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Antecedents of Political Capabilities:

A study of ownership, cross-border activity and organization at legacy airlines in a European deregulatory context

ABSTRACT

Governments and ownership structures can both facilitate and constrain organizational value creation. Firm-level political strategy is a frequent response to protect or promote organizational interests. When effectively configured and implemented, these political strategies can become capabilities. This inductive study examines the antecedents of political capabilities in European airlines within the context of cross-border market deregulation. Our central contribution is an understanding of how management teams from non-state and state airlines organize and develop divergent corporate political capabilities in this context. While managers' actions in response to specific public policy processes can create political capabilities, the outcome is moderated by the nature of corporate ownership and the relative influence of public and private stakeholders on capability formation. Our theoretical contribution is to extend the study of organizational capabilities into the non-market context through analyzing how European flag carrier airlines organized their political capabilities in anticipation of a changing transnational policy context.

Keywords: Corporate political activity, organizational capabilities, ownership, air transport, cross-border deregulation.

1. Introduction

Governments have demonstrable effects on the competitive advantage of firms and industries and can contribute to increases or decreases in profitability (MacAvoy, 1992; Kim, 2008). As a discipline, strategic management has offered a variety of theoretical routes to address the role of government and public policy in this process (Mahoney and Pandian, 1992; Cockburn *et al.*, 2000; Segal-Horn, 2004). The organizational capability approach, embedded in the context of a resource-based view (RBV), has become a primary explanatory framework of competitive advantage (Peteraf, 1993; Ethiraj *et al.*, 2005; Felin and Foss, 2005; Ambrosini *et al.*, 2009; Salvato, 2009). It explicitly focuses on conditions of market environment change (Eisenhardt and Martin, 2000; Easterby-Smith *et al.*, 2009) and non-market environment change (Learned *et al.*, 1969; McWilliams *et al.*, 2002; Baron, 2001; Bonardi *et al*., 2007). However one of the more intriguing and unresolved puzzles in RBV theory is this: How do firms organize capabilities, specifically political capabilities, and more importantly how do ownership structures affect the organization of political capabilities in a specific non-market environment context? In aggregate, this paper contributes to the literature on RBV by developing a better understanding of how senior managers in legacy airlines organize their political capabilities in the context of deregulation. We draw on RBV and corporate political activity literatures to build a conceptual model to understand how legacy airlines organize their political capabilities when faced with a deregulation context. We build theory on the organization of political capabilities by looking at management action and exploring the impact of ownership structures in the "organizing" process.

Nelson and Winter (1982) and Volberda (1998) viewed organizational capabilities as the ability of firms to use resources in changing environments. However, since their seminal work, the organizational capabilities perspective has encountered criticism for relying on aggregated proxies of firm-level activity without examining individuals or groups – the likely origin of these organizational advantages (Ethiraj *et al*., 2005). We seek to address these criticisms by contributing to the organizational capabilities debate and more broadly, the RBV, by exploring

how senior managers participate in organizing political capabilities and what are the ownership impacts and interactional processes that enable and/or hinder the organizing of political capabilities. We argue that managerial action can manipulate resources into new potential value-creating strategies (Adner and Helfat, 2003; Cho and Hambrick, 2006; Peteraf and Reed, 2007). However, ownership structures can hinder and constrain the way political capabilities are organized, with non-state owned firms investing more time and resource in organizing political capabilities than state-owned firms.

The empirical research on organizational capabilities concentrates mainly on specific processes such as pricing (Dutta *et al*., 2003) and marketing (Morgan *et al*., 2003). This suggests a narrower interpretation of organizational capabilities than originally envisioned by Eisenhardt and Martin (Ethiraj *et al*., 2005). This inductive study responds to Ethiraj *et al*.'s (2005) call for more research into specific capabilities that are bounded contextually that are focused on managerial dynamics, and which explore the antecedents of collective managerial action. While earlier accounts on RBV focused on how firms can create advantages using resources and capabilities in market environments (Wernerfelt, 1984, 1995; Barney, 1991; Rosenbloom, 2000; Eisenhardt and Martin, 2000; Zollo and Winter, 2002; Helfat and Peteraf, 2003; Helfat *et al*, 2007), the non-market environment has more recently gained attention, particularly the corporate political context (Hillman and Hitt, 1999; McWilliams *et al*., 2002; Hillman *et al*., 2004; Bonardi *et al*., 2006; Frynas *et al*., 2006; Holtbrügge *et al.*, 2007; Oliver and Holzinger, 2008). Less attention is paid to how firms and managers organize their political capabilities in varying contexts (Doh and Pearce, 2005) and there is a relative absence of qualitative research seeking to embed organizational capabilities literature within the political environment (Lawton and Rajwani, 2011).

Building on Scott (2002), we define the 'organization of political capabilities' as a set of purposeful strategic actions taken by managers to systematize a desired structure underpinning a resource in politicized arenas. This is reinforced by Makadok's (2001) emphasis on the

distinction between capabilities and resources, where he defined capabilities as *"a special type of resource, specifically an organizationally embedded non-transferable firm-specific resource whose purpose is to improve the productivity of the other resources possessed by the firm"* (Makadok, 2001, pp. 389). Similarly Amit and Schoemaker argue that *"resources are stocks of available factors that are owned or controlled by the organization, and capabilities are an organization's capacity to deploy resources"* (1993, p. 35). We concur with Sirmon *et al.* (2007) in noting that it is the bundling of the resources that builds capabilities and argue that this is also the case in the corporate political context.

The RBV has been identified as a powerful – but often underleveraged – theoretical perspective for understanding cross-border phenomenon (Peng, 2001). Moreover, international business scholars are increasing interested in "context", including, for example, how institutional variation in home markets may affect cross-border strategies (Henisz and Swaminathan, 2008). As such, part of our thesis is that the domestic ownership structure – as determined by the national context in which airlines grew and developed – influenced their cross-border political strategies toward an emergent set of regulatory actors – the EU.

Hence, the purpose of the study is to examine the antecedents of "how" political capabilities are organized, with focus on managerial action (Buergi *et al*., 2005; Jarzabkowski, 2008; Regnér, 2008). Our inductive analysis of in depth interviews, press accounts and company documents revealed two different processes by which European flag carrier airlines with differing ownership structures organized their political capabilities in anticipation of a changing policy context. The anticipated policy in this case was the European air transport market liberalization during 1987 to 1997. The findings have implications for both capabilities research and management practice.

2. Theoretical background

2.1. Corporate political activity

Whereas market strategies involve decisions such as product positioning and pricing, non-market strategies are actions taken by the firm in its political, regulatory, and social environments for the purpose of increasing firm value (Baron, 1995, 1997). Non-market behavior includes such activities as lobbying a legislator or regulator, litigating a case in court, making campaign contributions, and mobilizing social actors to support or oppose a strategic initiative. There are two fundamental questions associated with crafting nonmarket strategy: first, "how much" non-market activity should a firm undertake; and second, whether non-market activity should be pursued individually or collectively within the industry (Lyon and Maxwell, 2004). These questions are important as they relate to both firm strategy and the boundaries of the firm. We apply these questions to the corporate political activity undertaken by airlines at the European Commission and EU national government level.

The notion of corporate political activity and its value to firms in managing the non-market environment both nationally and internationally is acknowledged in the literature (Baysinger *et al*., 1985; Getz, 1997; Hillman and Hitt, 1999; Keillor and Hult, 2004; Bonardi *et al*., 2006). Keillor *et al*., (2005) suggest that firms involved in political strategy have several motives for engaging in political behavior. First, domain advantage (pursuing the firm's private interests); second, domain defense (managing public policy that might be at odds with the firm's strategic goals); and third, domain maintenance (influencing public policy that might threaten the means by which a firm achieves it goals). A variety of political behaviors can be used to accomplish the firm's overall objective of dealing with political uncertainty. These include business-government alliances, political inducements and contributions and, in this study, overt political strategy (Baysinger, 1984; Holtbrügge *et al.*, 2007). The resulting benefits to the firm can include reduced environmental uncertainty, reduced transaction costs, and increased long-term sustainability (Hillman and Zarkhoodi, 1999). However, 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, p. 318).

Existing research on corporate political activity tends to focus on the amount and type of influence that occurs and has largely omitted the options firms have to organize their political capabilities, 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). The collective action literature has much to say about the amount of political strategies that occur but it is less informative when it comes to the organization of political capabilities (Hillman *et al*., 1999). The theories articulating the free-rider problem do not address whether firms will choose to internalize the political action function or undertake it through a common body outside their organizations. The main criticisms of the studies are that they fail to understand how managers participate in developing these political capabilities, especially by understanding the key patterns of development internally and externally.

2.2. The organization of political capabilities

The organization of capabilities may be identified through retrospective sense-making and experience, as knowledge of the organizational processes evolves (Helfat and Peteraf, 2003; Pandza and Thorpe, 2009; Ambrosini *et al.*, 2009; Easterby-Smith *et al.*, 2009). Conversely, some researchers have also suggested that capabilities are the result of deliberate investments in organizational structure and systems to make constant improvements in those practices (Zollo and Winter, 2002; Helfat and Lieberman, 2002). The evolutionary nature of the capability phenomenon is powerful in revealing how managers are constrained in their actions. However, the organizational capabilities perspective (and the RBV more broadly) has not to date demonstrated sufficiently how different firm-level capabilities relate 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 the foundations of 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 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*" (1989, p. 1506). We believe that understanding and identifying the specific processes and routines managers use to manage political capabilities and political resources will help create a richer conceptualization of the micro-level activities in organizational capabilities more generally. Therefore, building on the work of Teece *et al*. (1997), Eisenhardt and Martin (2000) and Bonardi *et al*. (2006), we describe political capabilities as:

> *The organizational and strategic activities by which senior representatives or acting representatives reconfigure, leverage and release political resources to achieve new resource configurations that enable the company to adapt to, anticipate or even shape changes in the corporate political environment.*

Given the incremental nature of organizing capabilities, firms that seek to establish superior capabilities as the basis of advantage must prevent the overall coherence of their capability from being eroded or appropriated. From the corporate political activity perspective, studies show that the political capabilities involved in managing resources are, themselves, affected by the non-market environmental context (Bonardi *et al.*, 2006) - in our case the public policy environment. Newbert (2007) suggests that one way to prevent value erosion is to better organize the resource-capability combination. As noted earlier, it is the bundling of resources that builds capabilities (Sirmon *et al*., 2007). In the corporate political context, the bundling of political resources shapes political capabilities and the organization, management and deployment of these political

capabilities in turn fosters the development of new political resources. Creating a series of temporary advantages allows the firm to establish new value from all value accumulation (Sirmon *et al*., 2007). Thus, effectively and efficiently managing political resources and political capabilities within a political environmental context ultimately determines the amount of value the firm generates and maintains over time (Oliver and Holzinger, 2008).

2.3. Corporate political capabilities and ownership effects in the airline industry

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. Scholars have begun to study ownership related issues in the management literature (Hoskisson *et al.,* 2002). Previous studies have shown that bank ownership differ in terms of firms decisions on corporate political strategies (Ozner *et al.,* 2010). Consequently, ownership may impact firms' strategic decisions on issues such as innovation (Lee, 2005) and R&D investment (Tribo *et al*., 2007).

Zingales' (2000) typology of ownership models of the firm helps to pin down the origins of different views about the role that ownership plays. Ownership is all about managing resources, using contracts on the conception of the firm as a nexus of resources. In the first variant, associated with Alchian and Demsetz (1972) and Jensen and Meckling (1976), contracts that impact resources are complete; whereas in the second variant, associated with Hart and Moore (1990), contracts that impact resources are incomplete. Government ownership was the dominant governance structure in industries such as air transport in most parts of the world until the post-Cold War proliferation and adoption of capitalist values (Gomes-Casseres, 1990). Despite this global phenomenon, few RBV studies have explored how publicly listed firms with divergent ownership structures - comprised of mainly private investors or mainly government ownership - organize their political capabilities.

Governments represent major sources of uncertainty for firms because they often control or influence critical resources and market opportunities that shape firms' industry and competitive environments (Jacobson *et al.*, 1993; Baron, 1995). CPA studies have shown that government ownership and their public policies impact firms (Hillman, 2005). As a result, many firms engage in political strategies: proactive or reactive actions to affect the public policy environment in a way favorable to the firm (Baysinger, 1984; Hillman and Dalziel, 2003). Despite the acknowledged importance of governments to airlines structures and strategies (Vietor, 1991; Brown, 1987; Lawton, 2002), the state of scholarly knowledge about airline corporate political capabilities remains scant when compared with research on strategies for the economic marketplace (Brown, 1987; Dahan, 2005). More knowledge is needed regarding the way firms organize their ongoing political capabilities through managerial interventions, as this would enhance our understanding of firms' competitive successes and failures (Hillman *et al.*, 2004).

Despite the lack of managerial perspectives in corporate political activity research, our study concentrates on exploring inductively the major corporate political activities conducted through contract lobbyist and lawyers, in-house departments and trade associations, (De Figueiredo and Tiller, 2001). Therefore, understanding management inputs and the antecedents of political activities under deregulation conditions will yield some insights into the different ways to organize political capabilities.

3. Research design and methods

There is a relative absence of research exploring how the concept of organizational capabilities can be embedded within the political environment. We follow theory elaboration process (Lee, 1999; Lee, Mitchell and Sablynski, 1999) in our effort to identify and elaborate a theoretical connection not previously addressed in the organizational capabilities (RBV broadly) and corporate political activity literature. We seek to "simplify, reconnect and redirect capability theory" (Lee *et al.*, 1999) relating to the organization of political capabilities in a given policy

context. In other words, we aim to extend the capability theory to capture the antecedents and organization of political capabilities through strategic actions and specific micro level variables. We note a paucity of qualitative empirical research in this area. In particular, in-depth interviews are an insightful method for exploring the often nuanced causal factors of specific managerial action. In this paper, qualitative methods provide a richer contextualization of the organization of political capabilities.

3.1. Research setting and approach

Consideration of the policy contexts in the non-market environment are important to analyze the way political capabilities are organized, 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 political capabilities on helping the firm manage its resources in a given policy context (Ethiraj *et al*., 2005; Hillman *et al*., 2004). Although firms in any given industry are likely to face similar types of policy forces, the differences in their accumulated political resources and political capability endowments (e.g. skills, propensity for learning, specialized assets) could become important factors that may influence the development of sources of competitive advantage (Barney, 1991).

We define the policy context as a policy environment where firms, individually or collectively, have an expected understanding of systemic stakeholder decisions or actions within a political system. As a result, the firm responds proactively to advance or defend its interests. Our context is the European air transport market deregulation context, which is viewed as a period of regulatory reform that constitutes complete elimination of competitive restrictions with the objective of improved economic performance (Kim and Prescott, 2005). The deregulation of the airline industry in Europe happened in three stages (sometimes referred to as three packages), commencing in 1987, with the third package of reforms being the most influential and coming into full effect at the beginning of 1997 (Kim and Prescott, 2005). Deregulation processes and

outcomes fell along a continuum, from minimal (package 1 and 2), representing relatively minor changes in the regulatory environment, to maximal (package 3), through which the industry was fully deregulated.

3.2. Choice of industry and firms

We followed the guidelines of case selection for theory building from case studies provided by Yin (1999, 2003) and Eisenhardt (1989a). The selection of the case sites was based on theoretical sampling, necessary so that the phenomenon of interest can be readily observed. In the European airline industry we identified several firms that met our initial criteria of being a fully functioning business in the chosen policy context, including firms that: (a) had some amount of history (i.e. were not recent start-ups); and (b) had made statements in press releases or the media that they were in the process of reconfiguring some important aspect of their political strategies during the chosen policy context. We contacted twenty EU-based long haul airlines and selected for the study the five firms that committed to participate through granting us good access to their people and documentation. In particular, these case companies granted us access to members of top management teams within their government affairs offices or related departments that dealt with government and regulatory agencies. All participating firms expressed an interest in the potential findings of the study, which ensured a high degree of cooperation during the interviewing process. Conveniently, the five case companies selected represent a diversity of European airline companies in terms of size, ownership structure, market success, geographical base and route network.

We selected the airline industry – specifically European flag carrier airlines - as a setting for our investigation for several reasons. First, air travel remains a large and continuously expanding industry. It facilitates economic growth, world trade, international investment and tourism and is therefore central to the globalization phenomenon. Second, the airline industry has been fraught with politics and governmental interference for many decades and airlines have had

to battle with the politics of regulation and deregulation, both domestically and internationally (Brown, 1987; Kyrou, 2000).

The five companies included in this study are SAS, Alitalia, TAP Air Portugal, Lufthansa, and KLM. Table A.1 provides basic data on these five case companies.

INSERT TABLE A.1 ABOUT HERE

3.3. Data sources

Data collection spanned a period of nearly four years. The processes began with a collection of in-depth, semi-structured interviews with a pilot group of three directors and one manager of government affairs from Virgin Atlantic and Swiss Air. The purpose of these interviews was to ascertain some key constructs to refine the questionnaire used for subsequent interviews. These experts helped to define some key themes around political capability development – network resource investment, human resources investment and structural resource investment decisions – employed by airlines with different ownership structures.

We gained access to five airlines where we performed 42 semi-structured interviews between 2003-2007, ranging from one to two hour in-person interviews and telephone interviews. All interviews were recorded and transcribed. We interviewed the Directors of Government, Aeropolitical Affair, Public Affairs, Public Relations experts, as well as other members of the top management team in the next level of the hierarchy who were responsible for the areas targeted for organizing political capabilities during the chosen policy context. We also used some external experts from the Association of European Airlines (AEA) and the International Air Transport Association (IATA) to increase the validity and reliability of data. The study also used secondary

data sources spanning a 10 year period. These included public documents, company reports, newspaper articles, press releases and accounts in specialist airline books and periodicals.

3.4. Data analysis

As is typical for multiple-case, inductive research methodologies (Eisenhardt, 1989a) we commenced data analysis by synthesizing all the interview data and the secondary data of a focal firm and building individual case histories (Santos and Eisenhardt, 2009). We began with an in-depth analysis of each case through the lens of our research question: *How do firms organize political capabilities and how do ownership structures affect the organization of these political capabilities in a specific non-market environment context?* We constructed a timeline of key events and developed a comprehensive understanding of the overall case by reading and coding all interviews and documents. Given the large number of public documents, company reports, newspaper articles, press releases, we used a parsimonious list of general codes ("actions", "relationships", "structure" and "strategy") and company interviews to understand how political capabilities were developed during the period from 1987 to 1997 at a national and a European level to explore their political strategies to impact the deregulation process. This perspective allowed us to explore the changes and cycles that occurred in multiple levels of organizing (Callinicos, 2005; Jenkins, 2010).

The research employed a multi-case design that supported replication logic, whereby a set of cases was treated as a series of experiments, each serving to confirm or disconfirm a set of observations (Yin, 2003). The primary unit of analysis was the political capability. For each initiative we identified the motivation behind the decisions. We cross-checked these descriptions across informants to enhance validity. We looked for both commonalities in management actions in the organizing of political capabilities across initiatives and for the overall pattern. After completing the case analysis, we began to compare the patterns of organizing political capabilities

across the five firms studied. Once the framework was developed, we applied it to all five cases to examine how well it fit with the data (Yin, 2003). We also contacted some of the firms with requests to review the preliminary framework and provide comments on the findings of the study. Such procedures helped to establish the validity of results derived from the qualitative analysis (Brown and Eisenhardt, 1997).

We developed a set of formally stated observations and quotes that were based on early case analyses of the chosen airlines. This constant iteration between theory and data helped sharpen constructs, strengthen the internal validity of findings and enable more frequent comparison of emergent theory with concepts and constructs from the extant literature. The technique of cross-case pattern sequencing (Miles and Huberman, 1994) was used to construct an interpretive model for organizing political capabilities. The key quotes were used to illustrate the key constructs in the organizing of political capabilities.

4. Results: organizing political capabilities and ownership constraints

Our data suggest that specific managerial action helps in organizing political capabilities, using both internal and external means and resource configurations (human, network and organizational). Past research on organizational capabilities has emphasized the constraining effect of organizational learning, technological trajectories, historical constructs, evolutionary paths created by organizational routines and beliefs of top managers which tend towards inertia (Teece *et al.*, 1997; Tripsas and Gavetti, 2000; Peteraf and Reed, 2007). We address how management actions relate to the organization of political capabilities across our five case studies. We identify a range of strategic actions that the managers were using to organize their political resources to adapt their political capabilities in the chosen policy context. We outline the complex relationships between the management actions and the two distinct patterns in the organizing of political capabilities.

4.1. Focused or diverted management action in shaping political capabilities

Our data suggests that all airlines were focusing their efforts primarily on three overarching issues in their lobbying actions: route license, state aid and prices during the shaping of the European deregulation packages (Stasinopoulos, 1992). We found that most strategic actions around organizing were to do with lobbying for mainly these three issues. These strategic actions taken by managers were focused and deliberate (Peteraf and Reed, 2007), with the ultimate aim of influencing government and its regulatory agents. In keeping with prior research from Peteraf and Reed (2007), we contribute by exploring the constraints to these strategic actions by exploring ownership impacts on organizing political capabilities to create influence.

For all the airlines studied, senior management action (Ocasio, 1997; Cho and Hambrick, 2006), or strategic decision-making more broadly (Eisenhardt and Martin's, 2000), was an important part of the puzzle in organizing political capabilities (Dean and Sharfman, 1996). Our research suggests that starting early is one part of the process (Chang, 1995). 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 (Allinson, Chell, and Hayes, 2000). In this study, several executives highlighted that it is all about timing when it comes to organizing political capabilities. As an executive at Lufthansa commented, "It's all about timing and going with the flow in devising your corporate political game. Start early in the influencing game". In some cases it was suggested that you should start organizing your political capability well in advance of the competition.

In the next sections each proposition will be deduced from extensive research, which assesses the business and political capabilities profiles of five organizations: two state-owned airlines (TAP Air Portugal and Alitalia) and three non-state owned airlines (SAS, Lufthansa and KLM). To the extent that focused management action is motivated by putting effort into specific strategic actions, Tables A.2 and A.3 summarize the evidence involved in advancing the choices in organizing, together with the inter-department issues needing to be resolved before lobbying

could be undertaken. For example, the non-state and state owned airlines revealed different patterns of organizing their political capabilities using their internal and external capabilities: the use of trade association for deregulation versus action from within the firms and above all the question of where and by whom lobbying should be delivered. Moreover, all the airlines had monopoly rights on their routes before deregulation and up to the second package in 1993. Therefore, finances and cash flow were not viewed to be important by the Directors in developing political capabilities in this context.

INSERT TABLES A.2 AND A.3 ABOUT HERE

The theoretical model developed in this paper prepares the way for future research of an interpretive nature on political capability design and its interactions with political resources, while also helps to inform the conduct of variance, based on a given context and ownership structures. Moreover we can see that management action played a vital role in defining the configuration of the micro components of the political capability. We found ownership acted as a core rigidity factor (Leonard-Barton, 1992; Gilbert, 2005). This ownership effect in the organizing processes has not previously been explained in the RBV literature.

4.2. Ownership effects: managerial action and political capabilities

Unlike previous conceptualizations of capability adaptations and organizations, our model in Figure A.1 shows the micro-analytic attributes of organization and how managerial processes are further elaborated by the application of Benford and Snow's (2000) theory of

framing (what we call management action), thereby capturing the multi-faceted nature of the phenomenon. The role of the explicit and tacit knowledge as the tangible and intangible resources that underpin the organization of capabilities is also recognized (Nonaka and Takeuchi, 1995; Peteraf and Reed, 2007). Furthermore, the model's scope and constituent concepts map well onto Hillman *et al.*'s (2004) view of the phenomena studied by corporate political activity scholars and its immediate nomological net. The extended dynamic RBV theory as articulated in the integrative political capability model is outlined in Figure A.1.

INSERT FIGURE A.1 ABOUT HERE

As seen in Figure A.1 and elaborating on Teece *et al.* (1997), Getz (1997), Eisenhardt and Martin (2000), Sirmon *et al*. (2007) and Bonardi *et al*. (2006), political resources are used to organize political capabilities in pursuit of competitive advantage. The non-state owned airlines were actively working hard to organize their political capabilities early in the policy formulation process using their current or new political resource stock. As one executive from a non-state owned airline explains:

> *Compared to airlines that were government owned, we invested more time into building a proactive lobbying practice.*

However, we found that state owned airlines were not actively investing time in these activities early in the policy formulation process, which could explain difference in approaches to political capability design. This results in our first proposition:

> *Proposition 1: In the context of high-level deregulation, non-state owned firms invest more time in organizing political capabilities than state-owned firms.*

4.3. Organizing political capabilities: structural adaption patterns

Further our data indicates that one of the ways in which political capabilities are organized – as found in all five firms - was adapting the political capability of the firm. We use the term structural adaption because it was used by one of our informants and adequately reflects the notion. Informants expressed that they were working towards bringing their political capability to the following stage in the deregulation policy context. Therefore, departmental restructuring relates to the role of structural resources in the resource base view of the firm and organizational design. Advocates of these theories often regard structural modifications as a means to create better alignment and increased performance (Miller, 1987; Oliver and Holzinger, 2008). Although our data confirm that structural adaption's can be a rationale for alignment, we find its constrained by government ownership structures. Thus, we assert that structure is not only a resource that helps to organize political capabilities, but can also believe it's central to why firms influence government's more or less.

Different airlines and their respective departments of political affairs focused on different aspects of organizing in order to develop their political capability to influence regulators on the three packages. For instance, organizing political capabilities was associated with greater levels of departmental re-structuring among the top management teams from non-state airlines, as opposed to state airlines, earlier in the deregulation formulation process. In other words, for non-state airlines, political activities in this challenging policy context changed, leading to structural reorganization and formal redefinitions of the responsibilities of new units and substructures within the political affairs office. State owned airlines transferred most of their influencing efforts to interest group representation - through the AEA - before package one of deregulation was introduced. However, they started to realize the importance of political strategy at the EU level around the introduction of package two (in the early 1990s).

According to our respondents, non-state owned airlines did not spend too much time re-structuring their departments at the outset of package three (1993), in stark contrast to state-owned airlines. The logic was that non-state airlines had re-structured during package one, as they felt they needed to influence the policy making process earlier. Instead the decision-making at non-state owned airlines focused initially more on individual influencing with specific national targets, but then realizing that they had time to be proactive, these firms incorporated a dual pronged strategy. This dual pronged political strategy had an individual influencing component and responsibility for decision-making through interest group representation, i.e. the AEA, where there was more of an attempt to put their own interests forward. An informant from a non-state owned airline explained the rationale in more detail:

> *We did change our department's structure for the purpose of influencing in Europe during the third package, but we did most of our changes before the first deregulation package. It was hard to change, but we hired some EU level people for our new government affairs office in Brussels, which opened in 1989. However, we used our national office to work closely with the EU.*

This finding confirms an extant view of capabilities as constrained by the structural organization of firms (Teece *et al.*, 1997; Helfat *et al.*, 2007). At the same time it refutes existing views that organizational structures tend to be static and impede the organization of a firm's capabilities (Marengo *et al.*, 2000). Our observation suggests that state owned airlines were re-structuring to reconfigure their political capabilities during package two in the deregulation process, so as to align it with the new deregulation environment, while non-state airlines had more sophisticated political capabilities that were prepared earlier before the deregulation event. Moreover, non-state airlines had what they perceived to be good political resources for the pre-deregulation period, which they used to exert individual influence from the outset. Indeed, departmental modification was found to be slightly different between non-state and state owned airlines.

Non-state owned airlines also believed that they needed to focus more on the human and network resources to modify their political capability to create influence. There were some interaction effects between organizational structure and human resources, where people were taken out to organize their political capabilities in order to make them more efficient for potentially new policy issues arising from deregulation. Incidentally, we found that efficiency was dictating the organization of political capabilities and as a result of this, policy context was creating a sort of push effect on airlines. This results in our second proposition:

> *Proposition 2: In the context of high-level deregulation, structural changes in political capabilities was more significant in non-state owned airlines than in state owned airlines.*

4.4. Organizing political capabilities: human capital investment patterns

Another important variable confirming ideas from extant research on organizational capabilities is human capital, which links these ideas to changes in specific functional capabilities (Larsson and Finkelstein, 1999) and knowledge flows (Helfat, 1997; Helfat and Raubitschek, 2000). However, our observations accord greater importance to the role of human capital investment in the process of organizing political 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 organizing what are perceived to be optimal political capabilities. As one non-state owned airline informant 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 at national government level. However, we invested into hiring in our department during mainly before and during package one.*

Furthermore, our research highlights the role of organizational processes not only in organizing but also in discovering what new political capabilities should be focused on. Together these insights suggest that the organization of firms' political capabilities can be understood as 'change actions' 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 political 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 non-market contexts and what managerial and political competencies are required to respond to the changes.

Analyzing the data across all five firms suggested that level of political influence development depended on the amount of competency that the organization managed to accumulate, which depended on who was hired and worked at the organization. It was suggested that in state-owned or previously state-owned airlines, this knowledge and competence was perceived to be already present, in non-state owned firms, it needed to be acquired so that they may create more influence in the policy making process. These ideas results in our third proposition:

> *Proposition 3: In the context of high-level deregulation, non-state owned airlines are more likely to organize political capabilities by using strategic talent acquisition than state owned airlines.*

4.5. Organizing political capabilities: network capital investment patterns

Another important variable in the organization of political capabilities is social capital or networks. Cast in diverse styles of argument (Granovetter, 1973; Coleman, 1990; Powell *et al.*, 1996; Nahapiet and Ghoshal, 1998), social capital has become a ubiquitous metaphor in the study

of organizations. The compelling metaphor embodied in the notion of social capital is implicitly or explicitly present in various research streams that focus on how social ties enhance actor's ability to attain their goals. This research identifies how political networks can enhance individual and organizational performance. In particular, political networks can facilitate access to information, resources, and opportunities (Campbell *et al*., 1986; Podolny, 2001). Thus, actors with networks rich in social capital have privileged access to resources and information to influence policy, and this should make them better at leading, organizing, and mobilizing others actors towards collective goals. As one non-state owned executive 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 at national government level. They had to be familiar with US deregulation. We did not want a US style big bang, as that did not work well.*

Early research on network relationships 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 resources and the top management team within the government affairs office to be very important for non-state owned airlines compared to publicly owned airlines, especially in facilitating access to the appropriate information and resources. Moreover, we found that non-state owned airlines utilize both association based networks and individual based networks to influence the policy making process compared to state owned which leveraged mainly their trade association based networks. These network processes suggests the following proposition in organizing a political capability:

> *Proposition 4: In the context of high-level deregulation, non-state owned firms are more likely to invest in the development of networks to organize political capabilities than are state owned airlines.*

We found two main ways in which the design of the network surrounding a given top management team can confer perceived advantage on the firm. First, by facilitating access to information regarding resources and opportunities; and second, by helping overcome dilemmas of collective action (Burt, 1997). The following proposition summarizes the nature of actions generated in organizing political capabilities to leverage and deploy political resources:

> *Proposition 5: In the context of high-level deregulation, state owned firms rely more on the development of external political capabilities and non-state owned firms rely more on the development of internal political capabilities.*

5. Discussion and key contributions

In the prior sections, we sketched the ways state and non-state airlines – operating from the unique national contexts of their respective countries – organize their political capabilities. We followed a theory elaboration process (Lee, 1999; Lee, Mitchell and Sablynski, 1999) in our effort to identify and elaborate a theoretical connection not previously addressed between the literature on corporate political activity and organizational capability theory. We reconnected and redirected organizational capability theory, more broadly RBV, and related it to the development of political capabilities in a deregulation context. Thereafter, we conceptualized the way political capabilities are organized, as well as generating testable propositions for future quantitative studies.

Our inductive analysis revealed divergent patterns in on how political capabilities were organized in the deregulation context. Recent work by Oliver and Holzinger, (2008) explored political capabilities, but they took a broader approach and focused on conceptualizing the outcomes instead of expanding on the antecedents of political capabilities. Similarly Bonardi *et al.'s,* (2006) study also provided a good understanding of performance enhancement using political capabilities. However, we argue that specific strategic actions were moderated by

ownership structures. Table A.4 summarizes the model developed in the prior section to expand on the key characteristics of the three resources leveraged and deployed to organize political capabilities: human, network and structure. Collectively, they explicate how managers in state and non-state airlines interrelate strategic actions over time to shape political capabilities.

INSERT TABLE A.4 ABOUT HERE

As seen from the table, we compared the state-owned airlines with non-state owned airlines in a deregulation context. We found diverging styles in the organization of political capabilities. Moreover, we found that there was a general pattern in place, where state-owned airlines were investing less effort into their political capability development. Similar to Carpenter and Fredrickson (2001), we found that organizations 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 non-state owned airlines. One reason for this difference is that state-owned airlines felt more constraints on resources, which affected their political capability organization 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 caused some inefficiency on the investment of effort (Rosen, 1986).

Our first contribution is to note that organizational capability research has neglected to look at the effects of ownership on the organization of capabilities. In our deregulation context, we find that the process of capability organization is either supported or constrained by its ownership structure. Moreover, we find that the non-state owned airlines have a more sophisticated political capability organization process and rely less on influencing their national government. According to respondents this is the case, as government empowers the airline to

make the most efficient decisions. Therefore, the privately owned airline government affairs offices were influencing using more combinations of internal and external political capabilities. 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 decision making at the state airlines was not as inertial (as previously shown by Gilbert, 2005), as there were some core rigidities (Leonard-Barton, 1992).

Secondly, we provide a general model of firms' organization of their political capabilities that integrates different aspects examined in previous studies, including the ideas of policy environment types and micro-level sources from exercising strategy to political resources configurations. The RBV literature has so far remained scattered, with little focus on the antecedents of performance and with disparate theoretical perspectives that lack an inside-the-organization approach. We believe that the framework of how political capabilities are organized has the potential to extend RBV through the integrated framework. As argued in this paper, elements from corporate politics and organizational capabilities can be integrated into the framework to provide a comprehensive view of political organization process, as well as a basis for future research.

Thirdly, we provide a better understanding of political capability design and choice 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 insight into some generic patterns that could be applicable to other industries. Furthermore, many other firms are subject to functional regulations that cross industry borders, such as workplace safety, labor standards and environmental impact.

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 through interest groups like the 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 political capabilities. Firms especially need to be able to organize new political 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 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), this is one of the first empirical studies to directly attempt to understand the way political capabilities are organized. Our study raises two interesting questions for further research: if firms design political capabilities from their own experiences in particular policy contexts, can they re-deploy these political capabilities to other policy settings? And if governments impede the way political capabilities are developed, should firms move more towards non-state ownership structures?

5.1. Limitations and future work

For any qualitative, case-based study, the limitation of narrow sampling and scope is apparent. An improper or inadequate sampling population may provide spurious conclusions but we did not see evidence of processes being confounded due of the nature of the sample. The political affairs managers and executives we interviewed were familiar with ways to organize political capabilities and the standards, strategies, resources and routines adopted by their departments. We endeavored 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 senior 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. Also, we must question the general applicability of our findings. We might expect to

find that the roles of firm political capabilities is less significant in less heavily regulated industries, where firm-regulator interactions are relatively infrequent.

Regardless of these limitations, this paper does make a contribution to organizational capabilities research on the antecedents of political capabilities organization and its micro-level origins. For example, our study suggests that political capabilities are not vague and that these processes, if efficiently leveraged, may help sustain a market advantage. Our data shows political capabilities relate to specific processes that are developed by a set of strong and distinct variables. Data also shows that the organization of political capabilities depend on management action, and these mental schemas consist of particular types of heuristics that include those about how to affect public policy, for example, which politician to target, which network relationship to invest in, in what order to approach the networks and when to best influence the relevant political actors (Vining *et al.*, 2005). So, while the content of political capability may be unique to a particular firm - which political person to approach or which network to target - the underlying structure is strikingly similar across many airlines. These content similarities - and differences - imply that political capabilities should be internal and external in structure. The unequal level in the political capability is due to senior managers developing them from different starting points and along different evolutionary paths (Eisenhardt and Martin, 2000).

6. Conclusions

This study has sought to build a bridge between the corporate political activity domain and RBV theory, in an international context, in order to identify the antecedent micro sources that play a role in organizing a political capability in a given deregulation policy context. We argue that the effective organization and deployment of political capabilities by top management teams within European flag carrier airlines depends on a number of complex and overlapping variables. We found that management action is core to this organization process, within which the senior manager has to decide on the level of time investment that his or her department has to make in

human capital, organizational structure and network relationships. Other precursor variables that play a part in the configuration of political capabilities are the context type and ownership. It is these precursor variables that help organize political capabilities when the senior management team want to get to the following stage in the deregulation policy context.

This paper raises important questions for future research on organizational capability and corporate political activity. In particular, the antecedents of political capabilities, especially the role of the specific policy issue and organization involved in determining the design (the distinct pattern of leader-ownership interaction) of capabilities. Although in this study neither policy issue nor organization alone determined the form of political capabilities, each appeared to have some impact. Finally, this raises the question of could some political capabilities actually turn out to be harmful to the firm?

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Table A.1 Description of Sample Firms and Case Data

Airlines	Ownership*	Country of origin	Internal Informants	External Informants	Number of Interviews	Net Profit
SAS	21.4% Swedish State 14.3% Danish State 14.3% Norwegian State 50% Private interests	Norway Sweden Denmark	Directors Managers	Industry expert	10	1,846,000,000 (SEK)
Alitalia	62.4% State ownership 35.7% Private ownership 2% Air France	Italy	Directors Managers	Industry expert	8	$670 million
TAP Air Portugal	100% State ownership	Portugal	CEO Directors Managers	Industry expert	8	
Lufthansa	91.4% Free Float 8.6% Block Ownership	Germany	Directors Managers	Industry expert	7	
KLM	100% Public quoted company (2001) 96% KLM/Air France (2004)	Netherlands	Directors Managers	Industry expert	9	

* Data is from 1998, 1999, 2001 and 2004

Figure A.1 Organizing Political Capabilities

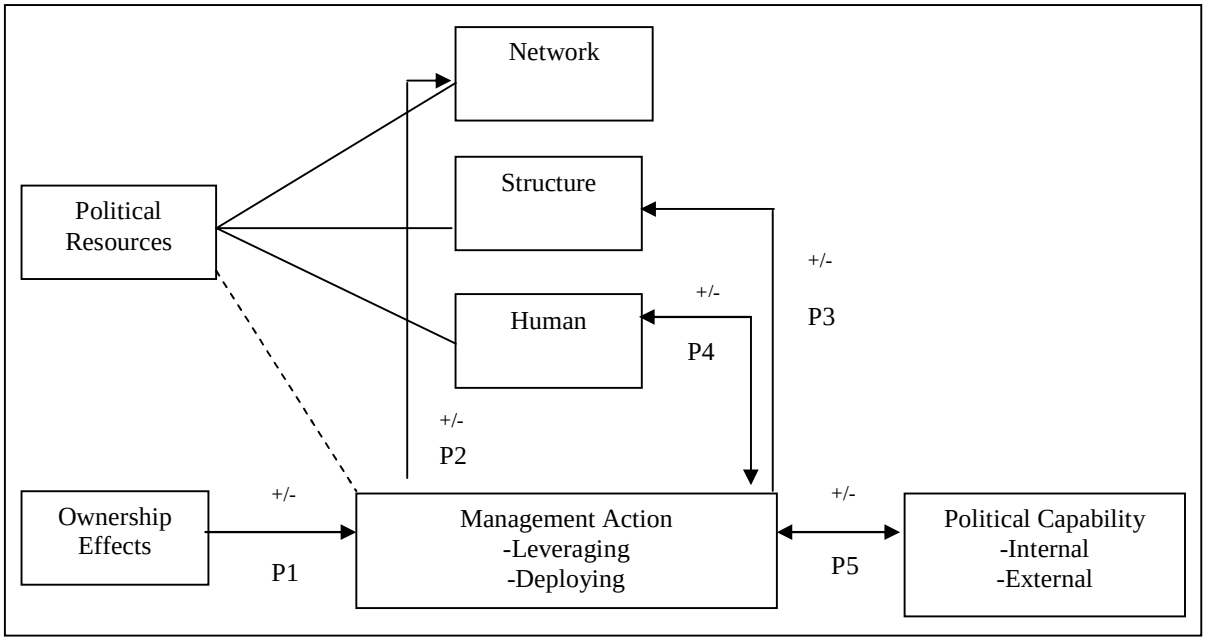

Table A.2 Managerial Action in Organizing Political Capabilities (Non-state owned airlines)

Case	Political resources leveraged	Quotation Exemplifying the Depth of the Debate
SAS **Non-state Owned**	**Networks**	**** 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. (Director of Government Affairs)*
	Human	**** 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. (Director of Public Affairs)*
	Structure	**** Our department structure 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. (Director of Government Affairs)*
Lufthansa **Non-state Owned**	**Networks**	**** 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. (Executive)* **** 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. (Director of Government Affairs)*
	Human	**** 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. (Director of Aeropolitical Affairs)*
	Structure	**** 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. (Director of Government Affairs)*
KLM **Non-state Owned**	**Networks**	**** 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. (Senior Manager of Government Affairs)*
	Human	**** 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. (Director of Government Affairs)*
	Structure	*** Our office had to become more EU and US orientated after the third package was introduced. So we did spend some time changing our structure during all the three packages. (Director of Government Affairs)*

[a] To rate the resourcess leveraged by organizations to develop political capabilities, we assigned each quote with an asterisks to show the strength of evidence from KLM, SAS and Lufthansa. Interviews were conducted between 2003-2007

*** Strong – Strong evidence ** Moderate – Moderate evidence * Weak – Weak evidence

Table A.3 Managerial Action in Organizing Political Capabilities (State owned airlines)

Case Airline	Political resources leveraged	Quotation Exemplifying the Depth of the Debate
Alitalia **State Owned**	**Networks**	*** * 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 had lots of stakeholders, which are mainly consumer organizations. 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. (Executive in Institutional Affairs)* **** 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. (Director of Public Affairs)*
	Human	**** 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 had the some 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 did not hire people at the early stages of the policy formation process…we did around 1995 I think but it was too late. (Director of Institutional Affairs)*
	Structure	*** There was the addition of a specific focus on Brussels. There we had to slowly add another aspect of EU lobbying into our structure. In general our structure remained very static till the second package. (Director of Government Affairs)*
TAP Air Portugal **State Owned**	**Networks**	*** 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 realizing 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. (Director of Government Affairs)*
	Human	*** 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, we did not invest into new human resources then, but 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 had people with national focus and national level knowledge, which was viewed to be an issue after package three. (Manager of Government Affairs)*
	Structure	**** I believe that TAP entered the European lobbying game later than the others. 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 organization has some problems. Our structure changed a little with older people leaving in 1994 and we got few new people with EU contacts latter on (CEO)*

[a] To rate the resourcess leveraged by organizations to develop political capabilities, we assigned each quote with an asterisks to show the strength of evidence from TAP Air Portugal and Alitalia. Interviews were conducted between 2003-2007.

*** Strong – Strong evidence ** Moderate – Moderate evidence * Weak – Weak evidence

Table A.4 Different Characteristics of Airlines in the Deregulation Context

	KLM	*Lufthansa*	*Alitalia*	*SAS*	*TAP Air*
Stakeholder type	Non-State	Non-State	State	Non-State	State
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
Management Action	Mainly internal composition then shifting focus to external capability	Mainly internal composition then shifting focus to external capability	Mainly focusing on external capability organization	Mainly internal composition then shifting focus to external capability	Mainly focusing on external capability organization
Structural investment	Modified early (pre-deregulation)	Modified early (pre-deregulation)	Modified late (After second package)	Modified early (pre-deregulation)	Modified late (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)

***** "Non-state" 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.

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