic capabilities can take a variety of forms such as pricing capabilities (Dutta et al., 2003) or entrepreneurial capabilities (Karra et al., 2008). We take the view that lobbying capabilities have been used by large organizations within a wide range of industries to create change or align with change. These industries include oil and gas (Frynas et al., 2006), electronics (Yoffie and Bergenstein, 1985; Lawton, 1996) and air transport (Brown, 1987; Lawton, 1999). Lobbying capabilities are rendered dynamic when they align with nonmarket change. They are viewed to be high-level, strategic capabilities instead of merely operation capabilities (Bonardi et al., 2006). Drawing on Teece et al. (1997), Eisenhardt and Martin (2000) and Bonardi et al. (2006), we describe lobbying capabilities as:

Corporate political processes, specifically the ways in which a company's senior and acting representatives work together to reconfigure and leverage political resources that an organization uses to respond to or even create nonmarket change. Lobbying capabilities are thus the organizational procedures by which senior representatives or acting representatives achieve resource configurations that enable the company to adapt to or even anticipate shifts in the corporate political environment.

As noted above, we introduce the concept of lobbying capabilities to understand how senior managers design their lobbying capabilities using strategic decisions to influence government for the compensation package post 9/11. Some researchers have shown that lobbying can occur through internal or external paths as they both use the capacity of firms to leverage skills and resources so as to successfully manage and influence the public policy process (Oliver and Holzinger, 2008). They are specific to the jurisdiction in which the firm operates and allow the firm to configure lobbying strategies to fit the context of a particular situation (Bonardi et al., 2006). These include the networks of relationships between corporate employees and national and local political, regulatory, legal, and interest group actors who influence or determine public policy. However, what is not understood in previous studies is how lobbying is designed between state and non-state owned companies (Cuervo and Villalonga, 2000; Dewenter and Malatesta, 2001), especially in the airline industry.

Internal and external lobbying capabilities

To examine how lobbying design processes vary between state and non-state owned airlines, we first need to make a distinction between internal (unilateral) and external (multilateral) approaches. In doing so we are challenging the contention that state-owned carriers tend to rely on internal capabilities, leveraging influence through direct interface

with national government agents and agencies. Non-state owned carriers combine this approach with external capabilities exerted through their influence within trade associations and airline networks and the occasional and usually targeted use of contract lobbyists. Existing research on lobbying tends to focus on the amount and type of lobbying that occurs. It has largely omitted the organizational options, combinations and mechanisms firms have for lobbying, i.e. the action of lobbying from a corporate perspective. Since the seminal work of Olson (1965), economics and management research 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). Whilst the collective action literature has much to say about the amount of lobbying that occurs, all these studies are less informative when it comes to the design choice of lobbying capabilities (Hillman et al., 1999). The state of scholarly knowledge about lobbying capabilities and how they are combined remains scant when compared with research on strategies for the marketplace (Brown, 1997).

Few scholars view lobbying capabilities as both internal and external to the firm but both can still be embedded in the strategic architecture of the firm (Oliver and Holzinger, 2008). The internal approach refers to lobbying individually while external lobbying refers to corporate political action using trade associations or through contract lobbyists. Furthermore, these arrangements of internal and external lobbying capabilities in Europe respond differently to different environments (Kyrou, 2000). But those lobbying capabilities considered in this paper leveraged on both internal and external political resources. These political resources are embedded in trade associations, contract lobbyist, lawyers and in-house government affairs departments (De Figueiredo and Tiller, 2001).

Managerial choices, political resources and the policy context

With this array of political resources available to airline companies, why were certain options pursued exclusively or primarily in specific policy contexts? It is at this juncture that we consider managerial choice and resultant actions. The senior managers choices and their focused strategic action are important topics to be looked at in understanding the design of dynamic capabilities (Peteraf and Reed, 2007; Pandza and Thorpe, 2009; Ambrosini et al., 2009). The idea of senior management exercising lobbying action in a concerted fashion to manage its political environment is not recent. Fainsod (1940) suggested that an industry obtains a favorable regulation by its capacity to mobilize three kinds of resources: financial (political campaign financing), human (the use of lobbyist and lawyers) and political (political coalition-building). The notion of senior management assembling specific resources and skills was also mentioned by Leone (1977) and Peteraf and Reed (2007), while Yoffie and Bergenstein (1985) spoke of the accumulation by firms of relationship capital. Within the political science literature, the notion of relationship resources that create capabilities has been suggested, but the theory on managerial choices is underdeveloped and empirical evidence has some shortcomings (Dehan, 2005).

Designing lobbying capabilities require management interventions. Some studies have found that in specific regulatory contexts, the impact of a policy will be unequal across different firms (Coen, 1997, 1998). Firms with differing resource bases to manage their political environment will have different responses to expectations about profitability and investments in political situations (Oliver and Holzinger, 2008). Given the incremental nature of capability design, firms that seek to design superior capabilities

as the basis of sustainable competitive advantages must prevent the overall coherence of their capability design efforts from being eroded (Helfat and Peteraf, 2003). Somewhat paradoxically, this makes the choice of lobbying actions an important factor to consider in different environmental context types. Lockett et al., (2009) have critically highlighted that dynamic RBV tends to focus on consequences of firm heterogeneity but more scholarly attention needs to be devoted to capability and resource functionality and design. Together, these gaps lead to the first research question of this study. How do the senior managers of European airlines design lobbying capabilities in unpredictable policy contexts?

Henisz and Delios (2004) argue that two types of environmental uncertainty exist: one predicated on lack of information about a particular environment and the other arising due to a change in that environment. Their research examines foreign direct investment decisions in the context of environmental uncertainty in host countries. Building on the Henisz and Delios (2004) definition, our study is framed by environmental uncertainty resulting from what we term predictable and unpredictable policy contexts. The predictable context is one in which the firm expects to be confronted by policy decisions, stakeholders, issues or actions within a nonmarket political system, e.g. the onset of market deregulation (Kim and Prescott, 2005). As a result, the firm must proactively react to this unanticipated policy context. Our study focuses on the less certain, unpredictable policy context. Building on Brink (2004) and Oliver and Holzinger (2008), we define our chosen unpredictable policy context as:

An unpredictable policy context is where the firm is unexpectedly confronted by policy decisions, stakeholders, issues or actions within a political system. As a result, the firm must react to this policy context.

The chosen context in this investigation is one in which unpredictable policy outcomes came about as a result of events post the September 11th 2001 (hereafter 9/11) terrorist attacks in the United States (U.S.). The attacks had significant impact on both U.S. and international airlines. Within this context, European airlines that operated transatlantic services came to learn quickly that sustaining their competitive positions was reliant on effective lobbying of the European Commission and national governments. This was to secure compensation to support their growing debts, exacerbated by a fall in demand and extra costs associated with new government security policies (Tarry, 2005; Bonham et al., 2006). If airline firms did not lobby, they risked receiving less aid and consequently undermining their market positions. The compensation package stimulus was where airlines wanted European governments or the European Commission to compensate them for the loss in revenues caused by the grounding of their fleets in the U.S. immediately after the 9/11 attacks.

In this paper we consider the relative importance of managerial choices in designing lobbying capabilities. This enables us to understand the degree to which lobbying capabilities are configured in conjunction with the unpredictable policy context. We also focus on the role of a senior management team's strategic focus, or what some scholars call management choices (Peteraf and Reed, 2007), in designing lobbying capabilities so as to understand the components and interactions of resources. Finally, we concentrate on the interconnectivity between lobbying capability and an organization's

unpredictable policy context. From the gaps highlighted above we arrive at our second research question. Are there any specific patterns of strategic action associated with the design of lobbying capabilities in state versus non-state airlines?

METHODOLOGY

This study used a qualitative methodology, specifically a multi-case design which supports theory replication logic whereby a set of cases is treated as a series of experiments, each serving to confirm or disconfirm a set of concepts (Yin, 1999). As a result, these concepts begin to uncover complex processes of capability construction but especially indicate promising future iterations of data collection and analysis. In this study our primary unit of analysis is how lobbying capabilities are designed in the airline industry.

Sampling. The choice of this industry - and specifically European long haul carriers - is largely due to its degree of politicization. The European airline industry has been fraught with politics and governmental interference since its inception and airlines have had to battle with the politics of regulation and deregulation, both domestically and internationally (Brown, 1987; Staniland, 2003). We identified several firms that met our initial criteria of: (a) operating scheduled transatlantic services; (b) having a significant historical perspective (i.e. were not recent start-ups); and (c) making statements in press releases or via the media that they were in the process of reconfiguring some important aspect of their lobbying activities. We contacted all these firms (state and private owned) and subsequently selected five (Table I), based on willingness to provide interview access to their political affairs managers.

Take in Table I

Data Sources. We asked political affairs managers and directors what lobbying actions they employed in response to the 9/11 attacks and their responses shaped our research phenomenon. We posed key questions to all our respondents around the strategic responses undertaken in organizing their internal and external capabilities to create influence. Furthermore, we asked them to highlight which resources and processes were perceived to be important during these challenging times. Finally, we asked them if they were using existing capabilities or developing new capabilities.

Data was collected through in-depth, semi-structured interviews and documented archival data between 2001 and 2005. We interviewed the directors, presidents and managers of Political, Government, Aeropolitical, and Public Affairs, as well as members of the top management team at the next level of the hierarchy who were responsible for the areas targeted for lobbying development during the chosen policy context and period. We also interviewed industry experts to enhance validity. We conducted in total 42 interviews, ranging in duration from 50 to 90 minute telephone and in-person interviews. All interviews were recorded and transcribed in English. Several hundred pages of documents involving lobbying activities during this period were available for most airlines. Access to the lobbying documents provided extremely detailed descriptions of selected lobbying processes, as confirmed by key informants.

ANALYSIS AND FINDINGS

The preponderance of dynamic capabilities literature tends to describe the specific capabilities of an organization as homogenous and separate from management judgment (Bowman and Ambrosini, 2003). In contrast to this common view, our study of micro-processes that embody lobbying capabilities revealed variations in enactments of lobbying capability design. Our analysis allows a fine-grained interpretation of how managerial choices in designing lobbying capabilities used both internal and external means and resource configurations (human, network and organizational). However, these design choices and logics had some performance consequences across the five case studies.

Lobbying capability design patterns

Our empirical evidence derived from each case individually led to two important findings. First, each of the strategic choices taken by private or state owned airlines distinctively affected the design characteristics associated with the senior management's choices in lobbying action (Schwenk, 1988). High levels of focused senior management action led to design variations in the lobbying capabilities that was proactively controlled in private owned airlines, but less so compared to state owned airlines. One important aspect of these controlled strategic actions was that sense giving by senior management tended to occur in an organized, systematic fashion, rather than ad hoc (Schwenk, 1988): focused management priorities were dominated by scheduled meetings, formal committees, and planned action with restricted attendance, rather than by informal meetings. Strategic action occurred in this controlled way because senior management

drew on their formal authority to design their lobbying capabilities in order to influence to receive a compensation package for the grounding of their planes.

A second key aspect of controlled strategic actions was that a significant amount of focused approach occurred in private airlines between policy makers and senior management, rather than the loose approach taken by the more state owned airlines that used mainly trade associations to lobby for the compensation package. Senior management from private owned airlines leveraged key resources available to them – namely human and network - from the onset of 9/11, to defend their financial position so that they could influence policy makers for the compensation package.

The strength of the evidence and whether or not management action was focused on specific political resources did actually explain differing designs in lobbying capabilities between private and state. We had not originally expected the design patterns to exhibit such divergent pathways. Nevertheless, our non-state and state airlines - both strongly supported by scientific evidence but displaying very different design outcomes - represented such polar cases. The evidence for this will be unfolded in the next sections.

Choosing between internal and external lobbying capabilities

All five airlines were not found to be lobbying the U.S. government at any time for compensation package rising from 9/11, as it was viewed to be the less effective route according to managerial choices. We found that senior management teams took decisions to design a lobbying capability by shifting the focus from the national level to the international - or supranational - European Union (EU) level, as time played a vital role in decision-making. There was a crossover in lobbying between the national and international targets, as airlines started to talk to their own governments first, followed by

EU level government members, but then realized that the Association of European Airlines (AEA) was the fastest route to create influence.

The internal and external capabilities were used to leverage on three specific political resource types, as shown in Table II. Our analysis indicates that political resources used by European long haul airlines in the post 9/11 unpredictable context were comprised of mainly human and organizational resources. But physical resources were often replaced or superceded by another resource. Most of our respondents repeated the words 'network resources', as being crucial to developing a lobbying capability. Therefore, we conceptualize political resources as being comprised of three subdivisions: human and organizational as Barney (1991) noted but with the addition of network resources (Granovetter, 1973).

Take in Table II

From the cross case analysis, we found a combination of internal and external capabilities that were used to leverage on political resources in the unpredictable policy context to create influence. But in private owned airlines, the management priority at the start was on using internal lobbying capabilities to leverage political resources, compared to state owned airlines that used more external capabilities. We came to learn that eventually both airline types used mainly the AEA to lobby post 9/11 because they had less time to maneuver in this unpredictable period. It was believed that the airlines wanted to leverage their external relationships but did not have time to do so. Furthermore, as most airlines had similar problems, they believed that the AEA (being a strong external

network resource) would have more influence then a single route approach.   As one

informant from a private owned airline put it:

> *We were using a combination of lobbying processes. 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 capabilities that we believed would create positive influence. These combinations are not a strict recipe but more dependent on what our owners have in mind.*

From the in depth cross case analysis of the evidence, we found political resources to be

leveraged, reconfigured and deployed using internal capabilities (e.g. sending emails,

formal letter writing, talking to friends from within the firm) and external capabilities

(e.g. Using AEA to email and organize various important meetings). Moreover, we found

that strategic actions involved structural investments, human capital investments and

network relationship investments in the design of the lobbying capabilities. However, at

a micro level, internal or external lobbying capabilities were used differently between the

private and state owned airlines.

The role of management choice in designing lobbying capabilities

Our data suggest at the core of lobbying capability design were the approaches of

individual political affairs managers. These people played an important role in

developing the content of lobbying process. It reflects the interaction between

management and its environment and it also shows how an organization manages this

relationship (Simon, 1947; Ginsberg, 1988; Walsh, 1995; Gavetti, 2005). Our research

suggests that learning by doing is one part of the process in order to make sense of

lobbying context and content (Thomas et al., 1993; Chang, 1995; Anand and Khanna,

2000). Prior work shows that leaders and managers often possess attributes that make them better at making decisions as they go along rather than planning a decision-making process in advance (Allinson, Chell and Hayes, 2000). Likewise, the fast pace and stages that need actors to be reactive or proactive makes many lobbying processes less valuable when one has to plan far in advance. Some research contends that executives are better served by learning 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 the content of lobbying capabilities begins to form before there is any 'doing' at all. As one informant put it:

We learn by doing. I am always learning at home. In fact that is how we build our decision making process 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 determine our decision on the choice of level and type of strategy. Then we consider the content for our argument to influence, the targets to contact and the mode of direct or indirect lobbying.

Rather than jumping in and using a *laissez-faire* path creating strategy, directors of political affairs used their choices from previous experience and learning to channel and fuel their decisions on the lobbying process. In this way, management thought plays a very important role in developing the architecture of lobbying capability. Consequently, we found that ownership played a vital role in defining the design of the lobbying capability based on networks, structure and human resources.

Tables III and IV summarize the evidence involved in advancing the choices in design, together with the inter-group issues needing to be resolved before the lobbying would be undertaken. For example, the private and state owned airlines revealed different patterns of lobbying practices using their internal and external capabilities (Lyon et al.,

2004): the use of trade association for the compensation package versus action from within the firms and above all the question of where and by whom lobbying should be delivered.

Take in Table III

Take in Table IV

This debate was associated across all cases with emergency policy initiatives on steps to help airlines stay financially sound. A national transport group was set up on this issue and included representatives of the airline profession, ministers, and advocacy groups. The following proposition summarizes the nature of the actions associated with lobbying capability design.

Proposition 1: In unpredictable policy contexts, the policy environment moderates the lobbying capability design choices more significantly in state owned airlines than in privately owned airlines.

Assemble the structure to design the lobbying capabilities

One of the ways through which lobbying capabilities are designed – as found in all five firms - was adapting the lobbying capability of the firm. 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 unpredictable policy context. Different organizations and their

respective departments of political affairs focused on different aspects of management and organizing in order to develop their lobbying processes to influence regulators on insurance coverage, security cost and compensations package issues. For instance, developing a lobbying capability was associated with greater levels of departmental re-structuring among the top management teams from state owned airlines as opposed to privately owned or publicly listed airlines. In other words, for mainly state owned airlines, lobbying activities in this challenging policy context changed, often leading to structural reorganization and formal redefinitions of the responsibilities of new units and substructures within the political affairs office. These state owned airlines transferred most of their lobbying efforts to interest group representation - through the AEA – within weeks of the 9/11 attacks.

On the other hand, the privately owned airlines did not spend time re-structuring their departments at the outset like government owned airlines did. Instead, the decision-making focused initially more on individual influencing with specific national targets, but then realizing that time was of the essence, these firms adopted a dual pronged strategy. This dual pronged lobbying strategy had an individual lobbying component but with a greater level of responsibility transference for decision making to interest group representation - the AEA - where there was more of an attempt for a joint problem solving strategy. An informant explained the rationale in more detail from a state owned airline:

> *In this crazy environment, we invested more time into structure of our lobbying then in private owned airlines like BA.*

This finding confirms an extant view of dynamic capabilities as constrained by the structural organization of firms (Teece et al., 1997). At the same time it refutes existing views that organizational structures tend to be static and impede the development of a firm's dynamic capabilities (Marengo et al., 2000). Our observation suggests that state owned airlines were re-structuring to reconfigure their lobbying capability so as to align it with the new policy environment, while private airlines had a more sophisticated lobbying capability that was better prepared for unpredictable events. Moreover, private airlines had what they perceived to be good political resources and lobbying competencies for the post-9/11 period, which they used to exert individual influence from the outset. Indeed, departmental modification was found to be slightly different between private and state owned airlines. Privately owned airlines believed that they needed to focus more on the human and network resources to modify their lobbying capability. There were some interaction effects between organizational structure and human resources, where people were taken out to develop lobbying capabilities in order to make it efficient for potentially new policy issues. Incidentally, we found that efficiency was dictating the lobbying capability development process and as a result of this, policy context was creating a sort of push effect on airlines. The nature of the accounts arising from the focused management choices on structure is summarized in the following proposition:

Proposition 2: In unpredictable policy contexts, department restructuring occurs more substantively in state owned airlines than in private owned airlines.

Assemble the human resources to design the lobbying capabilities

Another important variable confirming ideas from extant research on dynamic capabilities is human capital, which links them to changes in specific functional capabilities (Eisenhardt and Martin, 2000) and knowledge flows (Helfat and Rabitscheck, 2000). However, our observations accord greater importance to 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 designing lobbying capabilities. As one informant from a state owned airline said:

> *Post September 11th we realized that we needed new people who had better EU knowledge, as that is where things were moving.*

Furthermore, our research highlights the role of organizational processes not only in design but also in discovering what new lobbying capabilities should be developed. Together these insights suggest that the development of firms' lobbying capabilities can be understood as change processes unfolding at two levels: a lower level associated with the upgrading of the organization's management capability in terms of staffing key positions with more experienced and skilled managers and redefining responsibilities at different levels of the organizational hierarchy; and a higher level associated with developing new lobbying competencies in order to respond to changing political environments. These two levels are driven by changing perceptions of top managers about what it takes to succeed in their nonmarket contexts and what managerial and lobbying competencies are required to respond to the changes.

Analyzing the data across all five firms suggested that the momentum for design choices in lobbying capabilities depended on the amount of competency that the organization managed to accumulate, which depended on who was hired. Therefore, interaction effects and overlaps were found between human resources and competence that played a role in developing a lobbying capability. The following summarizes the nature of the action associated with fragmented lobbying capability design:

Proposition 3: In unpredictable policy contexts, strategic hiring moderates the structure of lobbying capabilities more significantly in state owned airlines than in private owned airlines.

Assemble the network relationship to design the lobbying capabilities

Thirdly, the development of lobbying capabilities frequently entails the creation of new lobbying competencies by means of re-configuring network resources. Relationships (also called social capital or networks), were stipulated by nearly all informants as an important variable in the development of lobbying capabilities. Cast in diverse styles of argument (Granovetter, 1973; Lin et al., 1981; Coleman, 1990; Nahapiet and Ghoshal, 1998; Finkelstein et al., 2007), social capital has become a ubiquitous metaphor in the study of organizations. The compelling idea embodied in the notion of social capital is implicitly or explicitly present in various research streams that focus on how social ties enhance an actor's ability to attain its goals. This research identifies one main way in which political networks can enhance individual and organizational performance. First, political networks can facilitate access to information, additional resources, and opportunities (Campbell et al., 1986; Podolny, 2001). Thus, actors with networks rich in

social capital have privileged access to resources and nonmarket information, and this should make them better at leading, organizing, and mobilizing other actors towards collective goals. As one executive informant put it:

> *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 spoke directly to the government, but mainly used AEA due to time factor in this context.*

Early research on social capital 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 network resources and the top management team within the political affairs office to be very important in facilitating access to the appropriate political information and resources. Vice versa, we found that government receiving position papers from airlines allowed them to understand the severity of the problem or challenge facing airline companies. We also 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). First, the structure revolved around the relationship influence series, where the actual order of who to contact was crucial in determining what informers called 'best' influence. Second, the relationship micro targets, meaning whom to target, in this time frame, played a vital role. It was management action that determined the relationship series and target for each senior

executive. This management intent played a vital role in developing robust lobbying capability.

As the time factor played an important role, the airlines were looking to exert rapid influence during this period, so they decided to use the AEA, which had extensive networks and resources, whilst simultaneously using their own network resources to develop lobbying capabilities. The level of development of lobbying influence depended on the structural configuration that the organization managed, which depended on who was hired and worked at the organization. Therefore, interaction effects and overlaps were found between the structure and the network that played a role in developing lobbying capabilities.

The way in which top management intervene plays a very important role in developing the design for lobbying processes. Our integrated framework presented in Figure 1 introduces the propositions and the system of variables pertaining to lobbying capability design. We first describe relationships between the senior managers, the owners and the three main resources (structure, networks and human capital). We then examine how the policy context parameters moderate the design choices of lobbying capabilities. It is important to note that we provide an integrated theoretical construct that extends the dynamic capability perspective by unbundling the links between managers, resources and capabilities, taking into account airline features and context. The central part of Figure 1 illustrates the reciprocal relationships between the components that emerged dynamically in the course of specific lobbying actions for the compensation package.

Take in Figure 1

It is worth noting that although Figure 1 sets management choices at the centre of the framework, indirectly suggesting that management is able to steer networks, human capital and structure, this is only true to some extent. We know that management choices (Child 1984) are also constrained by a set of uncertain - and uncontrollable - events. The latter means that the effectiveness of managerial choices is dependent on the nature of external and dynamic uncertain events and, as such, has limitations.

DISCUSSION AND CONTRIBUTION

In this paper we addressed the answer the question of 'how' lobbying capabilities were designed and whether distinct lobbying patterns emerged during this unpredictable period in different airlines. We found that the role of the policy environment and ownership effects play a crucial role in senior managers design choices of a higher-level lobbying capability combination (internal and external). Furthermore, the rationale shows that management interventions are affected by their resource endowments and the given policy environment, which ultimately impacts how lobbying capabilities are designed and combined to create influence. Each lobbying activity during this period required relevant doses of directed, conscious efforts at the highest level of the organizational and trade association management hierarchy (Dosi et al., 2000).

Recent work on the design of dynamic capabilities has emphasized the constraining effect of organizational history, organizational learning, technological trajectories, evolutionary paths created by organizational routines and beliefs of top managers which tend towards inertia (Teece et al., 1997; Tripsas and Gavetti, 2000;

Salvato, 2009). These studies attempt to explore the high-level activities that link to management ability to sense and then seize opportunities (Teece, 2007; Salvato, 2009). However, these studies do not explore how strategic managers can design capabilities to navigate and deal with unanticipated threats. Our study examines how managers in a specific industry and policy context sense and seize external opportunities so as to design dynamic capabilities that are used effectively during periods of policy uncertainty (Teece, 2007).

Our first contribution is to highlight a heterogeneous combination of internal and external lobbying capabilities. These are utilized differently by state and non-state owned airlines to leverage on their political resources so as to create influence and consequently obtain favorable compensation package. Recent work has looked at how various capabilities interact with each other to sustain competitive advantage (Salvato, 2009). We build on those studies to identify different capability design patterns between state and non-state owned airlines in the way they combine and aggregate their lobbying capabilities. The general patterns found combinations of capabilities with the management focus level inclined towards the external lobbying processes for leveraging and deploying resources in order to create influence. From the outset, this was more the case in state owned airlines than in non-state owned airlines post 9/11. Yet according to the respondents, the pattern was fairly similar after a few months for both state and non-state airlines (apart from Lufthansa, who believed they used a more balanced process combination). Nevertheless, the shift to the external lobbying processes occurred because airlines believed that they had less time to maneuver and everyone had common interests on the compensation issue. The decision to leverage AEA's resources was more to defend competitive positions.

Having looked at the combination aspects of internal and external lobbying capabilities, our second contribution is to note that dynamic capability literature has neglected to look at the effects of ownership on capability design through adaptations. In our post 9/11 context we find that the capability design is either supported or constrained by ownership structure. Moreover, we find that the privately owned airlines have a more sophisticated political capability design, and rely less on external capabilities but instead try to use both internal and external capabilities.

Finally, research has elaborated the concept of *managerial choice* to refer to the capacity of individual managers to modify the resource base of an organization (Adner and Helfat, 2003). Our inductive lobbying capability design framework has multiple implications for government affairs managers. In particular, managers need to be able to acquire, accumulate (political resource endowment), and divest political resources (political resources i.e. interest groups like AEA, consultants or in-house staff) to have the most effective resource portfolio at any given time. Managers should also have the competence necessary to bundle resources to create effective political lobbying capabilities. Firms especially need to be able to develop new or leverage current 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 thinking and adjust the political resource portfolio.

CONCLUSIONS AND FUTURE DIRECTIONS

Previous studies on lobbying capabilities are missing an account of how these capabilities are designed over time in a given policy context. This paper addressed that issue by providing an account of the genesis and design of lobbying capabilities within European

flag carrier airlines in the post 9/11 period. It also highlighted that there were design variations due to ownership effects on the strategic decisions.

Our study suggests that lobbying capabilities are not vague and that, if properly leveraged, may contribute to market advantage. Our data shows lobbying capabilities relate to specific processes that are developed by a set of strong and distinct variables. Data also shows that the design of lobbying capabilities depends on focused management effort, and these management mindsets consist of particular types of heuristics that include those about how to affect public policy, e.g. which politician to target, which networks relationship to invest in, in what order to approach the networks and when to best influence the relevant political actors (Vining et al., 2005). While the details of lobbying capability may be unique to a particular firm - which political person to approach or which network to target - the underlying structure is strikingly different between private and state airlines. These content differences - and similarities - imply that lobbying capabilities should be internal or/and external in structure. The unequal level in the lobbying capability is due to senior managers developing them from different starting points and along different evolutionary paths (Eisenhardt and Martin, 2000). Our research findings also show that lobbying capabilities are fairly homogeneous in unpredictable contexts in a later lobbying capability time frame, whereas heterogeneity is more evident in the early phase.

Looking at the management choices of senior executives across the different ownership compositions and issues reveals that privately owned airlines shared a common form of design choice in this unpredictable policy context. This pattern suggests that policy issue types may affect the mindset of senior management, in conjunction with stakeholders that they engage with, and this consequently affects the lobbying capability

design choices. We can see that each airline in this study demonstrated two types of lobbying form - internal and external. This raises the issue of investing more in internal lobbying capabilities versus external capabilities. This finding suggests that there may be firms in which leaders inevitably become involved in developing their lobbying around any policy issue and others in which there are dynamic sets of stakeholders (owners) who almost always seek to contribute to the formation of lobbying capability, irrespective of the policy issue.

This paper raises important questions for future research on dynamic capability and corporate lobbying activity. In particular, on the antecedents of political lobbying - especially the role of the specific policy issue and organization involved in determining the form (the distinct pattern of leader-ownership interaction) of lobbying capability development. Although in this study neither ownership nor organization alone determined the form of lobbying, each appeared to have some impact.

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Table I: Nationality and ownership of the case study airlines

Airlines	Ownership	Number of employees	Country of origin
SAS*	21.4% Swedish State	13,528	Norway
	14.3% Danish State		Sweden
	14.3% Norwegian State		Denmark
	50% Private interests		
Alitalia	62.4% State ownership	20,575	Italy
	35.7% Private ownership		
	2% Air France		
TAP Air Portugal	100% State ownership	5,750	Portugal
Lufthansa*	91.4% Free Float	90,673	Germany
	8.6% Block Ownership		
KLM*	100% Public quoted company (2001)	37,487	Netherlands
	96% KLM/Air France (2004)		

* Majority public quoted

Table II: Political resources leveraged in an unpredictable context

Political capital	Selected quotes from the interviews
Human	*Knowledge, training, intelligence, insight and experience obtained in areas such as law, economics, political and management.*
Network	*These networks include formal, e.g. being a member of an association or committee and informal, e.g. friends within the political system. Also, relations among groups within a firm and those in the non-market environment.*

Organizational   *The formal organizational structure, its planning and coordinating systems.*

Table III: Managerial Choices in an unpredictable context (Non-state owned airlines)

Case	Political resources leveraged	Quotation Exemplifying the Depth of the Debate
SAS **Private Owned**	Networks	*** *We were lobbying the EU system mostly through AEA but we also obviously used our national EU representatives. We addressed the Scandinavian governments and parliaments for the compensation package.* *** *To make sure people hear you, you must contact your top trumps quickly, then start contacting other friends at other airlines and the AEA.*
	Human	*** *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*
	Structure	*** *At this time we needed to be effective, efficient and more serious about lobbying. Influence on the political decision 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. Therefore, there was no real change in our structure. But this was different in state owned airlines.*
Lufthansa **Private Owned**	Networks	*** *I think you could say that in this context building new networks was 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 organization 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.*
	Human	** *The contacts cannot be born overnight. It's more complex in our lobbying design. For example in our department after September 11 we had few people from different fields of knowledge. We had thinkers - which is important - and then contactors. At least that is how we worked then and still work.*
	Structure	*** *We did not change our structure. We remained structurally intact with no modifications. Like I said earlier. This department is very specialized and each person plays a very important role. Lufthansa can be weakened if any of them are taken out of the big picture. Yes other departments did lose people, like in marketing, but our function is viewed as a very important function.*
KLM **Private Owned**	Networks	*** *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. 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.*
	Human	*** *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.*
	Structure	*** *What we have done is we have slightly 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 the same area in 2001.*

ᵃ The asterisks show the strength of evidence from KLM, SAS and Lufthansa
    *** Strong – Strong evidence
    ** Moderate – Moderate evidence
    * Weak – Weak evidence

Table IV: Managerial choices in the unpredictable context (State owned airlines)

Case Airline	Political resources leveraged	Quotation Exemplifying the Depth of the Debate
Alitalia Majority public owned	Networks	*** *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 spoke directly to the government, but mainly used AEA due to time factor in this context.*
	Human	*** *We had people with some good knowledge in place to deal with the issues arising from 9/11. But you need more time to influence at the EU level. Maybe our structure and competence was more nationally oriented then EU level, which we tried to fix around 2004 by hiring new people.*
	Structure	** *We re-shaped in early 2002 and did the main restructuring around 2003. But we definitely re-enforced our lobbying activities because of all the consequences of the 9/11 attacks.*
TAP Air Portugal Majority public owned	Networks	*** *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.* *** *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 organize 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.*
	Human	** *We realized that we needed new people who had better EU knowledge, as that is where things were moving.* ** *People are important and we think that 9/11 hit us hard. We had to lobby using various routines like meetings, communicating using our phones and face to face, but our people were less EU focused. Therefore AEA became a very important channel for us to have our voice heard.*
	Structure	** *Oh yes, it became even more crucial to restructure our department 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 our firm wanted someone that had more of an EU background.*

[a] The asterisks show the strength of evidence from TAP Air Portugal and Alitalia
   *** Strong – Strong evidence
   ** Moderate – Moderate evidence
   * Weak – Weak evidence

Figure 1: An Integrated framework for lobbying design

Lobbying Capabilities

Policy Environment

P1

Management Choices

- EXPERIENCE
- LEARNING BY DOING

Human capital

Structure

P3

P2

Ownership

Networks

Ownership