

Sebastian Frankenberger

Management of Regulatory Influences on Corporate Strategy and Structure

DUV GABLER EDITION WISSENSCHAFT

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With a foreword by Prof. Dr. Günter Müller-Stewens

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Foreword

In recent years regulation and deregulation issues grew into a major concern of corporate management. Asked about their biggest pain points, managers from different businesses, not only network-based industries like telecommunications, transportation, and energy, but also chemicals or food and beverages, mentioned uncertainty resulting from regulation. Despite this fact, strategic management has so far widely neglected the interactions and inter-dependencies between corporate and regulatory actors.

With this dissertation, the author aims at closing this gap through a better integration of external, regulatory actors into the strategy formation process. More specifically, he asks how regulatory actors impact corporate strategy and structure and how corporate management can proactively manage this type of external involvement.

Based on an extensive literature review, the author shows that extant models of the strategy formation process focus almost exclusively on actors internal to the firm; external actors are widely neglected. In general, they have been condensed under rather abstract conditions of the environment (such as uncertainty or complexity). If explicitly considered, only selected elements (e.g., innovativeness, diversification, or organizational design) have been analyzed in primarily content-based, quantitative, cross-sectional studies. A broader understanding of the complex inter-dependencies and mutual influences between corporate and external actors remains lacking.

With the help of neo-institutional theory and a longitudinal, retrospective case study approach in the German energy sector, the author elaborates if strategy formation as represented by corporate resource allocations is influenced by regulatory actors. He also explores how strategy formation is impacted in terms of internal alignments of corporate strategies and structures. And finally, he elaborates on the corporation's externally directed responses in order to reversely influence its environment. Comparing results across two regulatory initiatives (market opening and emission trading) and two sub-units of analysis (E.ON Energie and E.ON Ruhrgas), he first develops context-specific propositions related to these three research questions. Then, he generalizes his findings on a higher theoretical level.

In brief, this dissertation presents four major contributions: (1) Regulatory actors affect strategy formation. In particular, and in a situation when a regulator changes from protecting the firm to promoting change, the consistency between resource allocations and the official concept of corporate strategy decreases when regulatory involvement increases. (2) Internal alignments are contingent upon the perceived opportunity struc-

ture of a regulatory initiative. When perceived as an opportunity, adjustments to the concept of corporate strategy and to portfolio configuration are dominant. When perceived as a threat, internal alignments focus on management systems and organizational design. (3) Externally directed responses depend on the same contextual variable: If regulatory initiatives are perceived as an opportunity, consensus-oriented strategies of information, negotiation, and partnering dominate. If they are perceived as a threat, external responses focus on resistance-oriented strategies of deferment and manipulation. (4) Integrated management combining internal alignments (market strategies) and externally directed responses (non-market or political strategies) represents an appropriate way of managing regulatory influences. Through non-market strategies, corporations may influence institutional processes that impact their scope of operations. Through their market strategies, they can optimize their business within institutional boundaries (e.g., through customer service orientation, brand building, or efficiency improvements).

Overall, this study presents interesting insights into the formation of strategies, refines existing strategy models, and crosses the boarder between market and political strategies, a field which has so far been left to business-and-society literature. For this reason, the work of Sebastian Frankenberger advances theory and forms a valuable basis for future research. At the same time, he managed to provide helpful frameworks and tools that make this study equally relevant for business practitioners.

Prof. Dr. Günter Müller-Stewens

Preface

Looking back three years from now, I remember very well the first steps I undertook for this dissertation. Coming back from business life, I re-entered the world of academia and encountered an environment that facilitated new perspectives on management, society and life. Personally, those three years have been intellectually challenging and extremely enriching, something I would never want to miss. At the heart of this extraordinary experience were the people who accompanied my way. In the name of all, some shall be mentioned.

First of all, my thanks go to my doctoral advisor Prof. Dr. Günter Müller-Stewens. Besides his unquestioned expertise in the field of corporate strategy and strategy process, which he is always open to share with young colleagues, he also proved to possess outstanding people skills. Among those are his abilities to create an atmosphere of trust and to inspire others through his personal way of communicating. I may add that he is one of the most charismatic people I met in my life, and a professional and personal role model for many young people.

I also wish to thank Prof. Dr. Thomas Dyllick, the co-advisor of my dissertation. His intellectual capacity always enabled him to provide constructive feedback and orientation, which he always presented in a very friendly manner. And whenever I myself had doubts about any particular weakness in my dissertation, I could be sure he had already identified it. Finally, my thanks go to Prof. Dr. Christoph Lechner who – without having a formal role in my dissertation – never hesitated to challenge my thoughts and provide helpful feedback.

I further thank the Institute of Management, the University of St. Gallen and the Swiss National Science Foundation for providing the right infrastructure and resources for a successful dissertation and the opportunity to spend six months at Harvard Business School in Boston.

At HBS, I owe considerable gratitude to Prof. Forest Reinhardt and his willingness to cooperate on the editing of an HBS case study on corporate strategy at the German energy giant E.ON. Thanks to his support, I was able to challenge my research at a very high level and to experience the exciting and inspiring atmosphere at Harvard University. I also want to thank Andrew Feldman and the folks of MIT Euroclub for their friendship and personal support.

Like any dissertation, this study would not have been possible without the support of practioners that provide the empirical data. For this reason, I am particularly thankful

to all my interview partners at E.ON AG and elsewhere who dedicated their time and knowledge to this dissertation. In the name of all, I would like to thank Bernd Zizow, Dr. Diana Kolb, Christopher Delbrück, and Dr. Dierk Paskert.

As mentioned above, it is always the people that make any experience special. And there are many friendships that were born during my stay in St. Gallen and that will hopefully last for ever. To start with my research fellow and all time wingman Sebastian Knoll who walked on my side during my first steps as a researcher, who provided me with a corner to sleep in his one-room apartment, and who shared his thoughts on anything at anytime. Thanks Sebastian! Also, I would like to thank Manuel Seyferth for his great friendship, his skill to organize all kind of events, and his hospitality. Thanks to Dr. Katharina Klöckner and Dr. Wolfgang Jenewein for hosting Champions League evenings and their great humor.

Being aware of the space limitations, I would like to briefly mention the following people knowing that behind any name there is a great story of intellectual exchange, personal support and leisure relief: Dr. Christian Bender, Dr. Berislav Gaso, Nicola Gesing, Susanne Hoare-Widmer, Frank Horn, Pedro Huerta, Dr. Mirko Jazbec, Florian Kappler, Fridericke Kollmann, Markus Kreutzer, Niklas Lang, Peppi Schnieper, Isabell Kuschel, Michaela Solterbeck, Harald Tuckermann, Dr. Hendrik Vater, Inga Voss, and my long-time friend "Bifi" Christian Strasser and all the other folks that supported this dissertation when playing "Schafkopf" cards with me.

Not to forget about my former and current employer Mercer Management Consulting who showed flexibility and provided resources which made this dissertation project much easier. Thanks to my advisor Wolfgang Krenz, my team leader Thomas Kautzsch, and my doctoral colleague Jan Burgard.

Finally, and most importantly, my thanks go to my family. Without them, I wouldn't be where I am; evidently, I wouldn't be at all without my parents. For this reason, I guess it is suited to dedicate this work to Ute and Fredy Frankenberger. Not only for their constant support during this dissertation, but for the life they enabled for me, for their unconditional support, their dedication to my well-being, and their love. At the same time, I want to thank my grandmother Maria Frankenberger.

Fortunately, I can tell that my family grew bigger during this dissertation since I was lucky to find the white princess of my life, Dr. Karolin Marx. Without discrediting her father Eberhard Marx, I owe particular gratitude to her mother Karin who transcribed

all interviews for me. And I hope she knows that I am very well aware of how big of a help this was for me. More importantly, I am happy to have them as my parents in law.

I could go on with thanking John Harvard's Brewehouse in Cambridge for making the best chicken wings in the world, the Boston Red Sox for winning the world series, the "Kleiner Ochsenbrater" at the Viktualienmark in Munich for the best "Ochsen Zwibelrostbraten"; but actually, there is just one person left.

Since this person is so special, I keep on feeling that no words are suited expressing my feelings about her. Beyond any experience I gained during this dissertation, there is one thing that stands high above. Thanks to the great ability of our joint doctoral advisor in selecting his students, I was able to meet the woman of my life. And instead of dedicating this piece of work to her, I decided to dedicate my life to her. If ever, I should dedicate a book to her, it should be about poetry and not about management. And Karolin, once again, I love you, and I want to spend the rest of my life with you.

Sebastian Frankenberger

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List of abbreviations

AG	Aktiengesellschaft (public listed company)
CDU	Christlich Demokratische Union (Christian democratic party of Germany)
CEO	Chief Executive Officer
CSU	Christlich Soziale Union (Christian social party of Germany)
DRAM	Dynamic Random Access Memory
EBIT	Earnings Before Interest and Tax
EBT	Earnings Before Tax
e.g.	exempli gratia (for example)
ET	Emissions Trading
et al.	et allii (and others)
etc.	et cetera (and so on)
EU	European Union
EVU	Elektrizitätsversorgungsunternehmen (electric utility)
GHG	Greenhouse Gas
ICS	International Corporate Strategy
i.e.	id est (that is to say)
HBS	Harvard Business School
MO	Market Opening
MOE	Minsitry of the Environment
MOI	Ministry of the Industry
MU	Market Unit
NAP	National Allocation Plan (of GHG emission allowances)
RegTP	Regulierungsbehörde für Telekom und Post (regulatory authority for telecommunication and postal services)
ROS	Return On Sales
SPD	Sozialdemokratische Partei Deutschlands (social democratic party of Germany)
SPR	Strategy Process Research
TPA	Third Party Access (to the energy grid)
VDEW	Verband der Elektrizitätswirtschaft (German Electricity Association for the electricity supply industry)
VDI	Verein Deutscher Ingenieure (German Assoiation for Engineers)
VIK	Verband der Industriellen Energie- und Kraftwirtschaft (Association for industrial and commercial energy consumers)
vs.	versus (against)

1 Introduction

In many industries, including telecommunications, transportation, and energy as well as chemicals and food and beverages, firm performance and success largely depend on external factors. The main levers for profitability in those industries are heavily influenced by regulatory actors who impact strategic choices of corporate management.

Despite this fact, strategic management research has traditionally focused on market strategies and related questions of how to position the firm, which customers to select, what products and services to offer, and how to design the organization to support those market strategies. Questions of how to manage regulatory involvement have been left to separate research streams on corporate political activity. At the same time, different models of the strategy formation process have been developed, focusing almost exclusively on actors internal to the firm; external actors are widely neglected. In general, they have been condensed under rather abstract conditions of the environment (such as uncertainty or complexity). If explicitly considered, only selected elements of corporate strategy or structure (e.g., innovativeness, diversification, or organizational design) have been analyzed in primarily content-based, quantitative, cross-sectional studies. A broader understanding of the complex inter-dependencies and mutual influences between corporate and external actors remains lacking.

The purpose of this study is to close this gap and to better integrate external actors, regulatory actors in particular, into the strategy formation process. Building on neo-institutional theory, we intend to improve our understanding and develop propositions on the following issues: How do regulatory actors influence strategy formation? What is the actual impact on corporate strategies and structures? How can corporations manage regulatory involvement? Beyond this, we aim at developing a theoretical framework of strategic management that explicitly includes external actors, and that considers both market and non-market elements.

1.1 Dissertation as part of the ICS Research Project

This dissertation project is an integral part of the International Corporate Strategy (ICS) Research Project at the Institute of Management at the University of St.Gallen, which investigates the unfolding of corporate strategies within large multinational companies, mainly headquartered in Switzerland or Germany. Given that the evolvement of corporate strategy is observable through iterated processes of resource allocation (Bower, 1970), we focused on the analysis of corporate resource allocation deci-

sions. The goal of the ICS project is to investigate whether actual resource allocation decisions are consistent or inconsistent with the firm's official corporate strategy and how this (in)consistency affects firm performance.

While the most promising findings are supposed to derive from cross-case analyses, each dissertation selected a specific research question related to the overall topic of the ICS project. In the first phase, all dissertations conducted an outside-in analysis of resource allocations at a selected case study company using a common methodology developed by Schmidt (2000) and further refined by the research team (Müller-Stewens and Schmidt, 2003). With the support of an online-based resource allocation database, all externally available resource allocation decisions have been documented in a structured way and rated according to their consistency with the firm's official corporate strategy. The development of consistency over time then formed the basis for further analyses.

The common methodology in this dissertation, especially the analysis of the divergence between resource allocations and the official concept of corporate strategy, helped to formulate and justify the specific research and to familiarize us with the case study company. Since the coding scheme used during this first exploratory phase included specific marks for all resource allocations that had been influenced by external actors, first insights into the direct effects of external involvement on strategy formation could also be generated.

Having presented the embeddedness of the dissertation project in the ICS Research Project, the following chapters will outline the dissertation's specific research objective and guiding questions, as well as the theoretical and practical contribution.

1.2 Research objective and guiding questions

Scholars of strategy process research have developed various models on the formation of strategies for which organization-environment relations have always been a primary concern. While the majority of studies have emphasized an assessment of the environment for opportunities and threats (e.g., Ansoff, 1965; Andrews, 1971; Porter, 1980), others have focused more directly on the environment as a central actor for strategy formation (see Mintzberg et al., 1998). Hart (1992), referring to the transactive mode of strategy making, views strategy as emerging out of "*an ongoing dialogue with key [external] stakeholders*" (Hart, 1992:338).

Acknowledging the importance of multi-level involvement (e.g., Pettigrew, 1992) research shifted away from linear, top-down models (Andrews et al., 1965; Andrews, 1971) more than 30 years ago. Since then, the power of autonomous behavior and the critical role of operational and middle management have been widely recognized (Burgelman, 1983a; Wooldridge and Floyd, 1990; Burgelman, 1991; Barnett and Burgelman, 1996; Floyd and Wooldridge, 2000). Actors external to the firm, however, have hardly been integrated into existing models, even though this gap has already been identified by eminent researchers (Burgelman, 2002a).[1]

Assigned to the environment, external actors are mostly condensed under abstract definitions of heterogeneity, dynamism, or hostility (Papadakis et al., 1998). If addressed directly, current research frequently employs cross-sectional content study designs that measure their impact on different dependent variables, such as: corporate strategy (Ring and Perry, 1985; Zajac and Shortell, 1989; Rugman and Verbeke, 1998); innovativeness (Marcus, 1981; Marcus, 1988); diversification (Russo, 1992; Kashlak and Joshi, 1994; Matsusaka, 1996); or organizational design (Dickie, 1984).[2]

However, as yet there has been no detailed analysis on how external actors influence the strategy formation process. Employing a neo-institutional perspective (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Zucker, 1987; Scott, 1987b; DiMaggio and Powell, 1991), this dissertation aims at closing this research gap and focuses on regulatory actors such as governments and anti-trust authorities, their impact on corporate strategy and structure, and how their influence can be managed by the corporation.

In order to develop an in-depth understanding of the subject while at the same time reducing the complexity of our research endeavor, we decided to distinguish three related research questions that will be explained in more detail below. First, we were interested in the direct influences of regulatory actors on strategy formation – more specifically, on corporate resource allocations. While this helped us to identify if there was an influence of regulatory actors, the second step involved examining how strategy formation was impacted. We then analyzed internal alignments at the elements of corporate strategy and structure. Third, reversing the causal link, we elaborated on the externally directed strategies of corporations to manage regulatory involvement and to influence the institutional environment and regulatory actors. The following figure

[1] During the 2003 Annual Conference of the Academy of Management in Seattle, Robert Burgelman emphasized his call for a better integration of external actors into strategy process research.

[2] For a detailed review of studies on external actors in management research please refer to chapter 2.1.4.

represents the generic framework guiding our research. For reasons of simplicity institutional mechanisms are left out at this point. They will be added during the more detailed presentation of the dissertation's theoretical research framework in chapter 3.

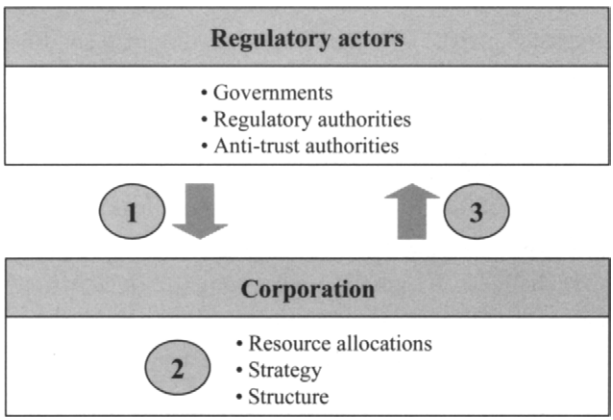


Figure 1-1: Generic framework guiding the research project

(1) Direct influences of regulatory actors on strategy formation

Strategy formation manifests itself through the allocation of scarce resources (Bower, 1970; Burgelman, 1983b). Consequently, they are very well suited to conceptualize strategy making (Noda and Bower, 1996). Analyzing the impact of regulatory actors on corporate resource allocations will hence allow us to determine whether or not those actors affect corporate strategy formation, and if so, to what extent.

Representing the executed strategy (strategic action), resource allocations must not necessarily correspond to the officially articulated concept of corporate strategy (strategic intent). While consistency between the two should be expected in times of stability, shifts in the external environment may lead to increasing levels of inconsistency, at least in the short run. Analyzing the development of consistency over time should hence provide us with solid indication of the general influence of regulatory actors on strategy formation. The related research question at this point is as follows:

Q1: Do regulatory actors influence corporate resource allocations and their consistency with the extant concept of corporate strategy?

(2) Internal alignments of corporate strategy and structure

The second phase of the study will deepen our understanding of the actual effects of regulatory involvement on the firm beyond the very general influence on resource al-

locations and strategy making. Instead of asking whether corporate strategy and structure are affected, we want to understand how this happens. More precisely, we ask which elements of corporate strategy and structure change, and in what sequence. Referring to the first research question, we suggest that if inconsistency between resource allocations and the concept of corporate strategy exists, strategies and structures internal to the firm need to be realigned to reduce dissonance within the organization (Burgelman and Grove, 1996) and achieve fit between organization and environment and among the elements of corporate strategy and structure (Venkatraman, 1989; Miller, 1992). The specific research question at this point is as follows:

Q2: How and in what sequence are the concept of corporate strategy and the elements of corporate strategy and structure aligned following regulatory involvement?

(3) Externally directed responses toward regulatory involvement

While the first two research questions referred to the influences of external actors on the corporation, this final question inverts the causal relation. Not only do regulatory actors influence the corporation, but the reverse also occurs with both parties mutually depending upon each other. Consequently, in this step we focus on externally directed corporate responses toward regulatory pressures and on the question of how management can influence the creation of its institutional environment and the corresponding regulatory actors (Hillman et al., 2004). Next to internal alignments, externally directed strategies can be equally important for managing the effects of regulatory involvement on corporate strategy and structure. This poses the following research question:

Q3: How can corporations influence the creation of the institutional environment and the corresponding regulatory actors using externally directed response strategies toward regulatory pressure?

Choosing the right theoretical lens. In order to answer the articulated research questions, this dissertation will build on neo-institutional theory (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Zucker, 1987; Scott, 1987b; DiMaggio and Powell, 1991). We will refer to the institutional environment, its generation and mode of action. Hereby, we use regulative, normative, and cognitive institutions (Scott, 1995) to explain the influence of regulatory actors on strategy formation. Furthermore, we will elaborate on the complex interactions of corporate and external actors (DiMaggio and Powell, 1983; Brint and Karabel, 1991) through which the institutional order – in other words, the "rules of the game" – in the industry playing field is established.

The selection of neo-institutional theory as theoretical lens for the dissertation rests on several arguments.[3] First, the theory bears significant potential to generate fresh insights into the strategy formation process (Mintzberg and Lampel, 1999; Hensmans, 2003). Second, it conceptualizes very well the environment, its actors, its creation, and its internal functioning (Scott, 2001). Third, it allows for an explicit integration of external, regulatory actors who receive particular attention due to their "*potentially profound influence in shaping an organization's legitimacy and performance*" (Oliver, 1997a:99). Fourth, it combines a rational and analytical perspective with a social and political one (Scott, 1987b), which best reflects our understanding of reality. And finally, newer currents of neo-institutional theory complement formerly deterministic approaches with elements of strategic agency (Fligstein, 2001; Hensmans, 2003), representing a balance between environmental determinism and strategic management choice.

Methodological approach. The overall methodological approach of this dissertation is an exploratory, longitudinal single case study on the German energy giant E.ON from 1995 to 2005. Due to the complex nature of this research project, we employed a two-phased strategy. Starting with an outside-in analysis of all externally identifiable resource allocations in phase I, we moved on with in-depth semi-structured interviews with company informants in phase II. A second series of interviews with board members and senior executives at the end of the study was used to confirm and complement our findings.

Phase I focused on a dynamic analysis of 459 resource allocations and their consistency with the official concept of corporate strategy (Schmidt, 2000). Due to the structure of the defined coding scheme, we were able to specifically analyze the effect of regulatory involvement on resource allocations and their consistency with the official concept of corporate strategy. Phase II then drove our understanding one step further. With the help of case study narration (Yin, 1994; Eisenhardt, 1995) and grounded theory approaches (Glaser and Strauss, 1967; Miles and Huberman, 1994), we specified internal alignments of corporate strategy and structure, and externally directed responses following regulatory involvement. Synthesizing the results of phases I and II finally helped us to generalize our findings, and to enrich our understanding of the strategy formation process.

[3] For a complete review of the different theoretical lenses considered for this dissertation and the selection of neo-institutional theory, please refer to chapter 2.2.

Purpose of the research. This dissertation aims at developing propositions on the role of external actors in the strategy formation process, on how elements of corporate strategy and structure are affected through regulatory involvement, and on how corporations manage regulatory influences. We further intend to develop a holistic, theoretical framework of how internal alignments and externally directed response strategies can be part of an integrated response of corporations towards regulatory pressures. In sum, we hope to narrow the identified research gap of a missing integration of external actors into strategy process research. Remind that the results are based on the analysis of a particular situation, in which regulation first protected incumbents' interests and then acted as change agent who promoted adjustments to existing strategies, structures and processes who were at least partly opposed to incumbents' objectives. For this reasons, the generalization of the findings across different contexts requires cautious reflections. Also remind that our elaborations focus on the time period past 2000 when electric utilities were operating in a more or less free market facing competitive pressures. For this reason, we consider regulatory influences as important but not sole external influence on the corporation.[4]

1.3 Theoretical relevance

This dissertation project is located in the field of strategy process research and therefore primarily aims at advancing a holistic theory on the formation of strategies. More specifically, we seek to explicitly integrate external actors, better conceptualize the environment, drive our understanding of strategic consistency, holistically elaborate on internal alignments, integrate externally directed strategies, and work toward an integrated framework for strategic management. Second, we hope to advance neo-institutional theory. And finally, this dissertation attempts to refine existing methodologies of qualitative research.

(1) Strategy process research

As outlined in chapter 1.2, a major contribution of this dissertation lies in the explicit integration of external actors into strategy process research (Burgelman, 2002a). Despite their unquestioned importance for corporate performance, external actors, such as regulatory or anti-trust authorities, have only received sporadic attention and are not

[4] In completely regulated industries it might be justified to argue that regulatory pressures don't represent an externality of the organization, but an integral part of corporate strategy. In our case, however, we maintain that regulatory pressure is but one external pressure for the organization, next to other stakeholder expectations, such as shareholder rights for superior returns.

sufficiently understood (Carter, 1990). This study aims to close this gap and consider interactions between corporate management and regulatory actors as an integrative component of strategy formation.

This study also attempts to develop a better and more actable conceptualization of the external environment. So far mostly conceptualized as a limiting or determining factor in the field of management action, the notion of the environment in general remains abstract. The main focus lies on an understanding of how organizations must be structured and designed in order to cope with the external, environmental circumstances (contingencies). Within this study, we employ a neo-institutional perspective (DiMaggio and Powell, 1983; Scott, 1991) to concretize the mechanisms through which external forces exert an influence on corporate strategy and on how management can in turn influence the environment, its institutions and actors.

In the first step, we elaborate on the consistency between strategic action (represented by corporate resource allocations) and strategic intent (official concept of corporate strategy) (Burgelman and Grove, 1996). More specifically, we analyze the effect of regulatory actors on consistency. Through this study, we hope to improve our understanding of strategic consistency as a central objective for corporate management, and to further explore the use of consistency analysis as strategic tool for both management and corporate governance.

Instead of focusing on selected aspects, such as innovativeness (Marcus, 1981), diversification (Kashlak and Joshi, 1994), or organizational design (Dickie, 1984), this study aims to holistically elaborate on the manifold effects of regulatory involvement on corporate strategy and structure. A central goal of this dissertation is to find out what changes occur in the six elements of corporate strategy: concept of corporate strategy, portfolio configuration, organizational design, coordination, management systems, leadership and style (Müller-Stewens and Schmidt, 2003). As important as the organizational alignments themselves is the sequence in which these occur.

This study further expands the boundary of strategy process research toward externally directed activities that aim at influencing the corporation's environment. Including externally directed, non-market elements – traditionally covered by a separate research stream on corporate political activities (Hillman et al., 2004) – helps us to derive a more holistic perspective on strategy formation. As a consequence, we hope to advance an integrated version of strategic management that combines internal alignments and externally directed activities, and hence market and non-market strategies (Baron,

1995). This also includes a better understanding of the complex inter-dependencies between external and internal actors and the possibilities of mutually influential strategies.

From an organizational-theoretical standpoint, we want to develop a neo-institutional perspective on strategy process research. While evolutionary models of the strategy formation process (Burgelman, 1983a; Burgelman, 1983b; Floyd and Wooldridge, 2000; Lovas and Ghoshal, 2000) are common in research practice, neo-institutional perspectives have not yet been employed in detail. As suggested by previous research (Mintzberg and Lampel, 1999), we seek to use neo-institutional theory as a vehicle to add further insights into our understanding of the strategy formation process.

Overall, we pursue a contingency approach to strategy process research that aims at developing context-specific propositions, instead of broad generalizations. For this reason we will compare results across different regulatory and organizational contexts.

(2) Neo-institutional theory

This dissertation also intends to advance neo-institutional theory (DiMaggio and Powell, 1983; Zucker, 1987; Scott, 1987b). While the strategy process has already been recognized as an interesting field of research for organization studies employing neo-institutional theory (Beckert, 1999; Hensmans, 2003), we hope to add further insights into a strategic version of institutional theory. Analyzing the role of corporations as institutional entrepreneurs (DiMaggio, 1988), we seek to enrich institutional theory with strategic agency and power.

We further aim at integrating a neo-institutional macro perspective on the organization and industry (Hensmans, 2003) with an evolutionary micro perspective on the strategy formation process (Burgelman, 1983a; 1983b; 1991). This will hopefully enable us to better understand the mutual dependencies between an organization and its environment. Clarifying processes and mechanisms of institutionalization, this might also shed light on the longstanding discussion on environmental determinism and strategic agency.

Additionally, we hope to refine evolutionary models of strategy formation (Bower, 1970; Burgelman, 1983a; Burgelman, 1983b; Floyd and Wooldridge, 2000; Lovas and Ghoshal, 2000) through specifying external and internal selection mechanisms, and more specifically through addressing concrete options for management on how to direct the course of the firm. This dissertation also has implications for stakeholder the-

ory (Freeman, 1984; Rowley, 1997; Post et al., 2002). Specifically elaborating on stakeholders other than dominant shareholders, we seek to contribute to a more balanced version of stakeholder theory that goes beyond the analysis of dyadic ties (Rowley, 1997).

(3) Methodology

This study refines a novel methodology that combines quantitative and qualitative elements (Schmidt, 2000; Müller-Stewens and Schmidt, 2003). During the first research phase, resource allocations are collected, stored in an online database and coded according to their consistency with the extant concept of corporate strategy. This allows for partly numerical analyses of strategic consistency over time. During this research project, this methodology will be enriched by refined coding schemes and complemented by additional features.

During the second phase of grounded theorizing based on interview transcripts, we will complement the traditional, rather creative process of theory generation with basic statistical measures. Generally speaking, grounded theory focuses on coding, memoing, conceptualizing and explaining data (Punch, 1998), and uses quotations to empirically prove findings. While we follow this approach during our research, we add a quantitative element when calculating and comparing density measures for codes and categories in order to "objectify" our findings.[5] Even though density measures do not meet the criteria for quantitative, statistical analyses, we argue that they help to guide theory generation and add indicative evidence to the purely qualitative findings of our research.

Finally, the analysis of press articles seeks to triangulate and complement the findings of the resource and interview-based approach at the methodological core of this study. Once more, general press research (Hoffman, 1997) is refined by software-based analytical techniques that integrate basic statistics.

[5] Density refers to the number of times a certain code or category has been grounded in empirical data. We suggest that the higher the density of a certain code or category, the higher its relative importance.

1.4 Practical relevance

"One of my biggest headaches about the future of my company derives from regulation."

This statement, made by the CEO of a leading Swiss telecom operator, illustrates the utter importance of regulatory actors for the survival and success of his company.[6] Representatives of the pharmaceutical and food & beverage industries shared this judgment.[7] Sectors with high levels of governmental regulation, such as telecommunications or energy, depend to a large extent on developments outside their direct scope of influence. Being able to anticipate possible changes in the regulatory environment, to strategically influence legal rules and standards, to manage the relationships with the relevant external stakeholders on a day-to-day basis, and to form coalitions of power are essential capabilities of a firm, especially in regulated industries.

To cope with the challenges within regulated industries, companies employ different strategies. In the energy business, corporate center functions for the management of the political environment and for different kinds of lobbying activities have a long-standing tradition. Just recently, a German utility giant has set up another corporate center function whose exclusive focus lies on regulatory management. The linkages between business and politics have always been particularly strong in this industry. During the first legislative period of Chancellor Gerhard Schröder (1998-2002), for example, energy manager Werner Müller was appointed Federal Minister for the Economy.[8]

Overall, we received significant feedback from practitioners that the interdependencies between regulatory involvement and corporate strategy and structure comprise an extremely interesting and important facet of strategic management. More than half of the 23 respondents of a survey on corporate political activities among German utilities considered political strategies equal to or more important than market strategies (Engelhardt, 2005). Management consultants such as McKinsey put the topic on their agendas (see, for example, McKinsey Quarterly 3/2004: "*Balancing growth*

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[6] Statement made at the M&A roundtable of the University of St.Gallen in Zurich, October 16, 2003.

[7] Representatives from both a Swiss pharmaceutical and a food & beverage giant confirmed the extreme importance of managing regulatory actors at the above-mentioned M&A roundtable.

[8] Werner Müller, meanwhile, went back to the corporate world and as of today (August 6, 2005), serves as the CEO of RAG, a major German technology and energy firm.

and regulation"). This confirms our feeling that this dissertation will produce results relevant for business managers.

More specifically, we seek to contribute to management practice in the following ways: First, we want to enhance the understanding of the complex interdependencies and interactions between corporate management and regulatory actors. Second, we hope to highlight possible strategies to anticipate regulatory changes, to prepare the organization through internal alignments, and to exert influence on institutional processes through externally directed activities. Even though we will not be able to establish a performance link, we maintain this study will provide a theoretical base to derive normative suggestions for management practice. Third, we hope to provide a more balanced view on strategic management that combines market and non-market elements and includes external actors. In this respect, we also aim at generating first insights of how to actually coordinate market and non-market strategies.

Overall, we hope this dissertation will provide useful insights for management practice on the role of external actors for strategy formation and on possible options for managing those external influences.

1.5 Outline of dissertation

The dissertation is divided into nine chapters. After this first chapter we will present an overview of relevant literature for this study (chapter 2), including strategy process research, the role of external actors, and research on consistency, fit and alignment (central constructs of this dissertation). We will also systematically compare possible theoretical lenses (stakeholder, evolutionary, and neo-institutional theory) for this study and explain why we have chosen neo-institutional theory.

Chapter 3 introduces the unit and level of analysis as well as the generic research framework guiding this study. In chapter 4 the research setting will be presented, including the rationale behind industry and case study selection. After an introduction to the case study company, the energy sector, its most relevant regulatory initiatives, and the principal actor groups will be highlighted.

In a given chapter 5, we will explain why we have chosen a qualitative research design and defend our two-phased approach. The first phase hereby consists of an exploratory outside-in analysis of corporate resource allocations based on publicly available data. The second phase analyzes internal alignments and externally directed responses towards regulatory involvement, and builds primarily on direct interviews with corporate

informants that are complemented by press research. In the end, findings will be synthesized and lifted to a higher, more general theoretical level.

Chapter 6 presents the results of this study and consequently sits at the heart of this dissertation. According to the three distinct research questions, results will be presented on the direct impact of regulatory actors on corporate resource allocations, on internal alignments of corporate strategy and structure, and on externally directed responses towards regulatory involvement.

While results remain separated in chapter 6, chapter 7 tries to synthesize our findings and generate higher order theories. Most importantly, this will include a neo-institutional framework for integrated management and general elaborations on the importance of and possible coordination mechanisms for market and non-market strategies.

Consistent with common standards, this dissertation will conclude with a discussion of the results and their theoretical and practical implications (chapter 8), followed by final conclusions (chapter 9). The last part also includes the limitations of this dissertation and possible avenues for future research.

A summary of this dissertation outline is presented in the following

Figure 1-2:

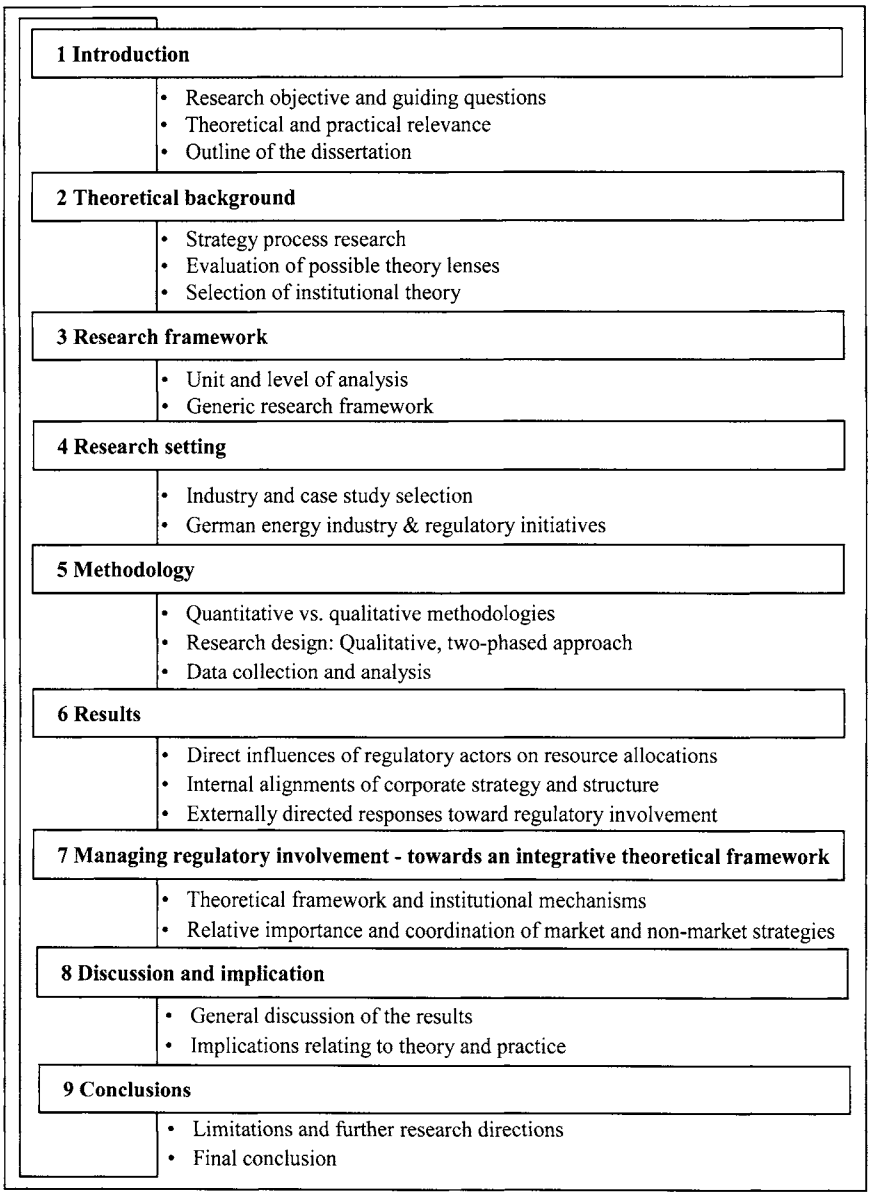


Figure 1-2: Outline of dissertation

2 Theoretical background

The study is based in the field of strategic management, more specifically in strategy process research. Acknowledging the inherent inter-linkages between strategy process and strategy content, the study will include content elements in order to generate more holistic insights in the forming of strategies. The theoretical background of the study, however, remains the field of strategy process research.

The chapter is divided into three parts. First, we provide an overview of strategy process research (chapter 2.1). After a short introduction to the most important conceptualizations, principles, and process models, we focus on the role of external actors and how they are considered in present research. We also introduce the overarching constructs for our study – corporate strategy, resource allocations, consistency, fit, and alignment – and comment on the establishment of a possible performance link.

Second, we review different organizational theory lenses for their use in strategy process research (chapter 2.2). We introduce clearly defined criteria for theory selection, and then evaluate three different theories according to the established criteria: evolutionary theory, stakeholder theory, and neo-institutional theory. After a structured review of the different theory lenses, we compare them according to the defined selection criteria and explain the choice of neo-institutional theory for the dissertation.

Third, chapter 2.3 consists of an in-depth overview of neo-institutional theory and its applications for the study of strategy processes. After a review of the basic principles, research introducing strategic agency into institutional theory is presented. Enlarging the role of strategic choice, we highlight present research on strategic responses to institutional pressures and on newer trends that explicitly integrate institutional and strategic elements.

The following Figure 2-1 presents the outline of chapter 2 and its principle contents:

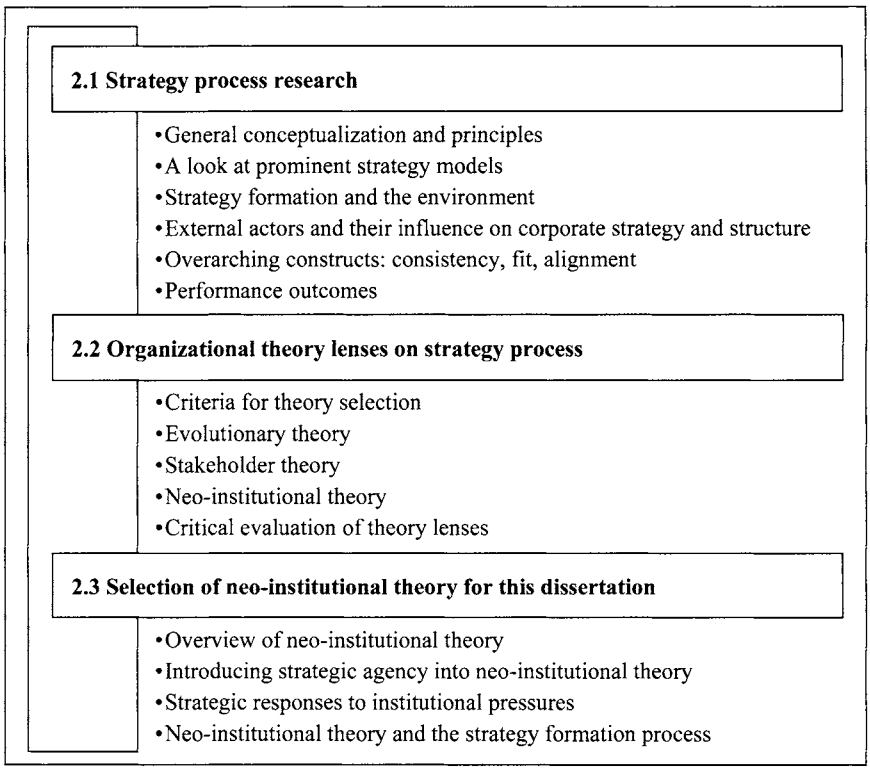


Figure 2-1: Outline of chapter 2 – Theoretical background

2.1 Strategy process research

Strategy process research developed as a discipline within the field of strategic management during the 1960s, and it has received growing interest from management scholars in the last decade (Huff and Reger, 1987; Chakravarthy and Doz, 1992; Burgelman, 1996; Brown and Eisenhardt, 1997; Garvin, 1998:8).[9] Since process research in strategic management is "*paradigmatically diverse and empirically complex*" (Pettigrew, 1992:5), it is difficult to provide a meaningful overview within the scope of this dissertation. While we do not aim at doing so, we do want to introduce the conceptual basis and underlying definitions of this field in order to position our work in the current research and facilitate the accumulation of knowledge (Van de Ven, 1992).

[9] For a review of strategic management research see, for example, Hart (1992) or Hart and Bradbury (1994).

We also want to offer a general, yet simplified, understanding of the field. Thorough reviews of strategy process research can be found in Huff and Reger (1987), Chakravarthy and Doz (1992), Chakravarthy and White (2001), and Lechner (2003). Mention must further be made of "Strategy Safari" by Mintzberg and his colleagues (Mintzberg et al., 1998), who provide a vivid overview of the different schools of strategic management.

The first two sections of this chapter will give a general introduction to the status-quo of strategy process research, its general conceptualizations, principles (chapter 2.1.1), and some of the most prominent and frequently used models (chapter 2.1.2). The subsequent sections will deal more specifically with aspects of strategy process research that are more relevant for this dissertation. Chapter 2.1.3 provides an overview of the different modes or types of strategy making, hereby focusing on those with the closest links between organization and environment and hence between corporate and external actors. Then, we will more directly focus on the role of external actors in strategy-making (chapter 2.1.4). Our extensive literature review includes both process and content studies, as well as studies of the influence of external actors on corporate strategy and structure and, vice versa, the influence of the corporation on its environment. Chapter 2.1.5 goes on to outline the overarching constructs for our study: corporate strategy and its elements; resource allocations as executed strategy; consistency between resource allocations and the defined concept of corporate strategy; fit among the elements of corporate strategy and with the environment; and alignment as adjustment process in order to reach overall fit and consistency (chapter 2.1.5). Finally, we comment on possible performance outcomes and the selection of process outcomes for this dissertation (chapter 2.1.6).

2.1.1 General conceptualizations and principles

Content and process. One of the most prominent distinctions in strategic management is the one between strategy content and strategy process research. This distinction was introduced by the researchers of the Harvard Business School (Chandler, 1962; Ansoff, 1965; Andrews, 1971) in order to structure the field and facilitate the analysis of both phenomena (Porter, 1980). While content research deals with the subject of change, process research focuses primarily on the actions that lead to and support strategy (Huff and Reger, 1987). In other words, strategy content is about the "What" and strategy process is about the "How". Additionally, while content research focuses on the relationship between the environment and the firm, process research primarily deals with events and actions within the firm. Content research thus employs a macro-

perspective on strategy, focusing on the interactions between a firm and its environment and considering the firm a black box. Process research wants to open the black box and understand interactions of individuals and groups within the firm. As a result, process research takes a more behavioral perspective while content research is mostly committed to a rational, analytic approach. According to Chakravarthy and Doz (1992), content is about the "*strategic positions of the firm [that] lead to optimal performance under varying environmental context [while] strategy process research is concerned with how a firm's administrative systems and decision processes influence its strategic positions*" (Chakravarthy and Doz, 1992:5).

Research combining content and process issues is rare (Chakravarthy and White, 2001), though strong arguments call for a better integration. Can process research produce meaningful results without an understanding of content issues? Can we focus solely on the question of how to walk the trail (efficiently) without asking where to go (effectively)? And can we, on the other hand, isolate the question of where we want to be without reflecting on how to get there? The answer to all three questions is "no," since there is only limited use of isolated findings on process issues. Efficiently pursuing an ineffective or wrong strategy is as bad as inefficiently pursuing an effective or good strategy. *"[S]ustainable, above average performance is a function of both content ...and process..., the discipline of strategic management needs to balance its efforts and to avoid emphasizing the one to the expense of the other*" (Lechner, 2003:8). As mentioned above, many scholars point out the need for the linkage of content and process, but such linkage is not sufficiently reflected in research practice (Huff and Reger, 1987; Pettigrew, 1992; Schendel, 1992; Ketchen and McDaniel, 1996; Lechner and Müller-Stewens, 2000; Chakravarthy and White, 2001).

Definitions. One of the problems in the field of strategy process research is the lack of definition and explicit documentation for the term "strategy process" that researchers use in their studies (Van de Ven, 1992). Choosing the definition suited for the purpose of the study is an important first step in developing the research design (Chakravarthy and Doz, 1992). This is especially important since there is no general agreement among scholars on the term – or, better, on the terms "strategy" and "process". The field of strategic management employs a wide variety of definitions that focus on different aspects that can be categorized under Mintzberg's (1987) five Ps for strategy: Plan, Ploy, Pattern, Position, and Perspective. They range from the position a firm takes in the competitive landscape (Porter, 1980), which represents a static and content-oriented perspective, to "*some kind of pattern in a stream of actions and decisions over time which influence the competitive advantage of the company.*"(Mintzberg and

Waters, 1985), clearly a more dynamic and process-oriented perspective. There are three important principles contained in this definition: (1) Strategies form through both explicit decisions and sometimes unconscious action, and do not necessarily follow the analytic formulation-implementation sequence. (2) There needs to be a recognizable pattern or inherent logic in the stream of actions and decisions, and not only a random series. (3) The competitive advantage of the company will be influenced, but not necessarily in a positive way. While our understanding of strategy is well in line with (1) and (2), we feel the need to adjust slightly the neutral formulation of (3). We believe it is important that a strategy not only influences the competitive advantage of a firm, but that it aims to foster the same. It also reflects our aim to explicitly add a content- and strategy-relevant outcome to the definition. Enriching the definition of strategy as a pattern with an element of position we therefore formulate:

"*A strategy is some kind of pattern in a stream of actions and decisions over time which aims at fostering the competitive advantage of the company.*"

In addition to "strategy," the term "process" needs clarification. Van de Ven proposes three different interpretations (Van de Ven, 1992): First, processes are conceptualized as causal relationships between one or several inputs and one output, with the process itself remaining a "black box." Second, processes are understood as a category of concepts that describe dynamic events in the form of individual and/or collective actions. Third, a process is seen as a chronological sequence of events that describes how phenomena change over time; thus the "black box" is open for observation and analysis. While the first two definitions are better suited for quantitative research, the last one is employed mostly by qualitative researchers (Bower, 1970; Burgelman, 1983b). Being interested in the course of actions and decisions that shape strategy, we will also use this third definition for our study.

Principles for good strategy process research. The principles of good research can be presented along the two dimensions of content and methodology. I.e., what is good strategy process research about and how is it properly conducted? Some authors focus their recommendations on the content of research (Lechner, 2003), others on the methodology (Pettigrew and Whipp, 1991). Some formulate more stringent principles, other relax them slightly. As a synthesis of the above-mentioned contributions we shall suggest the following.

Requirements for the ***content of good strategy process research*** (SPR)(Lechner, 2003):

- SPR is interested in the factors that significantly impact the actual formation of strategies ("becoming' instead of "being').
- SPR investigates phenomena within organizational units; environmental influences are considered only in terms of their consequences on intra-organizational events.
- SPR needs to be related to strategy-relevant outcomes; otherwise it is pure "process' research.

Requirements for the ***methodology of good strategy process research*** (SPR):

- Focus on a behavioral approach examining the behavior and interactions of individual and collective actors (Lechner, 2003).
- Take a multi-level perspective (Pettigrew and Whipp, 1991; Pettigrew, 1992).
- Use a holistic approach (Pettigrew and Whipp, 1991; Pettigrew, 1992).
- Consider temporal interconnectedness between the past, the present and the future (Pettigrew and Whipp, 1991).
- Balance scientific distance and empirical closeness (Pettigrew and Whipp, 1991).
- Base research on existing models using existing terminology (Huff and Reger, 1987; Papadakis and Barwise, 1997).
- Use comparative longitudinal studies (Bower, 1997).
- Integrate evolutional thinking (Baum and Singh, 1994).

This study aims to fulfill these requirements, with a slight adjustment to allow for exclusive consideration of phenomena within organizational units and thus limiting the external environment to a contingency factor. We argue that integrating the environment and external actors in the strategy process benefits from considering boundary processes between the organization and its environment, and offers rich opportunities to enrich our understanding of strategy processes.

2.1.2 A look at prominent strategy process models

Though it is a complex task, structuring the field and classifying existing models on strategy process have been attempted by several authors (Huff and Reger, 1987; Mintzberg et al., 1998; Chakravarthy and White, 2001; Lechner, 2003). Huff and Re-

ger (1987), for example, cluster the different process models along three dimensions: (1) formulation vs. implementation, (2) normative vs. descriptive, (3) synoptic vs. incremental/political. Lechner (2003) employs the same distinctions but adds two more: (4) degree of rationality (rational vs. bargaining), (5) generic patterns of strategy-making.[10] Mintzberg and his colleagues (Mintzberg et al., 1998) distinguish ten "schools of thought," which they group in three categories (prescriptive, descriptive, and integrative/configuration). Finally, Chakravarthy and White (2001) collapse the ten schools into four perspectives: rational, political, evolutionary, and administrative.

Authors	Classification dimensions
Huff and Reger (1987)	1. Formulation vs. implementation 2. Normative vs. descriptive 3. Synoptic vs. incremental/political
Mintzberg et al. (1998)	Ten schools of thought grouped in three categories: 1. Prescriptive 2. Descriptive 3. Integrative
Chakravarthy and White (2001)	Ten schools of thought collapsed into four perspectives: 1. Rational 2. Political 3. Evolutionary 4. Administrative
Lechner (2003)	1. Formulation vs. implementation 2. Normative vs. descriptive 3. Synoptic vs. incremental/political 4. Degree of rationality (rational vs. bargaining) 5. Generic pattern of strategy making (command, symbolic, rational, transactive, generative)

Figure 2-2: Classification schemes of existing strategy process models

Without attempting to repeat the illustrations of the different models, perspectives and schools, we want to concentrate on two models – one that is very rational, analytic and top down, the other rather political, deterministic and bottom up – and one integrative framework. First, we will introduce the strategy model of the Harvard Business School (Andrews, 1971), since it represents the "mother of strategy models" and still receives a lot of attention in research and practice. In simplified terms, the model centers on the notion of fit between internal capabilities and external possibilities or, in other words, the match between internal qualifications and the requirements of the external environment. Second, we refer to the model of Bower (1970) that has been extended by Burgelman (1983a; 1991). We selected the model for two reasons: First, it introduces

[10] In doing so, he follows the modes of strategy-making (command, symbolic, rational, transactive, generative) introduced by Lechner (2003).

a novel perspective on where strategies come from, i.e., from autonomous bottom-up initiatives. Second, we share the concept of resource allocations as determinant of strategy formation within our research undertaking. Finally, we present the integrative framework of Chakravarthy, Müller-Stewens, Lorange and Lechner (2003), since it captures the field in a holistic way.

The strategy model of the Harvard Business School[11] belongs to the Design School (Mintzberg et al., 1998) and is one of the most important prescriptive strategy models. Following a rational, analytic approach to strategy making, the process is delineated into two chronologically-sequenced phases – strategy formulation and strategy implementation. The formulation phase focuses on decision-making whereas the implementation phase is concerned with how to transfer these decisions into actions. The whole process is initiated and driven by top management who makes the decisions about the corporate strategy based on an assessment of the external environment, the internal resources, their own values, and the assumed responsibility toward society. During the implementation phase the formulated goals need to be achieved and management has to shape organizational structures, relationships, processes and behaviors and adjust its own leadership style in order to achieve the desired results.

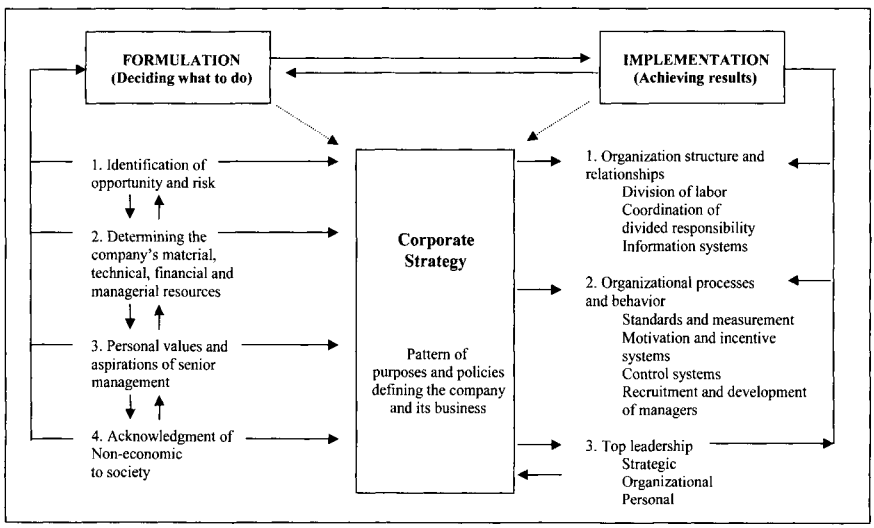


Figure 2-3: Strategy process model of the Harvard Business School (Andrews, 1987:41)

[11] Though developed at Harvard Business School, the Design School model was inspired by the work at University of California at Berkeley and at M.I.T. (Müller-Stewens and Lechner, 2003)

Critical evaluation[12]: This model provides powerful insights to strategy formation process, as well as clear management recommendations for desired organizational designs – which is one of the reasons for its popularity. However, it is also open to criticism. First, the emphasis on top management as central actor in formulating and driving strategies, top-down, reduces middle and operational management tasks to efficient implementation. Second, the sequential logic which implies that actions always follow decisions ignores the fact that action can be realized without explicit decision and can be rationalized ex post. Third, the rationale that strategy implementation always follows the formulation of goals overlooks the actuality that strategy can develop in other ways.

The model of Bower and Burgelman views strategy process as resource allocation and interaction between induced and autonomous behavior. The starting point of the initial model developed by Bower (1970) was the finding that strategy was not created through an official strategic planning process but through the actual allocation of scarce resources within the scope of the investment planning process. That a strategy is implemented through the allocation of resources (Anand and Merrifield, 1982:69) seems obvious; however, the new insight focuses on the role of resource allocation in the process of strategy formulation. Based on his empirical study, Bower developed a multi-level, three-phased model that explains the resource allocation process. In the first phase (definition), a new idea is developed and specified in terms of its resource requirements, mostly by the operational management.[13] In the second phase (impetus), opportunities and risks are calculated and evaluated by middle management, which either supports or rejects the new idea. And, finally, in the third phase (context setting), the ideas/projects are selected through the structural context, which consists of the organizational structure and administrative systems and the rules put in place by top management. The role of top management is thus limited to establishing the appropriate internal context that fits the overarching goals of the firm and to exerting an indirect influence on the selection of initiatives. Bower's model adds at least two important new insights to our understanding of strategy process: (1) Strategy is formulated not only at the top level; but operational and middle management also play a crucial role. (2) Strategy is much more about the actual allocation of resources than about the explicit formulation of a strategy. However, since the structural context sets the

[12] See also Hofer and Schendel (1978).

[13] According to Hofer and Schendel (1978), there are five types of resources: financial, physical, human, organizational and technological (see also Scott, 1987b).

standards for selection, only those ideas/projects can survive that are in line with corporate strategy. This leaves open the question of how radical changes and innovative ideas develop. Burgelman (1983b) responds to this missing link by creating the concept of "strategic context". While induced strategic initiatives evolve as a part of corporate strategy and are selected through the structural context and they, in turn, modify corporate strategy, radical change and corporate renewal are achieved through autonomous initiatives. Those develop outside the prevalent concept of corporate strategy and aim at fundamentally changing the strategy of the firm. Since they could not survive within the structural context, they need to get support through championing activities, mainly from middle management, and through sociopolitical processes that enable access to scarce resources. In the end, if successful, they will be rationalized ex-post and will lead to a change in the concept of corporate strategy.

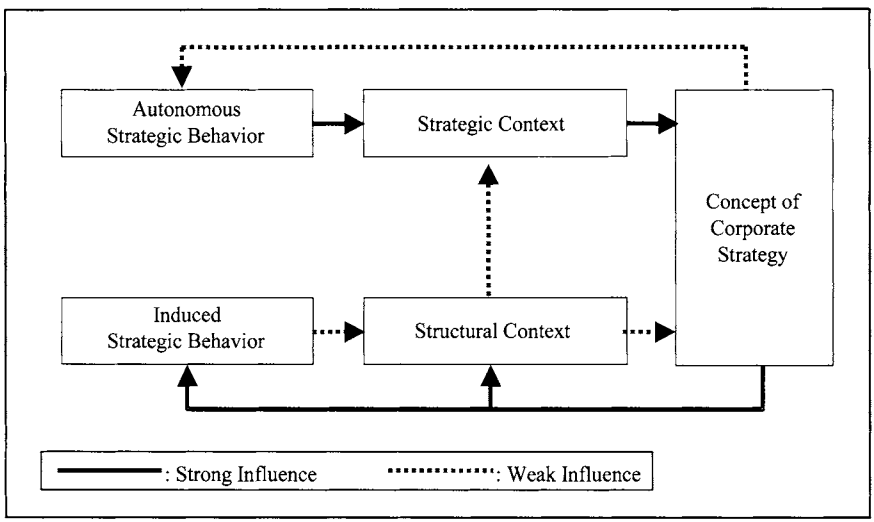


Figure 2-4: Strategy process model by Burgelman (1983b)

Critical evaluation: While Burgelman's model of induced and autonomous behaviors creates valuable insights through its consideration of different management levels, two different types of behavior (induced and autonomous), and the integration of an evolutionary perspective into strategy process research, some limitations need to be considered. First, the model focuses exclusively on bottom-up driven initiatives as sources for strategic change, reducing the role of top management to indirect participation only. Second, internal selection mechanisms are not supported by analogous external selection or retention; it is simply stated that the internal selection mechanisms are expected to reflect the requirements of the external environment. However, the internal

selection processes might still reinforce strategic initiatives that are not able to survive in the market environment in the long run. Third, the model stays abstract as to actual levers that management can activate in order to positively influence strategy formation.

The integrative framework of Chakravarthy, Müller-Stewens, Lechner and Lorange (2003) is less specific than the two models presented above, yet it provides a valuable overview and orientation for the field of strategy research. At the core of the model stands the strategy process, defined as actions and decisions leading to a certain (innovative) competitive position and the deployment of distinctive competencies. The process itself does not follow the sequential logic of decision followed by action; instead, it is characterized by the co-existence of autonomous and induced actions. The strategy process itself is determined by the organizational context, and the decision and action premises. The organizational context, consisting of a firm's management systems and its informal organization, is meant to internalize the requirements of the environment (or business context) and to provide the organization with the appropriate structures, processes, values, and culture that will enable it to operate effectively and efficiently. The organizational context thus transforms and buffers some of the constraints of the business context and forms the playground for the decisions and actions that determine the company's competitive position and competencies. The latter, in turn, determine a company's performance and financial market evaluation. Finally, the integrative framework emphasizes the dynamic nature of context, process, strategy, and performance. As a result, a firm must constantly work on maintaining or improving its position in relation to the strategic frontier of the field (Chakravarthy and White, 2001). If it is not already on the frontier, it can use improvement and imitation strategies in order to reach it. Being on the strategic frontier at a given moment, a company can either use a consolidation strategy that consists of monitoring competition and realizing incremental improvements or migrating from one position on the frontier to another, e.g., from differentiation to cost leadership. Finally, innovation will define new standards and advance the strategy frontier, giving the innovating company a leading edge.

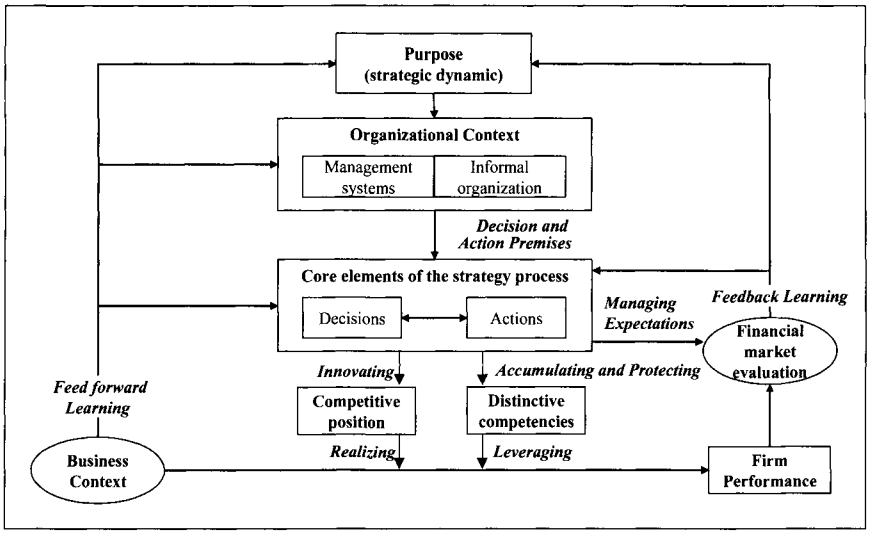


Figure 2-5: Integrative framework for strategy research by Chakravarthy et al. (2003)

Critical evaluation: Obviously an advantage of the framework lies in the integrative and holistic picture it delineates for strategic management. Elements of process (decisions and actions) are combined with elements of content (competitive position and distinctive competencies), whereas in general process determines content, not vice versa. The importance of external and internal context, as well as the critical role of financial markets, is acknowledged and reflected by an explicit integration in the framework. Finally, a dynamic view, learning activities, and the link to performance are on the credit side. Yet the framework pays the price for its broadness with missing specificity, which ultimately leads to a loss of predictive power. Consequently, it can serve as valuable point of orientation, directing both future research and management thinking, but needs to be refined in the future.

To summarize the presentation of the two strategy models and the integrative framework, we would like to emphasize that they have significantly contributed to the development of the field. Looking at the strategy formation process from different angles, they have generated landmark knowledge – on the role of analytical, formulation and implementation routines on the one hand, and on the importance of a social, political perspective that emphasizes autonomous behavior on the other hand. And, for the purposes of this dissertation, they acknowledge the general importance of the external context of an organization. However, they also contain several weaknesses: First, they are very vague as to the functioning of the external context as the final selection mechanism. Second, the external (or business) context seems to be God-given; or, at

least, corporate management does not seem to play a role in its creation. And, finally, external actors are not considered; all attention is dedicated to actors internal to the form. We have to bear these limitations in mind when referring to the models (and the framework). However, we hold that they can provide valuable points of reference for our study.

2.1.3 Strategy formation and the environment

The importance of organization-environment relations for strategy making has always been a primary concern for strategy scholars. Many studies have emphasized the importance of assessing the environment for opportunities and threats and for positioning the firm in its environment (e.g., Ansoff, 1965; Andrews, 1971; Porter, 1980). Others have focused more directly on the environment as a central actor for strategy making (Mintzberg et al., 1998). The vast majority of research, however, still focuses on the different roles of executives and organizational members in strategy formation – distinguishing between "commanders" (Bourgeois and Brodwin, 1984) or "sponsors" (Mintzberg, 1978) of top management and "good soldiers" (Guth and MacMillan, 1986) or "entrepreneurs" (Burgelman, 1983a) at the operational level (Hart and Bandbury, 1994).

As mentioned in chapter 2.1.2, Mintzberg and Lampel (1999) distinguish ten schools of strategy formation. They are unclear as to whether these ten schools represent different approaches to strategy formation or whether they are different aspects of the same process. But they do claim that the different schools are most likely to coexist within one firm, and that they depend on the specific context of the firm at a given time (turnaround situation, consolidation phase, etc.). For the purpose of this study we would like to highlight two schools in particular – the power school and the environmental school – since they seem to focus most directly on the environment.

The power school may be either a micro power school or a macro power school. A micro power school focuses on political processes within the organization. A macro power school views the organization as an entity that employs political strategies based on its power over network relationships to formulate "*collective strategies in its interests*" (Mintzberg and Lampel, 1999:25). As such the macro power school relates to our understanding of strategy formation as influenced by negotiation processes between the different actors of the industry playing field.

The environmental school views strategy as a reactive process that maneuvers the firm through its environment. Restricted by the contingencies of the environment, manage-

ment adapts strategies, structures, and processes in order to achieve fit with the environment. Significant research in this field links with the debate on population ecology and the limited role of management and strategic choice. For our understanding, this perspective is overly reactive and too deterministic. However, the focus on the environment matches our research interest. Pettigrew (1987) adds a more proactive perspective that points to the importance of enacting the environment in order to enhance change processes at the firm level. While this more proactive approach and its emphasis on the interdependence between environment and firm fit our understanding, we still miss the creative power of corporate strategies in terms of influencing the environment.

Another interesting piece of work is contributed by Hart (Hart, 1992; Hart and Bandbury, 1994), who suggests an integrative framework for strategy making processes. Based on the contrasting roles of top management and organizational members, he introduces five modes of strategy making: command, symbolic, rational, transactive, and generative (see Figure 2-6).[14]

Descriptors	Command	Symbolic	Rational	Transactive	Generative
Style	(Imperial) Strategy driven by leader or small top team	(Cultural) Strategy driven by mission and a vision for the future	(Analytical) Strategy driven by formal structure and planning systems	(Procedural) Strategy driven by internal process and mutual adjustments	(Organic) Strategy driven by organizational actors' initiative
Role of Top Management	(Commander) Provide direction	(Coach) Motivate and inspire	(Boss) Evaluate and control	(Facilitator) Empower and enable	(Sponsor) Endorse and support
Role of Organizational Members	(Soldier) Obey orders	(Player) Respond to challenge	(Subordinate) Follow the system	(Participant) Learn and improve	(Entrepreneur) Experiment and take risks

Figure 2-6: An integrative framework for strategy making processes
(Source: Hart, 1992:334)

The command mode describes top managers as key actors who design strategy that lower level organizational members are expected to execute (commander and soldier). In the symbolic mode, top managers provide direction through mission and vision statements for the future, while organizational members respond to the challenge and

[14] Hart (1992) builds on early works by Mintzberg (1973, 1978) who distinguishes between two modes of rationality – "entrepreneurial" dominated by a strong leader, and "planning" dominated by formal analyses and procedures. A third mode, characterized by incrementalism, is called the adaptive mode. It consists of small adjustments made in the face of a difficult environment.

transfer mission and vision into concrete actions (coach and player). The rational mode builds on formal planning systems and hierarchical relationships, with top management providing strategic direction after extensive analyses and with the highly structured involvement of organizational members (boss and subordinate). According to the transactive mode, strategy develops "*based upon an ongoing dialogue with key stakeholders*" (Hart, 1992:338). Top management facilitates an interaction process between the organization and its key stakeholders, which is primarily driven by organizational members (facilitator and participant). Finally, the generative mode views top management as sponsor of initiatives generated at lower levels, and strategy hence follows the "*pattern of innovations that emerge from below*" (Hart, 1992:334) (sponsor and entrepreneur).

Clearly the transactive mode is closest to our understanding of strategy formation since it builds on interactions with external stakeholders of the organization – suppliers, customers, governments and regulators. Feedback and learning are important facets of this strategy mode. Hart (1992) suggests that it is most common in complex environments with multiple stakeholders, in mature industries, and at large companies (e.g., our case company E.ON). We agree that gaining knowledge about and consensus among stakeholders can be a central function of strategy-making, especially if social acceptance and legitimacy are critical, as in the energy industry.

While this brief review shows that general models of strategy-making do acknowledge the importance of the environment in general and external actors in particular, there are two major weaknesses in current literature. First, the mechanisms through which external actors influence the course of the firm remain vague. When assigned to the environment, these mechanisms are mostly condensed under abstract definitions of heterogeneity, dynamism, or hostility (Papadakis et al., 1998). Frequently, cross-sectional studies simply measure their impact on different dependent variables, for example, corporate strategy (Ring and Perry, 1985; Zajac and Shortell, 1989; Rugman and Verbeke, 1998), innovativeness (Marcus, 1981; Marcus, 1988), or organizational design (Dickie, 1984). Second, the creation of those influencing mechanisms is hardly addressed; they seem to be God-given, and the participation of single organizations in their creation is scarcely discussed.[15] For this reason we argue that current research

[15] Organizations "enact" the environment (Pettigrew, 1987), "reproduce" it (Burgelman, 1983a,b), or use it for feedback purposes (Hart, 1992). Overall, organizations remain rather passive, instead of actively shaping their environments.

provides us with helpful insights, but that better conceptualizations of the environment and how it affects and is affected by the firm are required.

2.1.4 External actors and their influence on strategy and structure

While all sorts of actors internal to the firm have received considerable attention in management research, relatively few studies have elaborated on external actors and their role in strategic management, and even fewer in the strategy formation process. Based on an extensive review of management literature, this chapter aims to provide an overview of external actors and their influence on corporate strategy and structure. After an initial presentation of the different actor groups we will concentrate our analysis on regulatory and political actors, which are of specific interest to this dissertation. Despite the acknowledged importance of the sociopolitical sector, most research has so far emphasized organizational exchanges with market sectors of the environment (customer, competitor, supplier), while responses to government are less well understood (Carter, 1990).

For the literature review, a total of 180 articles have been analyzed and documented in an Excel-spreadsheet containing the most important characteristics of each article.

Figure 2-7 below shows the structure of the spreadsheet. The information includes the following: actors, independent and dependent variables, unit and level of analysis, methodology, content or process orientation, and elements of corporate strategy concerned. While not all categories could be rated for all articles, this literature database builds the basis for the clustering of the extant studies.

The identification of relevant articles followed several strategies. First, key word searches have been conducted in business and sociology journals, with the help of the online research database *JStor*. This resulted in approximately 250 potentially interesting articles, the abstracts of which were consulted subsequently. Second, all issues of the *Strategic Management Journal* and *The Academy of Management Review* since 1980 were screened (circa 2,500 articles).[16] The relevance of each article was first judged based on its title, which reduced the number of possibly relevant articles to about 300. We then decreased the number of articles from 550 (250 from key word searches and 300 from journal reviews) to 160 based on an evaluation of the article

[16] The *Strategic Management Journal* was selected since it represents one of the most important journals on strategic management containing primarily empirical studies. *The Academy of Management Review* was included since it can be considered to be one of the leading theoretical journals of management. This choice consequently enabled us to consider both theoretical and empirical contributions.

abstract. To supplement our research base, we also included frequently cited relevant articles (20), which left us with 180 articles that have finally been analyzed in detail.

Besides regulatory actors, the review included other non-market exchange partners, such as shareholders and the capital market. Market partners – such as customers (Koch and Fox, 1978; Pitts, 1980; Davies and Walters, 2004), trade partners (Jelinek, 1977; Bromiley, 1981; Porter, 1981; Milliken, 1987), or supply chain associates (Ford and Slocum, 1977) – were not analyzed since this would have gone beyond the scope of this dissertation.

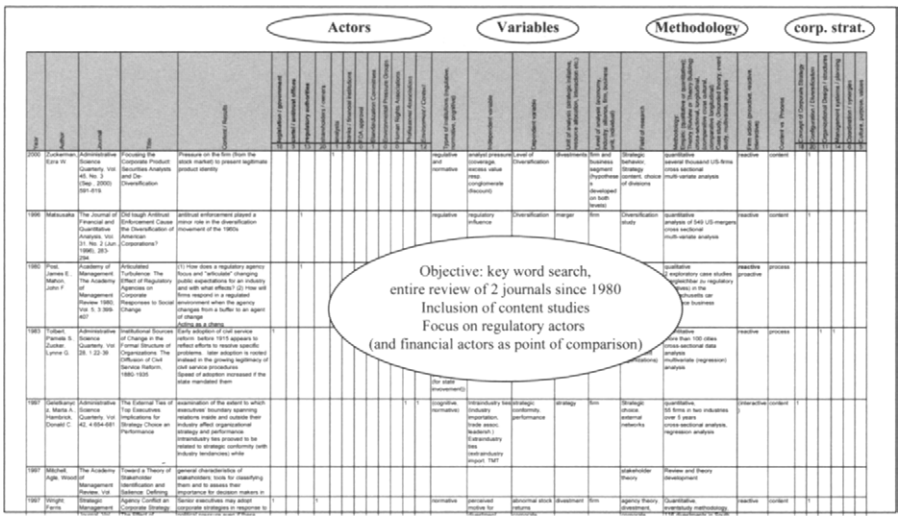


Figure 2-7: Structure of literature review on external actors

Shareholders and the capital market. Literature on the influence of shareholders and the capital market on corporate strategy and structure is quite homogeneous, more than might be expected. The vast majority of studies uses cross-sectional research designs and elaborates on the effects of ownership structure on numerous facets of corporate strategy, structure and behavior. Hereby, ownership structure is conceptualized primarily as ownership concentration, share of institutional owners, and management or insider shareholdings.

The level of diversification is the most frequently used dependent variable. Results, however, remain ambiguous. While many authors suggest a negative relation between ownership concentration (or share of institutional stockholdings) and diversification (Hoskisson and Turk, 1990; Amihud and Lev, 1999; Ramaswamy et al., 2002), others

(Lane et al., 1998; Lane et al., 1999) negate this effect. Other popular dependent variables include R&D expenditures (Hill and Snell, 1989; Baysinger et al., 1991; Hansen and Hill, 1991), risk taking (Wright et al., 1996), and payment systems (Hambrick and Finkelstein, 1995; David et al., 1998). For example, ownership concentration is supposed to have negative effects on CEO payments and the level and short-term orientation of the remuneration system. Also, ownership concentration has been found to positively influence restructuring activities (Bethel and Liebeskind, 1993). And finally, the relation between performance and owner control type and inside shareholdings (Belkaoui and Pavlik, 1992; Li and Simerly, 1998) has been analyzed.

A second line of research investigates the antecedents of ownership structure, and thus takes ownership structure as a dependent variable (as opposed to the above-mentioned studies for which ownership structure functioned as an independent variable). Graves and Waddock (1994), for example, revealed a positive relationship between corporate social performance and the number of institutional owners. However, the number of studies in this field is very limited.

In addition to owners, capital market analysts have also received scholarly attention. Two studies are especially worth mentioning, since they employ a holistic, process-oriented research design. First, Post and Mahon (2000) elaborate on the pressure form stock market analysts on the firm to present a coherent, legitimate product.[17] Second, Dirsmith and Covaleski (1983) point to the importance of communication between organizations and key environmental elements, including analysts, since strategic norms develop through the interactions between the involved parties. Interestingly enough, they argue that even evaluation methods for firm performance (used by market analysts) are negotiated in an interactive fashion.

Finally, and moving this review to the next group of stakeholders, we would like to mention studies that consider both ownership structure and political or regulatory activities. In this line of research, variation of ownership structure, for example, is explained by the degree of regulation the company is confronted with (Wright and Ferris, 1997); and political pressures are seen as reasons for managers to follow strategies that harm shareholder interests (Demsetz and Lehn, 1985).

[17] Along the same line of argument, recent research (zu Knyphausen-Aufsess and Piepenbrock, 2003) argues that the power of non-shareholding market analysts increases significantly and limits the number of strategic choices available to an organization.

Government and regulation. Unlike earlier studies, which pointed out that current research does not sufficiently reflect on the impact of government and regulation on strategy formation (Carter, 1990), we found 84 studies that deal directly or indirectly with this issue, after all. The literature in this field can be divided into five clusters that relate to the research questions of this dissertation project: (1) internal effects of governmental involvement on corporate strategy and structure; (2) external effects in the form of externally directed strategic responses of a corporation; (3) proactive political strategies to influence the legislation and regulation process; (4) interactive strategies involving multiple actors; (5) macro-level studies on the formation, diffusion and efficiency of regulatory institutions. The following table summarizes the main differences between the five clusters, i.e., the number of actors considered, the unit and level of analysis, the action type (reactive, proactive, interactive), the typical field of study, the orientation (content or process), and the methodology.

	(1) Internal effects on corporate strategy and structure	(2) Externally directed response strategies	(3) Proactive political strategies	(4) Interactive strategies	(5) Macro-level studies
Number of actors considered	Only the focal organization	Focal organization and regulatory actor	Focal organization and regulatory actor	Multiple actors and coalitions	Multiple actors and coalitions
Unit and level of analysis	Focal organization	Focal organization	Focal organization	Focal organization, interactions, networks	Industry or economy
Action type (reactive, proactive, interactive)	Reactive	Mostly reactive	Proactive	Interactive	Reactive, proactive, interactive
Orientation (content or process)	Effects on strategy, diversification, vertical scope, innovation, etc.	Generic response strategies (ignore, manipulate, challenge, etc.)	Political influence and lobbying activities	Coalition building, stakeholder enactment	Formation, diffusion, and efficiency of regulatory practices
Orientation (content or process)	Content	Content, (process)	Content, process	Content, (process)	Content, (process)
Methodology	Mostly quantitative, cross sectional	Mostly theoretical, (qualitative)	Mixed	Mixed	Mixed

Figure 2-8: Clusters for studies on government and regulation

The largest body of research falls into the first cluster of studies on internal effects and responses toward changing environmental conditions that employ primarily quantitative research methodologies. The studies analyze the impact of external shifts on cor-

porate strategy (Ring and Perry, 1985; Zajac and Shortell, 1989; Rugman and Verbeke, 1998), innovativeness (Marcus, 1981; Marcus, 1988), risk-taking (Baird and Thomas, 1985), diversification (Smith and Grimm, 1987; Russo, 1992; Kashlak and Joshi, 1994; Matsusaka, 1996), organization design (Dickie, 1984), scope of operations (Haveman et al., 2001; Toulan, 2002), and ownership structure (Demsetz and Lehn, 1985). In addition, strategic tools are considered that are expected to manage uncertainty in the environment (Elenkov, 1997). Besides these partial effects, a number of studies also establish the link to performance (Reger et al., 1992; Marsh, 1998; Walker et al., 2002) and organizational mortality or founding rates (Gruca and Deepika, 1994; Wade et al., 1998). As for the issues most frequently under research, environmental regulation, competitive (de)regulation and corporate social responsibility predominate. The large majority of studies deal with content issues. While this helps us to understand certain facets of the phenomenon, a deeper understanding and holistic picture are missing. Positive exceptions include the work of Bacharach et al. (1996) and, especially, Cook et al. (1983) who elaborate on the nature and timing of the various adjustments hospitals make in internal organizational arrangements and in patterns of inter-organizational activity in the face of regulatory constraints. Their consideration of both internal and external strategies, as well as content and process issues, enhance the value of their contribution.

Studies on externally directed responses are much fewer and in general more generic, but at the same time they are more holistic. They tend to be theoretical or qualitative and, most important, include theory building on the diverse responses toward regulatory pressure. Fischer (1983), for example, provides a typology of possible responses: (1) *Preemptive*: Product responses dominate, impacts not accepted, change ignored, no contact with impactees. (2) *Prescriptive*: Product responses dominate, impacts accepted to some extent, minimal/symbolic product change, ad hoc contact with impactees. (3) *Preventive*: Product responses constrained, acceptance and integration of impacts, channel to impactees. (4) *Promotive*: Product and impact responses formed together, product-impact trade-offs, enhance impacted areas, monitor impactees. Oliver's (1991) work (which is presented in chapter 2.3.3) goes in the same direction. Another line of research focuses on the effects of deregulation on companies. The qualitative study of Post and Mahon (1980), e.g., explicitly deals with the responses of firms when the governmental authorities change from protecting the firm's profits to enhancing competition. The article also reflects on the evolution of institutions from the perspective of the regulatory agents. A contribution by Mahon and Murray (1981) elaborates on the usefulness of economic, political, and social strategy in the face of

regulatory involvement. The recent study of Bonardi (2004), which uses a game theory approach, fits into this cluster, too. He reflects on the asymmetric behavior of former monopolies – on the one hand impeding the entry of foreign competitors into their home market, but at the same time aggressively developing international strategies in foreign markets. Finally, Shaffer (1995) provides a sound review of internal adaptations and externally directed influence strategies.

While the previous cluster was characterized by reactive firm behavior, the third cluster deals with more proactive strategies that aim at shaping the organization's environment. Studies use different methodologies: theoretical and empirical, quantitative and qualitative. Roughly as numerous as cluster 2 studies, they include the purposive use of strategic regulation. Maijoor and Witteloostuijn (1996), for example, conducted a quantitative study of auditing firms' proactive use of institution-building as a source of competitive advantage. The authors analyzed how Dutch accounting firms stimulated demand by promoting the installation of laws that require the use of their auditing services (demand regulation). At the same time, professionalization protected incumbent accounting firms from new entrants that had to be registered and admitted by the national professional association (supply regulation). In the same vein, Schuler (1996) elaborated on steel firms' use of political strategies to protect their profits through U.S. trade policy (e.g., trade restrictions or import tariffs). A second line of research deals with the more operative use of political strategies and tactics. Hillman et al. (1999), for example, research the firm-specific benefits from personal service in the U.S. government, which they found to positively affect firm performance. Channon (1980) more generally discusses business government planning agreements as rigid forms of political intervention. Finally, in another line of research, Keim and Zeithaml (1986) present a very interesting study on the most commonly used political strategies (constituency building, political action committee, etc.) and link their effectiveness with voters' opinions (consensus among voters or not, in favor of legislation or not). Faced with consensus among voters in favor of legislative initiatives, corporations will use different political strategies than if they are faced with conflict among voters or societal opposition to a legislative initiative.[18]

While cluster 2 and cluster 3 studies center around the focal organization, and eventually its interactions with governmental actors, cluster 4 studies explicitly include nu-

[18] Hillman et al. (2004) provide a very useful integrative model of literature on corporate political activities that relates to cluster 3 type studies on proactive political strategies. Due to its specific importance for this dissertation it shall be presented at the end of this section.

merous actors – such as shareholders, business partners, and professional associations. The underlying logic is that regulatory institutions evolve through the complex interactions between the actors in the field. Using primarily qualitative and case-study approaches, an important group of studies in this cluster deals with the joint activities and coalition building of different actors. These network approaches have received increased attention during recent years. They include mobilization strategies in social networks (Stevenson and Greenberg, 2000), collaboration efforts between the public and private sector (Faerman et al., 2001), interactions between actors for the construction of economic patterns (Dowd and Dobbin, 1997), and corporate responses to regulatory pressure in the form of joint activities with other constituents (McKay, 2001). Another important line of research is rooted in stakeholder theory. Studies tend to employ quantitative research designs and focus on issues like the prioritization of stakeholder interests or dominant components of the environment (Aharoni et al., 1978). This implies that management needs to focus on the most important interest groups and to use opposing positions for the realization of tradeoff strategies (Aharoni et al., 1981). A recent study by Buysse and Verbeke (2003) also follows this line of research: Employing a stakeholder management perspective on environmental strategies, the authors found that voluntary cooperation between firms and government produced more favorable results, as compared to strict regulation by laws. Other minor, yet interesting lines of studies include the operationalization of third parties for the purpose of the focal organization's interests. Gargiulo (1993) calls this phenomenon two-step leverage, meaning that instead of using influencing-strategies directly, managers build strong cooptive relations with people who might constrain the party on whom they depend.

The last cluster of studies on government and regulation deals with the formation and diffusion of regulatory practices on the macro level (industry or economy). Although they add insight regarding the formation of an industry's institutional order, we suggest that most of these studies are peripheral and therefore refrain from presenting them in this review.[19]

Summary. Reviewing current research as it relates to the purpose of this dissertation and, more specifically, to the distinct research questions posed at the beginning of this thesis, we feel that the identified research gap has been confirmed. Relating to internal alignments following regulatory involvement, cluster 1 studies provide us with helpful

[19] Details can be found at Engelhardt (2005).

fragments of the impact of external actors on numerous elements of corporate strategy and structure. With some exceptions (Cook et al., 1983; Bacharach et al., 1996), however, the large body of research focuses on cross-sectional, quantitative studies on selected aspects. A holistic approach, like the one employed in this dissertation, which also includes a dynamic component (sequence of alignments), is still underrepresented in literature.

Relating to externally directed responses to regulatory involvement and the possibilities for corporations to influence their regulatory environment, relevant research has already been conducted, as indicated by cluster 2 and 3 studies. Cluster 4 studies further reflect the importance of collective strategies. More comprehensive than studies on internal alignments, significant research has been conducted on generic, externally directed response strategies (Fischer, 1983; Oliver, 1991), more concrete political influencing-strategies and tactics (Keim and Zeithaml, 1986; Schuler, 1996), and the role of network effects and partnering (Gargiulo, 1993; Stevenson and Greenberg, 2000; McKay, 2001). Building on these studies we hope to advance our understanding of externally directed strategies and combine it with above mentioned theories on internal alignments.

The work of Hillman et al. (2004) on corporate political activity (CPA) proved to be very helpful in structuring current research and in providing guidance for this dissertation. First, their integrative model includes antecedents of CPA; these include firm-, industry-, and issue- specific, as well as institutional predictors.[20] Second, they provide a typology of CPA: proactive vs. reactive behavior, relational or transactional approach, individual or collective strategies, information-based, and financial- or constituency-based approaches. Third, they distinguish between public policy and firm performance as outcomes of CPA. And, finally, they point to the importance of integrating CPA with market strategies and of considering multiple political actors.

2.1.5 Overarching constructs: consistency, fit, and alignment

In this chapter we introduce the relevant constructs for our research and delineate similar constructs in current research. This is especially important since there seem to be various definitions and wordings for comparable phenomena on the one hand and rather similar wordings for quite different phenomena on the other hand. The following constructs will be introduced: (1) consistency, (2) external fit, (3) internal fit, (4)

[20] For this dissertation, we will especially relate to the issue-specific antecedents of salience and competition.

integrated fit, and (5) alignment. For all of them a common understanding of corporate strategy and resource allocations is required. For this reason we will first introduce them, and only then refer to the five relevant constructs.

Corporate strategy. There are manifold typologies and conceptualizations of the different components of corporate strategy that try to give a coherent and holistic picture as to where and how a firm competes. Undoubtedly, various considerations – concerning the scale and scope of the multi-business firm (Grant, 2001), diversification (Ramanujam and Varadarajan, 1989), organizational structure (Inkson et al., 1970; Miller, 1987) including the role of corporate centers (Markides, 2001) – are at the heart of corporate strategy. Figure 2-9 below includes all these topics and shows the six elements of corporate strategy and structure we have chosen since they "*constitute the central conceptual factors of concern to corporate managers when they shape the corporate strategy*" (Müller-Stewens and Schmidt, 2003:8).

The first element of corporate strategy is the ***corporate concept***, a "*concept that describes the specific company-wide measures that will be taken to achieve the state portrayed in a declared corporate vision*" (Odefey, 2004:8). Consequently, the corporate vision can be considered part of the corporate concept, giving a realistic and attractive direction for the future of an organization – a mental picture of which goals are desirable for the organization and of how the company can become more successful in the future. So the corporate concept is a map of the strategic initiatives and plans that will be carried out at the corporate level, as well as a statement of the way the company will configure, coordinate and optimize its businesses. Thus, the corporate concept has three principle functions: It provides orientation by creating a clear picture of the firm's future goals; it serves to communicate to stakeholders; and it motivates employees by increasing their identification with the company. Thereby corporate concepts shall serve as the most specific part of the corporate strategy, because they provide internals as well as externals with specific plans of action that will be carried out at the company level.

The second element of corporate strategy is the ***configuration*** of the business portfolio. Configuration encompasses the optimization of the horizontal, vertical, geographical, and lateral diversification of a multi-business firm. In order to reach a better risk diversification than investors can achieve via capital markets an active management of the business portfolio is called for. This includes the extension, or focusing, or consolidation of business unit activities.

Third, corporate strategy calls for ***coordination*** between multiple businesses. Coordination is reached via a sharing, transfer, recombination, and exploitation of a firm's resources. Realizing synergies across business units can further help multi-business firms to preserve or create value. While the three elements of corporate strategy just described can be assigned to the strategic context (Burgelman, 1983a), the following elements are variously described as structural context (Burgelman, 1983a) and administrative context (Collis and Montgomery, 1998).

Organizational design refers to organization structures, core processes, and governance mechanisms in place. Organizational structures are generally described according to degrees of centralization of authority, formalization, integration, or complexity (Miller and Droege, 1986). More concretely, they include the organization form (e.g., M-form) or corporate center functions such as, for example, corporate M&A departments. Core processes are the defined and formalized processes, both horizontal (between different departments) and vertical (between different levels of the hierarchy). Corporate governance deals with the supervision of the management board through a board of directors ("Aufsichtsrat") and includes related auditing mechanisms.

Management systems refer to the planning/budgeting, control and payment/appraisal systems. The strategic planning and budgeting process is defined as the set of human interactions, formal and informal, that take place in the course of generating a strategic plan. Management control systems are broadly defined as the formalized routines and procedures that use information to maintain or alter patterns in organizational activity. These systems include formalized information-based processes for cost control, environmental scanning, competitor analysis, performance evaluation, and resource allocation. Payment or appraisal systems include the formal evaluation of employees' performance and the corresponding monetary or non-monetary reward systems.

Finally, ***Leadership and style*** covers intangibles such as the organization culture, leadership style, unifying firm values, and symbols and artifacts of the organization. They contain ethical and moral considerations and can be found in a company's "code of conduct." However, more than formally described rules and standards, they are an implicit shared understanding of how to work together.

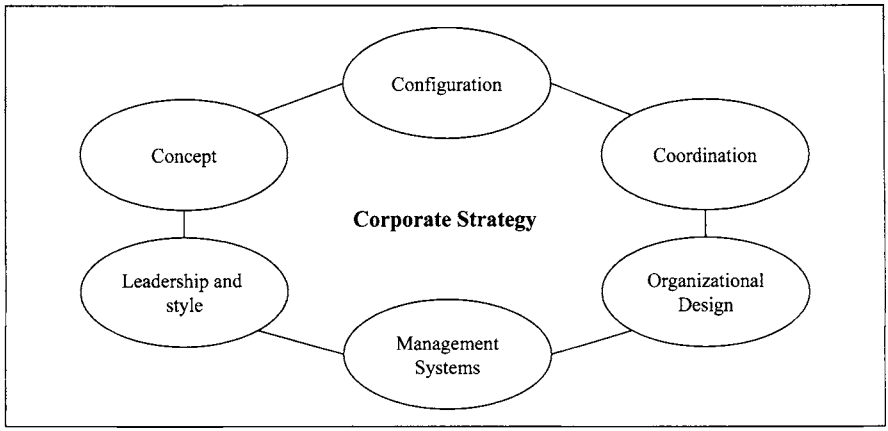


Figure 2-9: The six elements of corporate strategy
(Müller-Stewens and Schmidt, 2003b)

Resource allocations. The previous section describes the elements that make up the strategy of a firm, in terms of the fields in which to compete, the scope and scale of the firm, and its formal and informal structures and processes. This section describes the resource allocations, which can be considered as the executed strategy of the firm. The resource allocations may or may not be in line with the defined corporate strategy. "*Although the strategy of a firm is often stated in terms of a number of different elements, it is implemented through the allocation of resources*" (Anand and Merrifield, 1982:69). Thus, resource allocations implement the defined strategy. However, resource allocations can also be autonomous actions of individuals not preceded by formal decisions of top management (Bower, 1970). Consequently, the causal relation between a corporate strategy and resource allocations is ambiguous: Either resource allocations can follow management decisions and implement the defined corporate strategy, or they can precede a "new" corporate strategy that will only be formally defined later on. Yet undoubtedly, it is through the deployment of resources that firms manifest their competitive approaches (Chandler, 1962; Bower, 1970; Hofer and Schendel, 1978; Porter, 1980). In other words, the sequence of resource allocations represents corporate strategy formation. Therefore, resource allocations are an important construct in analyzing corporate strategy and management action.

Consistency. As employed within the scope of this dissertation, consistency is defined as strategic linkage between the defined concept of corporate strategy and management action, with the latter being represented by corporate resource allocations. Put simply, the question is: "Do they walk as they talk?" Burgelman and Grove (1996)

maintain that consistency between management action and corporate strategy is a top management responsibility, and we agree that a certain level of consistency between the defined strategy and actual resource allocations is key to corporate performance. If this were not the case, any corporate strategy would be useless – a view we certainly do not share. However, consistency is not likely to last over time. "*Inevitably, strategic actions will begin to lead or lag strategic intent. Such divergences between intent and action cause strategic dissonance in the organization*" (Burgelman and Grove, 1996:8). Now how do we judge consistency? On the one hand, as noted above, a defined strategy is only of use if corporate and lower level management act according to it. On the other hand, inconsistency might be a necessary consequence if a company moves from one concept of corporate strategy to another, or even if the extant concept of corporate strategy is adjusted. Next to inertia (Mintzberg and Waters, 1982; Hannan and Freeman, 1984) as a natural reaction to change, inconsistency also appears in the face of autonomous activity, a phenomenon comparable to what Mintzberg and Waters (1985) call emergent strategizing. In this case, inconsistency as a result of autonomous behavior is vital to a firm since it can lead to corporate renewal. The case of Intel's business exit from DRAM into microprocessors is an excellent example of how inconsistency can lead to superior performance. While operational management put significant effort into the development of the microprocessor business, top management did not at first back this involvement and continued to support the DRAM business. Only in 1985 did top management officially realize the transformation of Intel from a memory company to a microprocessor company and change the official concept of their corporate strategy (Burgelman, 1991). For this dissertation we hold that there is an optimum level of consistency between the defined corporate strategy and management action (reflected in the resource allocations). Analyzing the consistency level of a firm, we can learn most from a dynamic reflection on its temporal development. In particular, the course of the consistency curve over time can provide us with meaningful hints on the evolution of strategy. In this regard, convergent or divergent curves, as well as turning points, represent important starting points for further analyses.

Fit. The concept of fit – which is also known as co-alignment, contingency, coherence or consistency – emerged as an important concept in organizational research. In brief, it is about the "fit" between strategy and its context – on the one hand the external context or environment, on the other hand the internal context or structures, systems, and managerial characteristics (Venkatraman and Prescott, 1990). The first is what we – like Venkatraman and Prescott – understand as ***external fit (1)***. The concept is rooted in population ecology and contingency theory. Population ecology claims that organi-

zations which survive show the best fit to environmental characteristics (Hannan and Freeman, 1977). Contingency theory attributes higher performance to organizations that possess a "*proper alignment of endogenous design variables [such as organization structure or degree of planning formality] with exogenous context variables [such as environmental uncertainty, technology, or organizational size]*" (Powell, 1992:120). Strategic management research, too, is based on the concept of matching organizational resources with environmental opportunities and threats (Chandler, 1962; Andrews, 1971). Within the scope of this dissertation we investigate the efforts of corporate management to achieve fit between the exogenous requirements of the regulative context and the endogenous elements of corporate strategy. The "fit" between strategy and the internal context is what we understand as ***internal fit (2)***. "*An outstanding corporate strategy is not a random collection of individual building blocks but a carefully constructed system of individual parts*"(Collis and Montgomery, 1998:72). This implies that corporate strategy and internal, structural elements need to be coherent and form a consistent whole (Collis and Montgomery, 1998). Prahaland and Bettis (1986) and Grant (2001) argue that the dominant logic of a firm – defined as conceptualization of the business – needs to prove fit between the strategic and structural components. Finally, Miles and Snow (1980) point to the importance of a proper "arrangement" among the internal structures and management processes. In this dissertation we are interested in the activities of corporate management to achieve fit among the six elements of corporate strategy described above. Despite the sometimes contradictory requirements of external and internal fit, we hold that both need to be met and balanced, which leads to ***integrated fit (3)*** (Venkatraman, 1989). "*Organizations must achieve fit both with their external environments and among their elements of structure and process*" (Miller, 1992:159). An organization might have to shift the focus from internal fit, in order to achieve a smooth functioning of the organization, to external fit, in order to re-adjust to changing conditions in the environment. Yet, in the long run, both need to be achieved (Miller, 1992). In this dissertation we employ the concept of integrated fit to analyze corporate management activity directed to align the six elements of corporate strategy – internally and externally.

Alignment. While the concept of fit is static and describes a status at a given point in time, the concept of alignment is dynamic and describes the process of achieving fit between the environment and the corporate strategy and among the elements of corporate strategy. Compared to the proposed scheme to distinguish different perspectives of fit by Venkatraman and Camillus (1984), the first concept corresponds to the content of fit (elements to be aligned) while the latter corresponds to the process of arriving at

fit (sequence of alignments). Alignment activities as patterns in matching the elements of corporate strategy – externally and internally – are longstanding fundaments of strategy research (Andrews, 1971). And alignment skills may further be considered important strategic capabilities of the firm leading to competitive advantage (Powell, 1992; Müller-Stewens, 2003c). Within the scope of this dissertation alignment is the central construct under research. Triggered by changes in the external, regulative environment, we want to elaborate on the paths internal structures and processes - to be more concrete, the six elements of corporate strategy - adapt to the new situation. What is the sequence in which the different elements change? How do they change? What are the most important interactions? What patterns can be deduced?

Consistency, fit, and alignment. While fit and alignment are about how well external and internal context variables go together, consistency – as employed within this dissertation – is significantly different. Consistency is about how well resource allocations execute a defined corporate strategy (which itself must not consist of coherent or "fitted" elements). So, how do they relate to each other and what is their purpose within the scope of this dissertation project? Consistency (between strategic intent and action) is the relevant outcome under research in the first part of the dissertation, which elaborates on the influence of regulatory actors on resource allocations. As such, consistency over time acts as an indicator for changes in the external environment or in the corporate strategy. Turning points in the consistency curve point to changing levels of consensus among corporate actors regarding future strategy. For example, if the environment is stable and the internal context is well established, there is no reason for changing levels of consistency. Everybody agrees on the patterns of working together, and there is no source of dissonance. However, if there are changes in the environment, the company is likely to face a struggle about its future direction. Resisting forces will be opposed to innovating coalitions, and autonomous behavior will occur more frequently and collide with the concept of corporate strategy; yet the officially defined strategy may remain in place for a while. The consequence of such a situation will be declining levels of consistency. According to this logic, we use consistency analysis as an indicator to identify starting or ending points of alignment processes and to legitimize further research undertakings. The core of our research interest remains focused on the alignment processes of the elements of corporate strategy following regulatory involvement, which are studied in the second phase of this dissertation.

Figure 2-10 below depicts the concepts of consistency, fit, and alignment.

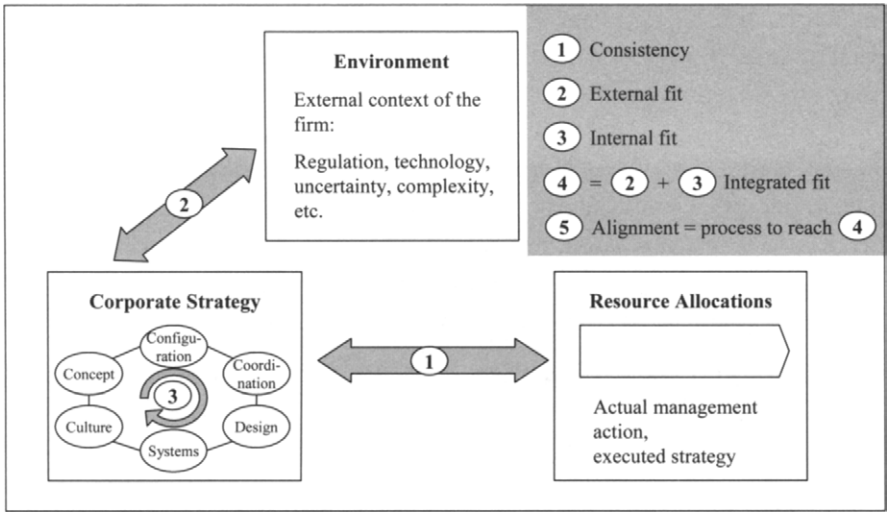


Figure 2-10: Consistency, fit, and alignment

2.1.6 Performance outcomes

Research on strategic management looks at the explanation of differences in performance among firms and the sources that cause them (Hawawini et al., 2003). Strategy process research, too, deals with "*sustainable, above average performance of firms*" and asks "*why are some firms able to achieve this, while others are not?*" (Lechner, 2003:3). This implies that every good study on strategy process should be linked to performance. However, this does not mean that each study needs to be directly linked to (financial) firm performance. Intermediate process outcomes such as, for example, decision speed (Wally and Baum, 1994) are well respected and suitable outcomes for measuring performance (Lechner, 2003). Consistency (Burgelman and Grove, 1996) and organizational fit (Venkatraman and Camillus, 1984) might also be regarded as intermediate process outcomes. More generally, we maintain – as outlined above in chapter 2.1.1 – that strategy process research needs to be related to strategy-relevant outcomes, either financial or process-related.

While financial or economic outcomes (return on investment, return on assets, market value, market share, profit growth, etc.) remain the ultimate criteria for judging the performance of the firm, these outcomes are influenced by a large variety of environmental, organizational, and decision specific factors. Accordingly, it is difficult to use them as outcome measures of the quality of strategy processes (Chakravarthy and

White, 2001). Intermediate process outcomes seem to be better indicators of the direct influence of decision process characteristics on strategic (process) outcomes (timeliness, speed, commitment, etc.). The following Figure 2-11 depicts the relevant independent variables, intermediates, and performance outcome variables of strategic decision processes.

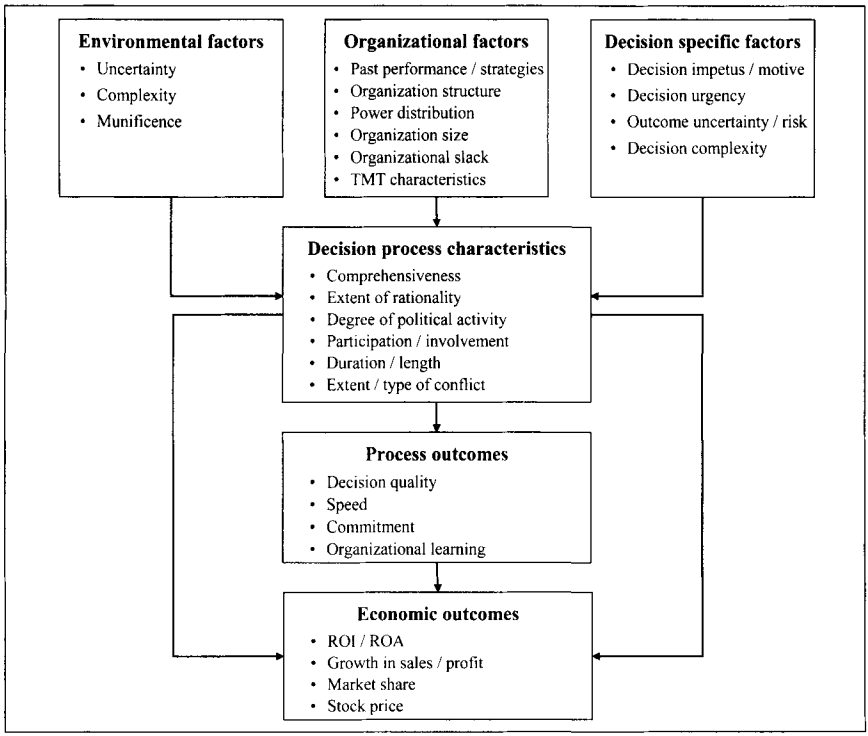


Figure 2-11: Integrative framework for strategic decision processes
(Source: adapted from Rajagopalan, Rasheed, and Datta, 1993:352)

In this dissertation we focus on alignment processes of management in order to regain fit and increase consistency after changes in the regulatory environment. More specifically, we are interested in the antecedents of internal alignments and externally directed responses (please refer to chapters 3 and 5) and in the specific characteristics of the two. Therefore, we refrain from using economic performance outcomes. In addition to internal alignment processes and externally directed responses, we use consistency as an intermediary outcome for the first phase of our research. In line with the

larger ICS project at the University of St.Gallen we assume that, in general, there is a positive relation between consistency and performance.[21]

2.2 Organizational theory lenses on strategy process

Organizations are "*systems of implicit and explicit rules*" (Scherer, 2002:1) designed to orient and coordinate actions of the participating individuals. Organization theory aims to understand and explain the creation, existence, and functioning of these organizations. However, since organizations are highly complex social constructs that offer a wide variety of possible circumstances for analysis, and since the potential theoretical perspectives and their purposes vary, there are a number of theories on organizations which should be utilized to explain the manifold phenomena of organizations (Morgan, 2002).

Therefore, each research project has to choose the theoretical basis used for analysis, taking into account its effectiveness and efficiency. The underlying assumptions, theoretical constructs, and the explanatory power of the chosen theory must match the requirements for the subject of the given research project. For example, the assumption that human beings are rational actors conflicts with a study that looks at the role of power relations in business decisions.

Given the importance of theory selection, we want to carefully consider some of the most promising theory lenses for studying strategy processes, ones that seem to fit our research objective – to study the influences of regulatory actors on corporate strategy and structure. In the first section of this chapter (chapter 2.2.1) we will present the chosen criteria for theory selection. Neo-classical theory as a/the basis for all theories will help us. Based on a brief review and critique of neo-classical theory and its underlying assumptions we will deduce the relevant criteria for theory selection. We start with evolutionary theory (chapter 2.2.2), which has already produced valuable insights for strategy process research. We then continue with stakeholder theory due to its explicit focus on different actor groups inside and outside the firm (chapter 2.2.3). Finally, we review neo-institutional theory according to its fit for the purpose of this study (chapter 2.2.4). We provide a brief overview of each of the theories, and then consider their basic principles and underlying assumptions according to the different selection criteria in order to determine which theory is best suited for this dissertation.

[21] Cross-case comparisons within the ICS project based on a larger sample are required to prove this relationship.

The chapter ends with a condensed evaluation of the three theory lenses and explains why neo-institutional theory has been chosen for this study (chapter 2.2.5).

2.2.1 Criteria for theory selection

Neo-classical theory is based on the idea that individuals maximize utility under certain budget constraints (De Alessi, 1983). Firms are conceptualized as production functions, transforming inputs into outputs. Organizations do not exist as such, since the "organization" is identical with the entrepreneur/owner; consequently an organization's structures, members, decisions, and control problems are ignored (Berger and Bernhardt-Mehlich, 2002:134). Other key assumptions of neo-classical theory are (1) the free availability of complete information and, thus, absolute market transparency and (2) a rational actor perspective, which reduces decision-making to a purely analytical process. And, finally, neo-classical theory disregards a "*sensitivity of outcomes to process*" (Simon, 1979:509), which means that decision process characteristics – such as the prevalent power relations – are not considered to be relevant.

This brief review shows that neo-classical theory is only of limited use for strategy process research, especially for the present type of study. While process models of the design or planning school accept some of the assumptions of neo-classical theory – for example, rational, analytical information processing and decision-making – our understanding of strategy process contradicts neo-classical theory.

This dissertation is interested in the influences of regulatory actors on corporate strategy and structure. Therefore it focuses on the paths through which management aligns corporate strategy – conceptualized through the six elements of corporate concept, configuration, coordination, organizational design, management systems, and culture – in order to regain external fit (with the environment) and internal fit (among the elements of corporate strategy) after changes have been made in the regulatory environment. Aiming at producing additional insights on the strategy-formation process, we elaborated above that the explicit consideration of external actors – regulatory actors, more specifically – holds the potential to advance strategy process research. A theoretical lens must therefore allow for a differentiated and explicit conceptualization of external actors and influence mechanisms that affect an organization. More generally, the presumably high dependence of corporations on the regulative environment and the nature of regulative actors and their interactions with corporate management (guided by criteria other than productive efficiency) call for a somewhat deterministic

and political perspective to complement the rational-analytical, strategic choice perspective.

To reflect these general requirements we formulated the following five criteria to help us select the most appropriate theoretical lens for this dissertation.

1.	Consideration of both an analytical and a social, political perspective
2.	Balance between deterministic and strategic elements
3.	Explicit consideration of external actors
4.	Suited conceptualization and operationalization of the external environment
5.	Well established, profound theoretical basis

Figure 2-12: Criteria for theory selection

(1) The theory should consist of both an analytical and a social, political perspective on strategy making. The claim goes hand-in-hand with a characterization of the actors in the process as rational, analytical, and political individuals.

(2) The theory employed should include both deterministic and strategic elements, reflecting our understanding that strategy is not a process that can be controlled by omnipotent managers nor a process in which managers are reduced to passive change agents.

(3) A theoretical base is required which allows for an explicit inclusion of actors other than the entrepreneur or owner who is the focal actor, and, in neo-classical theory, the only actor identical with the organization. Since a limitation to internal actors conflicts with the object of our research, a broad consideration of the diverse actors outside the firm needs to be possible within the chosen theory.

(4) A theory suitable for a concrete conceptualization of the environment – other than being uncertain or complex – should be targeted, one that decouples actors from mechanisms or characteristics they activate in order to influence corporate strategy and structure. Within the scope of this dissertation we consider the environment to be more than a more-or-less abstract contingency factor; instead, it is part of an organization's surrounding or business context, partly determining the organization, partly determined by the organization itself.

(5) The organization theory should be well established, providing a sound theoretical and scientific basis that can stand alone and that contains more than textbook guides to practical management.

2.2.2 Evolutionary theory

Evolutionary theory has become a well accepted and useful theory to explain strategy processes (Chakravarthy et al., 2003) and has been applied – explicitly or implicitly – by numerous scholars (Bower, 1970; Mintzberg, 1978; Quinn, 1980; Burgelman, 1983a; Burgelman, 1991; Lovas and Ghoshal, 2000; Burgelman, 2002a). Chakravarthy and White (2001) even call evolutionary theory a meta-theory to explain strategy processes. Undoubtedly, the evolutionary perspective has produced valuable insights regarding the strategy formation process.

Evolutionary theory goes back at least to the middle of the nineteenth century, when Charles Darwin published the "Origin of Species." The central pillars of his (biological) population theory are the genetic characteristics of the individual and the extent to which these fit the requirements of the environment. Those individuals that received the best genes in a random variation or mutation process will be selected, will survive in the environment, and will thus be able to reproduce themselves and transmit their gene pool. Organizational theory transferred these mechanisms to the field of business and developed the population ecology theory (Hannan and Freeman, 1977; Caroll, 1988).

The population ecology approach holds that organizations and their management have only very limited possibilities to deliberately lead an organizational change process that is required by changing conditions in the environment. In fact "*it is [not management, but] the environment which optimizes*" (Hannan and Freeman, 1977:939). Central to organizational change processes is the sequence of variation, selection, and retention, which explains how diversity and isomorphism, respectively, are achieved, which organizations are selected and survive, and how organizational characteristics are maintained and transferred.

Variation describes the process through which new organizational forms emerge – deliberately or randomly – within a population. The resulting variety then forms the basis for the subsequent selection process. The latter is entirely determined by the environment, and selects organizational forms that best fit the requirements of the environment; other forms are eliminated. Finally, the retention process preserves the selected variations. Based on social institutionalization (Aldrich, 1979) and organizational rou-

tines (Cyert and March, 1963; Nelson and Winter, 1982) successful organizational forms are transferred to other organizations within the population.

From a population ecology perspective, it is not management that optimizes a business but the environment. However, other scholars gradually diminished the influence of external determinism and attributed some sort of choice and active shaping of strategy to management (Weick, 1979; Quinn, 1980). For management research, a deterministic view certainly is not a very appealing picture of strategy making. However, the theoretical power of evolutionary thinking and the variation-selection-retention framework are well recognized and employed (Burgelman, 1991). Current evolutionary approaches to strategic management promote the notion that top management cannot directly formulate the strategy of the firm since the environment is simply too complex and dynamic; however, management can shape the internal context of the firm in order to influence the selection of the best ideas (Bower, 1970; Noda and Bower, 1996; Lovas and Ghoshal, 2000). Consequently, installing internal selection processes that mirror external selection makes up the single most important role of top management since the selection of the most viable strategic initiatives inside and outside the organization determine the long-term success of the firm (Barnett and Burgelman, 1996:7). The following evaluation of evolutionary theory refers to its current employment in the domain of strategic management, prominently depicted in the intra-organizational ecology theory of strategy-making (Burgelman, 1991).

Analytical vs. social political perspective. Economic efficiency is attributed a dominating role in evolutionary thinking (Kieser and Woywode, 2002). In the first place, it is the selection criteria of economic efficiency which are effective in a given market environment that determine the success and failure of companies. Selection, according to this logic, is a rather "rational" process that occurs within the environment and that follows efficiency, not social or political forces. Management activities consist, primarily, in setting the right context for strategy making and implementing; this implies that an analytical perspective dominates. However, other scholars explicitly acknowledge that selection in social contexts does not occur in a neutral, objective process. Powerful actors such as, for example, the state or big organizations, do have the possibility to influence the selection mechanisms according to their interests (Perrow, 1985). In addition to efficiency, social acceptance is another important selection criterion (Kieser and Woywode, 2002). On the level of the organization, survival depends on the access to vital resources (capital, employees, suppliers, etc.). On the level of single strategic initiatives, survival depends on top management support and the resulting access to critical resources (Bower, 1970; Burgelman, 1983b). Therefore, access to

resources is not only a question of effectiveness and efficiency but also of social and cultural elements. In support of this notion, Hansen (1999) points to the importance of intra-firm linkages, and Tsai (2001) proofs the positive effect of social relationships for a company's innovative activity. Burgelman (1983b) defines the selection mechanism through which autonomous initiatives outside the current strategy are selected as strategic context; this selection involves many elements of the informal context of the firm and, consequently, he defines it as "*political process*" (Burgelman, 1983b:237). His framework is refined by Marx (2004), who explicitly introduces the social context as an internal selection mechanism. Finally, according to Lovas and Ghoshal (2000), management needs to install structural and cultural coordination mechanisms in order to replicate natural evolutionary processes within the firm.

In brief, evolutionary theory – and especially population ecology – is based on rational principles reflecting analytical perspectives, but it quickly integrated social and political elements that developed into central, if not dominant, facets of an evolutionary perspective on strategy process.

Deterministic vs. strategic elements. According to the evolutionary perspective, the strategy process is more emergent and non-teleological (Chakravarthy and White, 2001), and organizational action can result from an almost random process (Cohen, 1972). Due to highly complex environments, management can set only broad agendas (Quinn, 1980) and strategies are mostly post rationalized, i.e., formulated after being implemented (Weick, 1979). The course of the firm is to a large extent determined by the environment, leaving little space for management to deliberately steer the formation of strategies. The role of management is limited to the setting of administrative and cultural mechanisms that regulate the allocation of resources (Burgelman, 1991). These selection mechanisms need to reflect the requirements of the environment if they are to produce viable strategies. Installing the internal selection mechanisms that support initiatives that can survive in the market in the long run, however, is extremely difficult for managers. From a management perspective, this evolutionary, deterministic view is not very appealing, since the possibilities of actively steering evolutionary processes are clearly limited. And while evolutionary theory might help to explain certain phenomena, it falls short of suggestions on how the strategy process can be better managed (Lechner, 2003).

Having said that, strategic elements to deliberately and actively influencing the strategy formation process are encompassed in evolutionary models of strategy processes. The structural context (Burgelman, 1983a), for example, channels resources for in-

duced strategic initiatives which are in line with the extant concept of corporate strategy. Inducing desired strategic behavior, or "vectorizing" corporate action, is further emphasized in newer works (Burgelman, 2002a). Through the integration of a guiding "objective function" defining the strategic intent and long-term goals of the firm (Lovas and Ghoshal, 2000), management receives a more active role and a capacity to intervene in evolutionary processes. While these tendencies help to better integrate elements of strategic choice and active management behavior, the dominating fundament of evolutionary theory remains deterministic.

Consideration of external actors. Evolutionary theory, in general, is characterized by an emphasis on operational level management and its autonomous behavior in the variation phase. The role of top management is reduced to defining the selection mechanisms that determine which initiatives are later provided with management support and critical resources. Middle management links autonomous initiatives with the strategic context of the firm and acts as a sponsor of promising initiatives (Burgelman, 1983b; Noda and Bower, 1996). However, some research using an evolutionary perspective on strategy process differs to some extent regarding the roles attributed to the three management levels. For Floyd and Wooldridge (2000), for example, new ideas evolve from any individual or group of individuals anywhere in the organization. The source of variation might be on any level of management, not necessarily bottom-line. Middle management, in most cases, plays a critical role in promoting ideas, linking them with the current strategy and communicating them towards top management, which finally decides which ideas to pursue. All evolutionary models on strategy process have in common the notion that only actors internal to the firm are considered. External actors are not integrated.

External environment. The external environment is the ultimate determinant of the success or failure of strategic initiatives. Management tries to internalize natural evolutionary processes by defining administrative and cultural selection mechanisms. A general weakness with regard to the internal context and the relevant selection mechanisms is that both are not well defined and rather unspecific (Marx, 2004). This critique also holds if one searches for clear criteria according to which external selection is determined (Kieser and Woywode, 2002). While evolution might help to explain certain phenomena, it misses a clear description of how strategic initiatives are selected. Those that best *"fit the external requirements and carry the appropriate gene pool [will survive]"* (Lechner, 2003:91). But how can "fit" be measured and what is the "appropriate" gene pool? Because of this vagueness, evolutionary theory also fails to offer suggestions on how the process can be better managed (Lechner, 2003). Addi-

tionally, most evolutionary models on strategy process, for example Burgelman (1983a; 1991) and Lovas and Ghoshal (2000), miss an explicit consideration and conceptualization of the environment – not even as a contingency factor. Everything is reduced to vague "external selection mechanisms". The notion of external or natural selection is further weakened: While representatives of evolutionary theory argue that management cannot foresee and proactively adapt to changes in the environment since these changes occur too fast, this argument can also be turned against them. Gould (1980) argues that change has been too fast, in ecological terms at least, to support Darwin's notion of natural selection. While we do not aim to go deeper into this discussion, we hold that evolutionary theory has some weaknesses as regards the conceptualization of the environment.

Theoretical basis. Widely supported among researchers, population ecology approaches are characterized by a high congruence on the underlying assumptions and methods (Kieser and Woywode, 2002). This confers a commendable exception within the field of organization theories (Pfeffer, 1993). Additionally – as mentioned above – evolutionary theory has produced valuable insights for the field of strategic management. And although it contains some methodological weaknesses – e.g., with regard to the correct unit of analysis (whether the entire organization as promoted by Hannan and Freeman (1977) or "genes" or competencies as promoted by Carroll (1989) and McKelvey and Aldrich (1983)) – evolutionary theory undoubtedly provides a sound theoretical basis for studying the interdependencies between regulatory involvement and corporate strategy and structure.

2.2.3 Stakeholder theory

Stakeholder theory gained in importance during the last decade with a growing number of publications in the field of strategic management in the 1990s, partly because of its emphasis on "*explaining and predicting how an organization functions with respect to the relationships and influences existing in its environment*" (Rowley, 1997:887). This includes the awareness that a central challenge of strategic management is the balancing of the interests of all the constituents of an organization who "*contribute to the running of the business,*" or who "*place something at risk*" (Freeman, 1984). Freeman defines stakeholders as entities or interests that are involved – voluntarily or involuntarily – in the operation of the business. While some stakeholders (e.g., shareholders) have traditionally received significant attention within the field of strategic management research, others (e.g., government authorities) have only recently stimulated scholarly interest. Management always faces the challenge of dealing with multiple

stakeholders who formulate sometimes-antagonistic expectations. While some scholars argue that "*no set of interests [or stakeholders] is assumed to dominate the others*" (Jones and Wicks, 1999:207) and that a firm must and can simultaneously enhance the interests of its relevant stakeholders (Ogden and Watson, 1998), others deny this perfect balance of interest (Gioia, 1999). They hold that some stakes are, at least pragmatically, more important and sensitive and consequently cannot be weighted equally (Gioia, 1999). We agree with this argument and suggest that different interests of different stakeholders need to be favored at different times (Post et al., 2002). While compliance with the demands of shareholders might be the focus of management action during comparatively stable times, the focus might shift to other stakeholders (e.g., regulatory bodies) in times of environmental change.

To date most researchers have concentrated on cross-sectional studies on the dyadic ties between individual stakeholders and a focal organization. Yet, the organization's stakeholders are linked with each other through a "*series of multilateral contracts*" (Freeman and Evan, 1990:354), and these linkages will influence the behavior of every single actor. Based on this understanding, Rowley (1997) develops a network theory of stakeholders that integrates social network analysis and institutional theory. To our way of thinking, this represents a good example of how to employ stakeholder theory to describe how firms respond to stakeholder influences.

Stakeholder theory has provided management literature with a rich basis for practice-oriented concepts and frameworks (Ruegg-Sturm, 2002; Müller-Stewens and Lechner, 2003a). Their objective is to identify the numerous interests among the firm and its stakeholders and to develop consistent and supportive policies for dealing with them (Post et al., 2002).

Analytical vs. social, political perspective. Stakeholder theory consists of descriptive, instrumental and normative aspects (Donaldson and Preston, 1995). It is used to describe observed reality, corporate behaviors and characteristics. It also tries to link stakeholder management with corporate performance (instrumental use). And, finally, it includes moral and ethical considerations in their normative core. While the first two aspects focus on an analytical perspective, the latter introduces a social, political perspective. The analytical element lies in the description of a model of the organization and its cooperative and competitive interests. This includes a systematic identification of the relevant shareholders and the related strategy, structure, and culture to deal with them. An analytical perspective is further emphasized through the managerial charac-

ter of the theory (Donaldson and Preston, 1995), that recommends attitudes, structures, and practices for managing stakeholder relations.

At least three aspects, however, emphasize a social, political perspective: (1) Within the normative core of the theory is the notion of ordinary economic contracts governed by individual efficiency considerations to regulate the relations between the stakeholders (Coase, 1937; Williamson, 1985). This is replaced by a concept of social contracts that are based upon normative principles governing human conduct (Donaldson and Dunfee, 1994). (2) The integration of non-market forces goes beyond the sole consideration of market partners and leads to a partial shift of focus onto the wider, social political arena (Post et al., 2002), which naturally encompasses a more social, political perspective. (3) A move away from "transactions" as mutually beneficial quid pro quo, possibly one-time, linkages between two parties towards "relations" as more fuzzy, relational, and long-term connections (Leanna and Rousseau, 2000) shifts the focus from a rational, benefit-oriented, analytical perspective towards a social, behavioral and political perspective.

Deterministic vs. strategic elements. To some extent, stakeholder theory contains deterministic elements in that external actors determine the field of strategic options available to corporate management. However, in general, external stakeholders and their stakes are considered to be contingencies that management must respect and balance in their variety. According to this reading, external determinism is not supposed to be part of the logic of stakeholder theory. As market opportunities influence the strategic market position and the generic competitive strategy of the firm (Porter, 1980) or as external resources influence corporate behavior (Pfeffer and Salancik, 1978), the interests of the diverse stakeholders of the firm influence corporate action. Yet, management is understood to actively decide on the strategy of the firm and not just follow the verdict of the environment. This is why we hold that stakeholder theory at its core is a theory with a strong focus on strategic choice. Based on an analysis about the relevance of the diverse stakeholder groups, corporate management decides on the strategic priorities to pursue (Müller-Stewens and Lechner, 2003). The better the corporate management can establish and maintain relationships with its stakeholders and satisfy their interests, the more likely are the corporation's chances of survival.

Consideration of external actors. Per se, stakeholder theory is characterized by its consideration of all external actors who hold a stake in the organization. While it is clear that external actors in general play an important role in management decisions,

the definition of who is a stakeholder and who is not ranges from a rather narrow firm-as-contract perspective (Jensen and Mechling, 1976) to a very broad "anything influencing and influenced" perspective (Freeman, 1984). The first includes only actors who maintain contractual relationship and thus excludes informal, but still important groups, such as, for example social pressure groups or job applicants. The latter perspective can literally involve more or less all external actors, including regulatory authorities, but also competitors and the media, who gain no particular benefit from the firm. A distinctive difference as compared to classical theories is that stakeholders are acknowledged to have a legitimate interest in the corporation, and not just the other way round with the corporation possessing an interest in them (Donaldson and Preston, 1995). Yet, the relationship between the different stakeholders and the weighting of their interests is difficult. On the one hand, while shareholder approaches clearly argue for shareholder value maximization, since the focus on the "residual claimant" (Sundaram and Inkpen, 2004) is, in the end, beneficial for all stakeholders. On the other hand, stakeholder theorists vote for the "*balancing and integrating [of] multiple relationships and multiple objectives*" (Freeman and McVea, 2001:194).

External environment. One of the strengths of stakeholder theory – among others – can be found in its pragmatic conceptualization of the environment, which consists of concrete stakeholders with concrete interests. Instead of defining an environment as dynamic, complex, or uncertain, stakeholder theory is much more concrete. Distinguishing between sources and influencing mechanisms – in other words, stakeholders and their interest – makes the theory much clearer and more actionable. Furthermore, the classification of stakeholders into different groups allows for a clear differentiation of the diverse internal and external, market and non-market constituents of the firm. Post, Preston and Sachs (Post et al., 2002), for example, distinguish between the resource base (including employees and investors), the industry structure (including unions and regulatory authorities), and the social- political arena (including governments and private organizations). Since these stakeholders pursue different interests, the strategies to deal with them differ significantly. While economic criteria dominate with the shareowners of a firm, regulatory authorities are driven by criteria regarding adherence to existing laws, and governments might focus on ethical considerations and social welfare. As diverse as the interests are the reactions of corporate management towards them. Depending on the stakeholder, management must deploy a specific mix of economic, procedural and political activities.

Theoretical basis. Since the existence of inside and outside stakeholders – beyond the owners or shareholders of a firm – is an obvious dimension of organizational life,

theorizing about organizations is required to account for stakeholder ideas. Yet, stakeholder theory has often been used as a "*handmaiden logic supporting the advancement of other theories*" (Rowley, 1997:889). While there is still an ongoing discussion of whether there is a self-contained stakeholder theory, tendencies to advance it to a master theory in its own right are growing stronger. Starting with Freeman (1984), who introduced a coherent construct of the stakeholder concept, other scholars have advanced the development of a sound stakeholder theory (Carroll, 1989; Brenner and Cochran, 1991; Jones, 1995; Jones and Wicks, 1999; Friedman and Miles, 2002).

One problem lies in the diversity of definitions of stakeholders, which works against the development of a common basis for stakeholder theory. Mitchell et al. (1997), for example, identified 27 different definitions in their review of current stakeholder literature. Furthermore, the confusing usage of stakeholder theory for descriptive, instrumental, and normative purposes adds to the "*blurred character*" of the stakeholder concept (Brummer, 1991). While it serves to describe the structure and operation of a corporation on the one hand, it strives on the other hand to guide it. This "*muddling of theoretical bases and objectives...has lead to less rigorous thinking and analysis than the stakeholder concept requires*" (Donaldson and Preston, 1995:73).

Finally, stakeholder theory has always provided a strong linkage between theory and practical relevance. It is managerial in that it "*reflects and directs how managers operate rather than primarily addressing management theorists*" (Freeman et al., 2004). But perhaps it is too managerial, trying to provide actionable recommendations for managers instead of working on the development of a sound scientific base.

2.2.4 Neo-institutional theory

Neo-institutional theory shifts the capacity to induce change from internal to external forces. Not management, but institutionalized rules are the cause of organizational adaptations (DiMaggio and Powell, 1991). Through institutionalization, social relations and actions are not subject to economic reflections but are part of a taken-for-granted reality that defines "how things are" or "how things are to be done" (Scott, 1987b). Adherence to the existing institutions assures legitimacy of the organization and grants perpetual access to necessary resources.

Institutions form through interactions of the critical exchange partners, regulatory groups, professional associations and other relevant actors within the organizational field of the firm (Hoffman, 1997). They are "*rules and shared meanings that define social relationships, help define who occupies what position in those relationships,*

and guide interaction by giving actors cognitive frames or sets of meanings to interpret the behavior of others" (Fligstein, 2001:108). Scott (2001) distinguishes three different types of institutions (regulative, normative, cultural-cognitive) that can be linked to the three mechanisms of institutional isomorphic change processes (coercive, normative, mimetic) introduced by DiMaggio and Powell (1983): Regulative institutions consist of rules and laws, and the related monitoring and sanctioning mechanisms. Organizations are "coerced," i.e., forced to obey, since misconduct is legally sanctioned. Normative institutions are based on values and norms shared in the social life and formulate the expectations of society towards an organization. Encouraging normative isomorphism, such institutions are considered to represent appropriate, morally governed ways of doing business. Finally, cultural-cognitive institutions are based on shared understanding and taken-for granted rules regarding how things are supposed to be done. Shared beliefs and logic of action lead to mimetic isomorphism.

With regard to the topic of this dissertation – the evaluation of the interdependencies between regulatory involvement and corporate strategy and structure – the regulative pillar of institutional theory obviously is of specific importance. Yet, the two other pillars also seem to provide some interesting perspectives. In the following paragraphs we will briefly analyze institutional theory in terms of the five established criteria of theory selection.

Analytical vs. social, political perspective. Institutional organization theory offers a sociological perspective for studying organizations. While economic theory has traditionally focused on efficiency considerations – primarily based on a technological conception of a firm as a production function –, sociology has tended to emphasize social, political, and cultural factors (Fligstein and Freeland, 1995). The efficiency criterion, defined as the best possible adaptation to the requirements of the prevailing task environment and the exploitation of existing technologies, was replaced by a legitimacy criterion, defined as the best possible adaptation to the prevailing institutional environment and the conformity to existing rules, norms and standards. Consequently, organizations' formal structures reflect the "*myths of their institutional environments instead of the demands of their work activities*" (Meyer and Rowan, 1977:341); efficient work organization steps back in favor of effective, legitimate organization. An organization's legitimacy further depends on its consistency with regard to its existing myths or norms of rationality, which are based on a shared understanding rather than an objective evaluation of its rational character (Scott, 1987a).

Increased conformity to the institutional environment simultaneously increases legitimacy which, in turn, increases access to critical resources and, therefore, survival chances (Zucker, 1987). Institutional theorists largely agree on the survival advantage of legitimate organizations through social support and approbation from external constituents (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Meyer and Scott, 1983; DiMaggio, 1988). This external legitimization elevates the organization's status in the community and deflects questions about its actual competence in delivering specific products or services (Oliver, 1991).

Although legitimacy is at the core of argumentation for access to resources and survival, it is not decoupled from efficiency considerations. "*[I]nstitutional arguments need not be formulated in opposition to rational or efficiency arguments but are better seen as complementing and contextualizing them*" (Scott, 1987b:509). This clearly shows that institutional argumentation does not aim at replacing economic argumentation, but that it calls for a balanced consideration of an analytical and a social, political argumentation. The following Figure 2-13 visualizes in a very concise way the logic of institutional thinking.

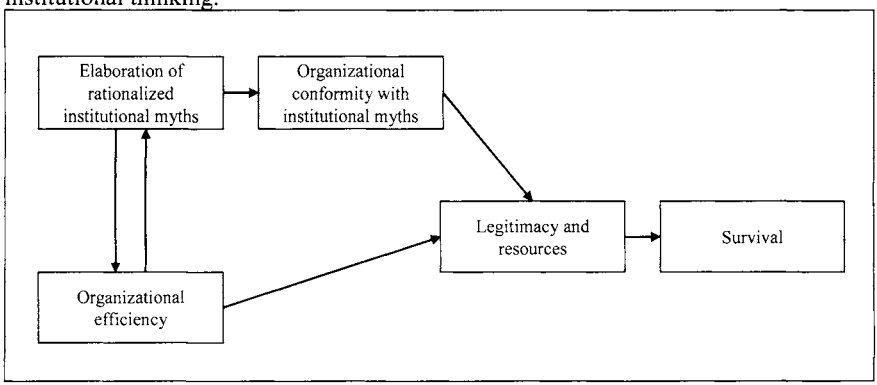


Figure 2-13: Organizational survival
(Source: Meyer and Rowan 1977:352)

Deterministic vs. strategic elements. An orientation of an organization towards conformity with an industry's standards and norms will automatically lead to the reproduction of existing "*templates for organizing*" (DiMaggio and Powell, 1991:27) that will make an organization isomorphic with its institutional environment (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Meyer and Scott, 1983; DiMaggio, 1988). At the same time, this makes organizations captives of the institutional environment in which they exist (Meyer and Rowan, 1977; Zucker, 1983). Individuals at the organizational level are reduced to passive change agents. This deterministic view of change

processes has been recognized as a weakness of institutional theory and sociological theory in general. This is why newer currents have increasingly emphasized the importance of strategic action as opposed to pure environmental determinism (Oliver, 1991; Lawrence, 1999; Fligstein, 2001; Hensmans, 2003).

Consideration of external actors. Another central point of institutional theory is the embeddedness of a population and its members in the institutional environment. Special attention is given to the relational density or formal relations between the members of a population and key institutional actors, for example, government agencies or community organizations (Baum and Oliver, 1996). For Hoffman (1999), the organizational field forms through those organizations that contribute significantly to the forming of institutions, e.g., exchange partners, sources of funding, regulatory groups, professional associations, and the general public. It is a core principle of institutional theory that organizations must not be analyzed apart from their environments or external stakeholders, and that the interactions between the different constituents of an organizational field are most important. Commonly accepted rules, standards, and norms are considered to be the product of interaction between humans and their organizations (Scott, 1987b). The legitimacy of those rules and practices is further dependent on their continual reproduction in social action (Lawrence, 1999). However, there is a shift in focus on the different elements of the environment, away from the traditional actors of the task environment – markets, customers and competitors – and towards other types of actors –such as the state and professional associations (Meyer and Rowan, 1977; Zucker, 1987; Scott, 1987b).

External environment. Early publications on institutional theory (Meyer and Rowan, 1977; Meyer et al., 1981) clearly distinguish between two different types of environments: (1) technical or task environments, and (2) institutional environments. The former is characterized by organizational rewards for an effective and efficient coordination and control of work processes, the latter by rewards for conformity to the existing institutionalized rules and the resulting legitimacy of the organization. Organizations were supposed to be situated at a specific point on the continuum between purely institutional and purely technical, with highly institutionalized organizations in the health or education sector on the one extreme and production organizations under strong output controls on the other end (Meyer and Rowan, 1977:354). Further developments replaced this dichotomous view with a two dimensional perspective allowing for any combination of technical and institutional environment, high-high, high-low and low-low (Scott, 1987a). While the usefulness of the distinction for analytical pur-

poses is undisputed, scholars meanwhile have pointed to the difficulties in separating the two (Scott, 1992:160).

Once established as state-of-the-art practices, institutionalized structural elements are adopted by organizations due to their external legitimacy (Tolbert and Zucker, 1983; Zucker, 1987). While isomorphic adaptation and change shall not be discussed at this point (refer to chapter 2.3.1), we want to draw attention to the three main aspects that can help to conceptualize the influence of institutional environments on the organization. These are regulative, normative, and cognitive institutions that orient the actions of organizations and that are meant to result in stability (Scott, 1995). These institutions represent the mechanisms through which environments affect an organization. Regulatory institutions are mainly laws and by-laws set by governments and regulatory national and international bodies that exercise direct influence on organizations. Normative institutions are generally accepted norms and values that legitimize certain behaviors. And, finally, cognitive institutions are universal convictions and beliefs formed by regulative and normative institutions that guide behaviors (Walgenbach, 2002).

Figure 2-14 below provides a framework for analysis of the interactions between external actors and the focal organization and for the mechanisms of the mutual influences between the environment and the corporate sector.

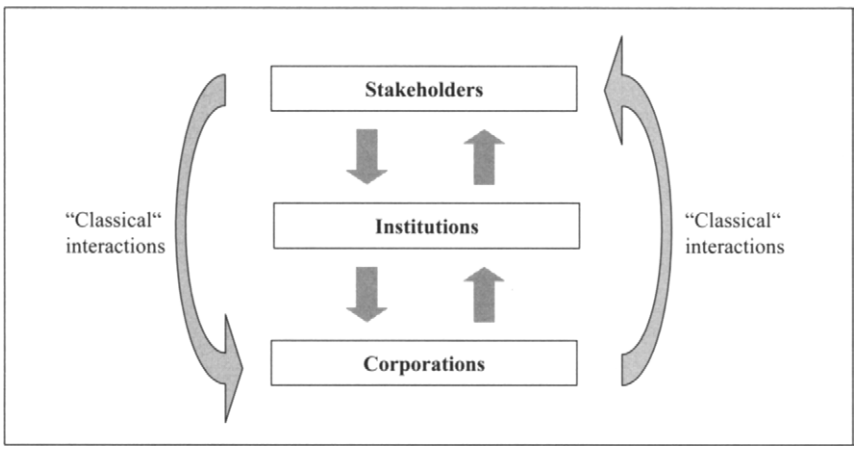


Figure 2-14: Institutions as regulative instances
(Source: Klement 2001:306)

Theoretical basis. Unlike evolutionary theory – especially population ecology – institutional theory is far from being a homogeneous theory (Aldrich, 1992). Yet institu-

tional approaches have gained in importance, with numerous publications in most major US management journals (Tolbert and Zucker, 1986). More important, for the purpose of this dissertation, Mintzberg and Lampel (1999) recognize the benefits of using institutional theory in the field of strategy process research. They acknowledge the importance of norms which an organization must meet and master, and which may lead to similar structures and practices among firms (Mintzberg et al., 1998). Finally, institutional theory is very well suited for the analysis of corporations that have the state as one of their important external partners (Grand, 1997). And, especially for regulated industries, institutional theory has the potential to produce additional insight into the field of strategy process research.

2.2.5 Critical evaluation of theory lenses

While each of the theory lenses has its advantages and disadvantages, we argue that institutional theory is best suited to function as the lead theory for this dissertation. The following table shows that neo-institutional theory ranks positive on all five criteria, while evolutionary theory rates weaker on the balance between deterministic and strategic elements (only limited ability of management to influence the course of the firm), as well as on the explicit integration of external actors and the conceptualization of the environment. Another point in favor of neo-institutional theory is the hope that this perspective might be "fresher" and thus more fruitful than the frequently used evolutionary perspective in the field of strategy process research. The slightly weaker position of stakeholder theory may reflect a possible over-emphasis on strategic elements over deterministic elements on the continuum between strategic choice and environmental determinism. Although stakeholder theory rates very strong on the consideration of external actors and the environment, another minor weakness lies in its less developed theoretical base, which also pushes it into the handmaid role for our study.

	Evolutionary Theory	Stakeholder Theory	Neo-institutional Theory
1. Consideration of both an analytical and a social, political perspective	Although based on rational principles, social and political elements have been well integrated (+)	Well balanced rational-analytic and social-political elements (+)	Well balanced rational efficiency and some socio-political legitimacy considerations (+)
2. Balance between deterministic and strategic elements	Deterministic with few elements of active strategic management (o)	Strong focus on strategic choice (o)	Deterministic roots that are being supplemented by strategic elements (+)
3. Explicit consideration of external actors	Dominant focus on internal actors (o)	Consideration of external actors – stakeholders – at the heart of the theory (++)	Inter-relations between all relevant actors within the organizational field very important (++)
4. Suitable conceptualization and operationalization of the external environment	Rather vague ‚external selection mechanisms that are not further conceptualized (o)	Focus on stakeholders and their interests that need to be fulfilled and optimized (+)	Suitable operationalization through focus on actors, institutions, their formation and mode of action (++)
5. Well established, profound theoretical basis	Well accepted and sound theoretical base (++)	Still on its way to getting a stand-alone theory (handmaid; practical orientation) (o)	Younger, more heterogeneous approach than other theories, (e.g., evolutionary theory) (+)

Rating: (o) moderate (+) strong (++) very strong

Figure 2-15: Comparison and evaluation of theory lenses

While the preceding table might seem to stress the differences between the theoretical lenses, we also want to make the case for an integrative use of the three perspectives. While neo-institutional theory is the lead theory, we want to point to the complementary use of evolutionary and stakeholder elements. This is facilitated by the closeness of the theories. When Nelson and Winter (1982) created the evolutionary theory of the firm by modeling change within organizations as a matter of the evolution of routines, they described these routines as "*regular and predictable behavioral patterns*" that "*determine the firm's possible behavior*". This comes close to the institutional perspective of rules, norms and standards determining management action. Oliver (1991) argues that external pressures drive an organization's behaviors and that these forces come from those who shape institutional rules. Stakeholder perspectives, in turn, explicitly examine the sources of these external pressures and considers how the organization relates to its institutional stakeholders (Rowley, 1997).

In addition, integrative use of the three perspectives might help to overcome the one-sided and possibly too narrow focus of research that tries to explain existing phenomena with one theory lens only. Since no single theory is powerful enough to explain everything about organizational interaction (Cook, 1977), different theories should be considered and integrated in a more comprehensive framework (Rowley, 1997). This might advance the attempt to examine all of the interdependencies between an organi-

zation and its environment, instead of focusing on selected aspects to explain organizational survival (Fligstein and Freeland, 1995).

2.3 Selection of neo-institutional theory for this dissertation

Having already reflected on neo-institutional theory in the previous chapter, chapter 2.3 deepens our understanding of neo-institutional theory and its extant or possible applications for strategy processes research in general and this dissertation in particular. After a review of the basic principles of neo-institutional theory (chapter 2.3.1), research relating strategic agency to institutional theory is presented (2.3.2). Slightly increasing the role of strategic choice, neo-institutional theory is being used more and more in strategy research. We use extant research on strategic responses to institutional pressures (chapter 2.3.3) and newer trends on an explicit integration of institutional and strategic elements (chapter 2.3.4) to depict this development, which is essential for the value of the theory that this study builds.

2.3.1 Overview of institutional theory

Institutional theory is not a homogeneous, self-contained theory (Aldrich, 1992). Theoretical and empirical studies provide considerable variation in the concepts and arguments employed (Scott, 1987b). A common fundament of institutional approaches relates to the importance they attribute to regulative, normative and cognitive norms and values that orient organizational behavior, and that lead to homogeneous organizational forms within a population; or, more generally, that leads to isomorphism (DiMaggio and Powell, 1983; Scott, 2001).

One dimension along which one could possibly structure the body of research is the *interest of explication*, i.e., simply stating that institutionalization exists alongside technological rationality (Selznick, 1957) rather than explaining how institutional fields form (Meyer and Rowan, 1977). Another meaningful dimension is the *source of institutionalization*, e.g., the state, regulatory bodies, professional associations, or organizations themselves (Zucker, 1987). A third structuring dimension is represented by the *underlying dynamic considered* On the one hand, institutional construction, convergent processes, isomorphism, and inertia (Tolbert and Zucker, 1983; DiMaggio and Powell, 1991); on the other hand, processes of de-institutionalization and change (Greenwood and Hinings, 1996). While the former dominated early literature on institutional theory, the latter are now of equal importance (Scott, 2001; Dacin et al., 2002). Finally, the *perspective on the individual organization* is also a possible dimension for circumscribing institutional theories. Organizations can either be viewed as

reactive or as rather active or interactive. It could be reactive in the sense of its responses towards the requirements of its external environment, whereby a further distinction can be made between internally, structurally oriented reactions (Scott, 1987b) and externally oriented strategies (Oliver, 1991). Or the organization can be viewed as rather active or interactive, elaborating on its role in the shaping of the institutional environment (Lawrence, 1999).

Historical review.[22] Early work on institutional theory viewed institutionalization as a "*process of instilling value*" (Scott, 1987b:493) or a process that "*infuse[s] with value beyond the technical requirements*" (Selznick, 1957:17). Institutionalization is something "*that happens to the organization over time*" (Selznick, 1957:16); the organization, in turn, uses its structural set-up as an "*adaptive vehicle*" (Scott, 1987b:494) to react to the expectation of the external environment. The early works further concentrated on informing *that* institutionalization occurred rather than elaborating on *how* it occurred.

Other versions of institutional theory are based on the conception that social order is based on a shared perception of reality which forms through social interaction and is thus a product of human construction (Berger and Luckmann, 1967). Institutionalization turns into a "*process of creating reality*" (Zucker, 1983; Scott, 1987b:495). Reality and the appertaining institutionalized rules and standards are developed through the interaction of the different actors in the organizational field. The latter are, on the one hand, the sources of institutional order, but, on the other hand, captives of that order – now perceived as neutral and independent of anyone's interests – that makes them follow taken-for-granted behavioral patterns. Consequently, and from a strategic point of view, this leaves little room for active management or strategic choice since things are done the way they are to be done.

Whereas the two streams mentioned above stress the fact of infusion with value or taken-for-granted meaning, other scholars (Meyer and Rowan, 1977; DiMaggio and Powell, 1983) go beyond this explanation of conformity and view institutional systems as a "*class of elements*" (Scott, 1987b:497). Instead of focusing on a unitary, generalized, and commonly accepted belief system, they consider different sources and loci of institutionalized rules, standards and norms; the one and only institutional environment is replaced by multiple environments shaped by the diverse actors in the field. This shift is accompanied by further changes: (1) More emphasis on the role played by cul-

[22] See also Scott (1987b).

tural elements (symbols, cognitive systems, and normative beliefs). (2) Consideration of some sort of self-interest and rationality through the explanation of isomorphism through expected rewards for conforming behavior. (3) Multiplicity and diversity of institutional sources. (4) Shift away from environmental elements, such as the market, customers, or competitors and towards the state and professional associations.

Driving these ideas one step further, a fourth conception views institutions as "*distinct societal spheres*" (Scott, 1987b:499). A differentiation of institutional spheres developed out of the insight that the environment is characterized by multiple, diverse, and sometimes opposing positions and coalitions. The result is a co-existence of differentiated and specialized cognitive and normative systems and patterned human activities that constitute an individual's or organization's repertoire for different institutional arenas and for the pursuit of their own interests (Swidler, 1986).

Sources view. According to Zucker (1987) two distinct institutional approaches can be distinguished. One is the *Environment as Institution* approach, which focuses on convergent processes of reproduction. The locus of institutionalization is outside the firm and very much dominated by state actors. Organizations are confronted with institutional pressures that lead to a decoupling of the technical core and to reduced efficiency. The second is the *Organization as Institution* approach, which focuses on the generation process of institutions on the organization level. Institutions emerge within an organization and as a result of inter-organizational negotiation processes, driven by small groups and through the imitation of other organizations. Institutionalization, hence, increases stability, and, in general organizational performance.

Based on this logic Zucker (1987) distinguishes three sources of institutionalization. (1) *The (wider) institutional environment.* Narrowly defined, it is the state or other hierarchically superior systems that reduces an organization to a passive agent. Differently and more broadly conceptualized by other scholars, the state is considered to be but one source of institutionalization. There are other actors in the organizational field (state-linked such as regulatory authorities, but also non-state-linked such as professional associations and even individual organizations), and their interactions are equally important to the processes of institutionalization (DiMaggio and Powell, 1983). (2) *Other organizations as sources*. Moving further away from the state as a source of institutional order, organizations – mostly not state-linked – are the major sources of institutional elements. They are diffused within an organizational field through processes of imitation, fostered through inter-organizational ties and intermediaries (transaction agents such as banks and real estate agencies). (3) *Internal organ-*

izational structure as source. While the two preceding sources both positioned the locus of institutionalization outside the firm it is internalized in this view. In a first step, the role of institutional entrepreneurs has been acknowledged as well as the importance of preeminent collective actors. Finally, more emphasis is put on the institutionalization of internal organizational routines.

Recapitulating, an over-simplified perspective of institutionalization as process of instilling with value and an action pattern that follows taken-for-granted rules has been replaced. Considering the complexity of the environment and the multiplicity of the stakeholders and their interests, institutional theory developed a differentiated view of societal spheres in which institutions are active and recognized as such. A special interest is attributed to the different sources of institutionalization and to the interactions between the various institutional actors in the creation, diffusion and transformation of sophisticated institutional environments. A monolithic and dichotomous conception of early institutional approaches has given way to a much more balanced theory that passes from the "*troubled time of adolescence*" (Scott, 1987b) to a "*promising youthful adulthood*" (Scott, 2001). Some major indicators of this growing-up are summarized in the following table.

Early institutional approaches	State-of-the-art institutional thinking
Monolithic homogeneous institutional environment	Multiple, overlapping, and sometimes competing institutions
Focus on regulatory actors (state, government authorities, etc.)	Multiple stakeholders / actors with multiple interests
Focus on regulative systems and coercive pressure	Growing importance of normative and cognitive processes
Limited set of organizational responses (acquiescence, decoupling, window dressing)	Wide array of reactions (including defiance and manipulation)
Institutions as external to the organizational system and as deterministic	Institutional processes as non-determinant and interactive
Focus on an all-powerful agent confronting passive subjects	Wide distribution of agency across actors in an organizational field
Focus on public organizations	Focus on all types of organizations (public and private)
Institutional arguments as opposed to ra-	Integration of both rational and institu-

tional arguments	tional arguments (interests, information, ideas, norms)
Focus on stability, uniformity, and order, and the resulting isomorphism of organizations	Shift towards processes of individual responses and change, and the resulting organizational diversity

Figure 2-16: The growing-up of institutional theory
(Source: adopted from Scott, 2001)

2.3.2 Introducing strategic agency into institutional theory

The original basic assumption of institutional thinking was that organizational activity is dominated by unreflective, automatic and strict adherence to the existing rules, standards and norms of the institutional environment. Current streams of neo-institutional theory deviate from this assumption. Compliance to taken-for-granted activities is complemented by more rational and reflective decision making and strategic choice that attributes more capacity for action to organizational elites (Oliver, 1991). A rational actor view is to be taken seriously (Fligstein, 2001); aspects of power and interest (DiMaggio, 1988; Beckert, 1999; Walgenbach, 2002; Hensmans, 2003) need to be and have already been included in institutional thinking about organizations.

It is not only recently that institutional theory has included – even though sometimes only implicitly – elements of rationality, strategic choice, interest, and power. Already in the early works of institutional theory (Meyer and Rowan, 1977) scholars argued that organizations do not only conform to a set of institutionalized beliefs because these "constitute reality" or are taken for granted, but because they are rewarded for doing so through increased legitimacy, resources, and survival capabilities. Action is consequently not determined by a shared mindset but by reflexivity and rational choice. Tolbert and Zucker's (1983) study shows that early adopters of new organizational forms were driven by efficiency, and later followers by expected efficiency and an assumed superiority of the structural changes implemented by the early adopter organizations. Imitating existing templates of organizing has also been found to be the result of mimetic processes, especially in situations of high uncertainty in which organizational decision makers follow the example of trusted actors in their environment (Galaskiewicz and Wasserman, 1989). Both ideas contain clear elements of strategic choice, and parallels to the benchmarking concept seem to be self-evident.

The concept of de-coupling (Meyer and Scott, 1983) contains a further notion of managerial activity that creates "*autonomy for the operating core*" (Grand, 1997:153)

of the firm. By creating a "*façade*" structure or "*face-saving images*" (Powell, 1985:565) the organization seems to be respecting the extant rules and standards, thus being consistent with the existing external institutions. However, the actual operational activities are decoupled from the organization's formal structures and processes. Without directly confronting the existing institutions and thereby risking legitimacy and resource access, organizations can in this way still maintain operational autonomy and pursue efficiency goals.

The shift of interest from isomorphic processes towards change raised the issue of institutional entrepreneurship. While numerous studies on institutional theory miss the notion of active involvement of social actors and assume that the existing institutional rules and expectations are still there somehow or other (Walgenbach, 2002), other studies do reflect on the question, "*Through whom and how do institutions form?*" In his 1988 article Paul DiMaggio introduced institutional entrepreneurs, defined as "*organized actors with sufficient resources*" (DiMaggio, 1988:14), as drivers of institutional change. Based on opportunities to realize their own interests, those entrepreneurs tried to create new sets of social arrangements in organizational fields to replace the existing institutional rules, standards and norms (Fligstein, 1996). By consciously breaking the existing "rules of the game" these institutional entrepreneurs challenge the status quo and try to establish new ways of doing business. This shift in research – consisting in the introduction of institutional entrepreneurs – clearly introduces strategic agency at the same time (Beckert, 1999).

Strategic agency, in turn, leads to the consideration of interest – going beyond the sheer desire for certainty, predictability, and survival – and power. While a "*static, constrained, and oversocialized view of organizations*" (Powell, 1991:183) previously dominated literature on institutional theory, several authors soon integrated power and interest of organizational actors or groups of actors. Paul DiMaggio, once again, views institutionalization as a process which is "*profoundly political and reflects the relative power of organized interests and the actors that mobilize around them*" (DiMaggio, 1988:13). This is quite different from the perception of organizations as automatically following taken-for-granted schemes; in contrast, interest and power develop into central constructs in the formation of institutions that can enforce or impede institutionalization (Covaleski and Dirsmith, 1988).

In sum, the focus of neo-institutional theory is shifting from the study of fields as relatively static and predictable units of analysis to the study of fields as "*arenas of power relations*" and strategic interactions (Brint and Karabel, 1991:355), where multiple

field constituents compete over the definition of issues and the legitimating of different organizational forms (Barnett and Carroll, 1993).

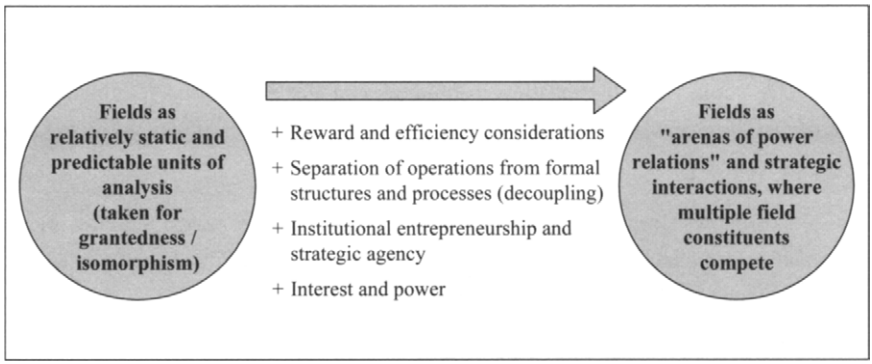


Figure 2-17: Introducing strategic agency into institutional theory

While most of the above mentioned studies more or less implicitly included elements of rationality, interest, power, and strategic choice, another stream of research explicitly deals with the strategic options organizations possess when facing institutional pressures. Organizational actions in response to regulations may be directed externally in order to influence the authorizing legislation, the actual implementation of regulations, and the type of enforcement practices. Or they may be directed internally by changing structures and processes in order to conform to the new regulatory requirements (Cook et al., 1983). External responses utilize, as a central element, the different types of political strategies (MacMillan, 1978; Birnbaum, 1985). Internal responses build on the internal adaptation processes initiated by changes in the external environment that aim at re-gaining fit with the environment (Lawrence and Lorsch, 1967). In this dissertation project both internally directed and externally directed actions are considered, since we are interested in the changes in the elements of corporate strategy following regulatory involvement on the one hand, and in the interactions between management and actors of the (regulatory) environment to shape the institutional field on the other hand.

2.3.3 Strategic responses to institutional pressures

More than 250 citations in the Social Sciences Citation Index are proof enough of the immense importance of Oliver's article on the strategic responses to institutional processes (Oliver, 1991), especially for providing the theoretical basis and structuring future work. We will also rely on her work as a basis for our study. However, while her work focuses on the firm-level and on the activity of the focal organization, recent

studies advance neo-institutional theory as is presented in a simplified way in Figure 2-18.

We have chosen three studies that (1) introduce a more dynamic perspective (Suchman, 1995), (2) shift the unit of analysis from a single actor to multiple actors and the network in which they are embedded and interact (Beckert, 1999), and (3) add a macro perspective that produces new insights into processes on the field level (Lawrence, 1999). All these studies attribute a more proactive role to management as compared to the reactive tone of Oliver's "responses" to strategic processes.

For the work of Hensmans (2003) that combines neo-institutional theory with the strategy formation process we dedicate the following chapter 2.3.4 since it is of central importance for this dissertation project. Combining micro and macro perspectives, as well as considering the network and interactions of multiple (institutional) actors, is not only suggested by leading scholars (Scott, 2001), but also necessary in order to achieve the desired results of this study. Answering the question of how the firm reacts to regulative involvement must not be reduced to aspects considering adjustments internal to the firm; it must also include an elaboration on how the firm interacts with the numerous constituents outside the firm that account for the shaping of the institutional environment.

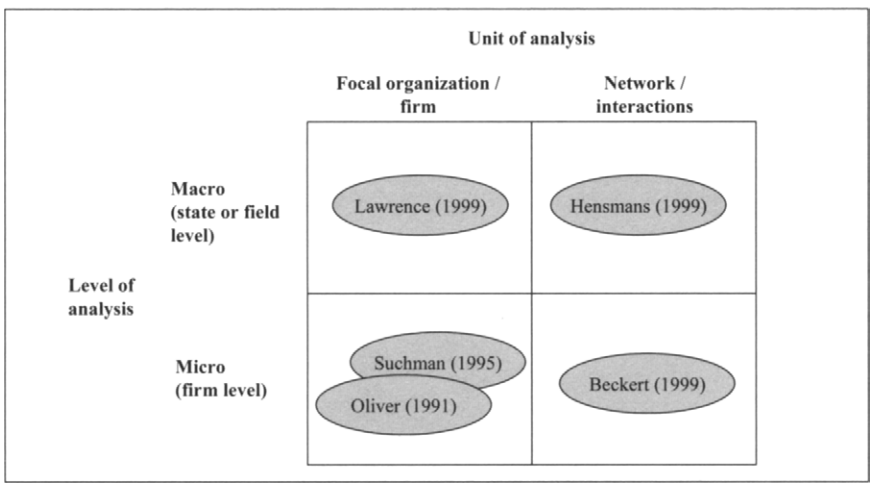


Figure 2-18: Levels and units of analysis in studying strategic and institutional processes

In her seminal work, which was probably the first to systematically integrate prior studies on organizational self-interest and active agency in institutional theory and to

structure future research, Christine Oliver elaborated on the strategies of organizations in response to institutional pressures **(Oliver, 1991)**. She systematically opened up the field of institutional theory towards strategic management. Oliver presented a typology of strategic responses and investigated possible antecedents to predict the likelihood of whether organizations resist or conform to institutional pressures. She suggested five types of organizational responses that vary in active agency from passivity to active resistance depending on the institutional pressures for conformity exerted: acquiescence, compromise, avoidance, defiance, manipulation.

Strategy	Tactics	Logic
Acquiescence	Habit	Unconscious or blind adherence to preconscious or taken-for-granted rules or values.
	Imitation	Conscious or unconscious mimicry of institutional models -> mimetic isomorphism
	Compliance	Conscious and strategically chosen obedience to or incorporation of values, norms, or institutional requirements. -> more active than habit or imitation
Compromise	Balance	Achieving parity among or between multiple stakeholders and internal interests; Playing constituents off against each other
	Pacify	Partial conformity with expectations, combined with minor level of resistance, primarily in the form of appeasement
	Bargaining	Exact some concessions from external constituents -> organizational relations with the environment are open to negotiation
Avoidance	Concealment	Disguising nonconformity behind a facade of acquiescence. -> appearance rather than the fact of conformity is relevant
	Buffering	Decoupling its technical activities from external contact and thus maintaining operational autonomy
	Escape	Significantly altering its own goals, activities, or domain to avoid the necessity of conformity altogether.
Defiance	Dismissing	Ignoring institutional rules and values
	Challenge	More active departure from rules, norms, or expectations (than dismissal)
	Attack	Assault, belittle, or vehemently denounce institutionalized values and the external constituents that express them
Manipulation	Co-opt	Co-opt the sources of pressure, e.g., persuade an institutional constituent to join the organization or use other institutional links and coalition building, and thus neutralize institutional opposition
	Influence	Generally influence institutional values and beliefs, public opinion, or lobby government regulators, and thus influence the standards of evaluation
	Controlling	Establish power and dominance over the external constituents that are applying pressure to the organization

Figure 2-19: Strategic responses to institutional processes
(Source: adopted from Oliver 1991:152)

The strategy of ***acquiescence*** is closely linked to classical institutional thinking, namely the convergent and isomorphic processes in populations of organizations that support conformity to institutional rules and standards. While the three distinct tactics

of an acquiescence strategy – habit, imitation, compliance – are all rather passive and reactive, their motives for desiring conformity vary. *Habit* follows the most basic understanding of institutional processes which is characterized by "*unconscious or blind adherence to preconscious or taken-for-granted rules or values*" (Oliver, 1991:152). *Imitation* is consistent with the more conscious mimicry of the behaviors of known or trusted actors in the institutional field; it might be used in order to reduce uncertainty (Galaskiewicz and Wasserman, 1989). Finally, *compliance* is the conscious and strategically chosen obedience to institutional rules in anticipation of self-serving benefits, most importantly social support and access to resources.

Compromise strategies (balance, pacify, bargain) which are generally combinations of conformity and resistance, are most likely to occur if there are conflicting institutional demands supported by diverse institutional actors. *Balancing* tactics aim at achieving parity among the multiple stakeholders of an organization and are legitimized by a rationalized effort to obtain a compromise on competing institutional expectations. For example, shareholders – since they generally support efficiency goals – can be used as counter weights to more socially oriented, and sometimes costly, claims of state actors or interest groups. *Pacify* strategies contain a minor level of resistance but are primarily driven by an effort to conform to institutional expectations and appease the related institutional sources. Finally, *bargaining* tactics contain an understanding of the environment as a "*negotiated environment*" (Pfeffer and Salancik, 1978:143). Consequently, these tactics aim at exacting some concessions from the negotiation processes with the relevant external constituents. In this vein, institutional linkages and the embeddedness of an organization in its institutional environment are of major importance (Baum and Oliver, 1991).

Avoidance strategies, next to acquiescence strategies, are the best researched response strategies in institutional theory (Walgenbach, 2002:349). They include *concealment* tactics that are based on the idea of creating a façade structure (Powell, 1985) or window dressing (Meyer and Rowan, 1977) in order to disguise non-conformity. *Buffering* follows the principle of de-coupling (Meyer and Scott, 1983) the organization's technical operations from its formal structure in order to maintain autonomy for the operational core. But this tactic is only possible if efficient technical production is independent of public approval and the latter does not depend on an organization's willingness to open itself up to the public (Oliver, 1991). Finally, *escape* tactics are reflected in a significant shift of an organization's goals, activities, or domain, and might lead to the exit of an organization from an institutional field (Hirschman, 1970).

Defiance strategies include dismissing, challenging, and attacking tactics. An organization may choose to simply *ignore* institutional rules and values, i.e., pursue a tactic of dismissing. When using *challenge* tactics, organizations actively seek confrontation with the existing institutional expectations. This links with the discussion on institutional entrepreneurs (DiMaggio, 1988) who drive change and try to establish new sets of institutions. In recent years this stream of research created especially interesting insights on strategic agency in institutional theory and especially the co-evolution of incumbent and challenger organizations (Fligstein, 1996; Hoffman, 1999; Hensmans, 2003) that will be discussed in more detail below. Finally, *attack* tactics represent an aggressive form of challenging existing institutions by "*assault[ing], belittl[ing], or vehemently denounc[ing] institutionalized values and the external constituents that represent them*" (Oliver, 1991:157).

The last strategy presented by Oliver (1991), ***manipulation***, is the most active one. It is intended to change the existing institutions and exert power on the related sources. She distinguishes three distinct tactics: co-opt, influence, control. *Co-opting* refers, on the one hand, to the buy-in of the sources of pressure, perhaps to convince them to join the organization. On the other hand this tactic uses coalition building in order to neutralize institutional opposition. *Influence* tactics are more generally oriented towards changing institutional values and beliefs, public opinion, or to lobby governmental regulation, and thus influence the standards of evaluation. Finally, *controlling* tactics aim at dominating rather than influencing institutional processes and sources. This, of course, is most possible for **emergent**, localized, and weakly promoted institutional expectations. This stream of research, like the one on defiance strategies, seems to be promising, considering its links to the work on political strategies (MacMillan, 1978; Aplin and Hegarty, 1980; Birnbaum, 1985; Lenway and Rehbein, 1991).

Suchman (1995), as mentioned above, takes a more dynamic perspective and examines the strategies for gaining, maintaining, and repairing legitimacy. On the one hand, he refers to strategic legitimacy which adopts a managerial perspective and views legitimacy as a way for organizations to manipulate and deploy evocative symbols in order to gain societal support. On the other hand, he refers to institutional legitimacy which transcends any single organization's control and works on the industry level focusing on the ways in which cultural pressures are generated. Taking a middle course between strategic and institutional orientations, Suchman tries to integrate a managerial perspective attributing purposive and calculated control over the legitimization process, and a constitutive perspective limiting the autonomy of managers and their ability to shape the institutional environment. The following Figure 2-20 summarizes

the eight general legitimization strategies that contain elements of Oliver's strategic responses to institutional processes (Oliver, 1991) but distinguish between situations in which legitimacy has to be gained, maintained, or repaired.

Gain legitimacy	Maintain legitimacy	Repair legitimacy
Conform to environment	Perceive change	Normalize
Select environment	Protect accomplishments	Restructure
Manipulate environment		Don't panic

Figure 2-20: Legitimization strategies
(Source: Suchman 1995:600)

To gain legitimacy, an organization can either conform to the environment, select among environments, or manipulate environments. Conformist strategies represent the most passive way of simply accepting the institutional rules and standards. Changes are to be made to an organization's (apparent) structures. A more proactive strategy consists of selecting an environment that is more compatible with the organization. Moving to a different country can be one example, exiting a business in an environment with exorbitant conflicting requirements may be another one. Manipulating strategies, finally, consist of actively promoting "*new explanations of social reality*" (Suchman, 1995:591). They are much less manageable and require the mobilization of a collective effort of multiple stakeholders. They are in the same vein of research as Oliver's influence strategies (Baum and Oliver, 1991) and Lawrence's institutional strategies (Lawrence, 1999).

To maintain legitimacy – which is easier than gaining or repairing legitimacy – an organization should support the reproductive and confirmative processes of its already legitimized strategy and structure through two approaches. (1) Predict future changes; an organization's ability to do this is enhanced if it can recognize reactions in the environment and foresee emerging challenges. (2) Protect past accomplishments through the reinforcement of the legitimacy that is in place.

To repair legitimacy, organizations must construct a "*sort of firewall between audience assessments of specific past actions and audience assessments of general ongoing essences*" (Suchman, 1995:598). First, organizations can formulate a normalizing account, that separates the threatening event from the organization as a whole and that aims at neutralizing negative assessments of specific issues. In doing so they may try to deny, excuse, justify, or explain the disruptive events of the past. Second, an organization may restructure and, for example, confess that aspects of its operations have been inappropriate but, show at the same time, that future misconduct will be pre-

vented through "*monitors and watchdogs.*" The organization may also disassociate itself from the disruptive event. Third, organizations should avoid panic, since overreaction might cause even more harm. Instead, sensitive and thoughtful reaction is required.

While Suchman (1995) reflects on discrete strategies to reach institutional and strategic legitimacy, **Beckert (1999)** takes a broader, more general perspective on the connection of strategic agency and institutions in a model of institutional change. For him, "*institutional rules and strategic agency can be conceptualized as two coordination mechanisms that destabilize each other, but, nevertheless, remain independent*" (Beckert, 1999:779). His argumentation is based on an assumed necessity for uncertainty reduction in organizational and social life. Especially in complex and high velocity environments institutionalization, for example through mimetic isomorphism, is used to reduce uncertainty (DiMaggio and Powell, 1983). Institutionalized structures make organizational activities – from competitors and other actors – more predictable, since expectations about the behavior of others are made possible, and thus form the basis for strategic agency. With increasing degrees of certainty, strategic agency that deliberately opposes institutionalized rules becomes more probable. The expected benefits of a deviating strategy outweigh the perceived risks of reduced certainty and institutional sanctions. Advancing these basic arguments on the relation between uncertainty and strategic agency, Beckert (1999) introduces a dynamic model of interests and institutions with varying levels of certainty, institutionalization, and strategic agency over time. This model reflects the following logic: Institutions reduce uncertainty and create stability; entrepreneurs use this situation for the pursuit of self-interest and strategic opportunities and to destroy the existing institutions; and re-institutionalization and re-embedding follow, creating stability again.

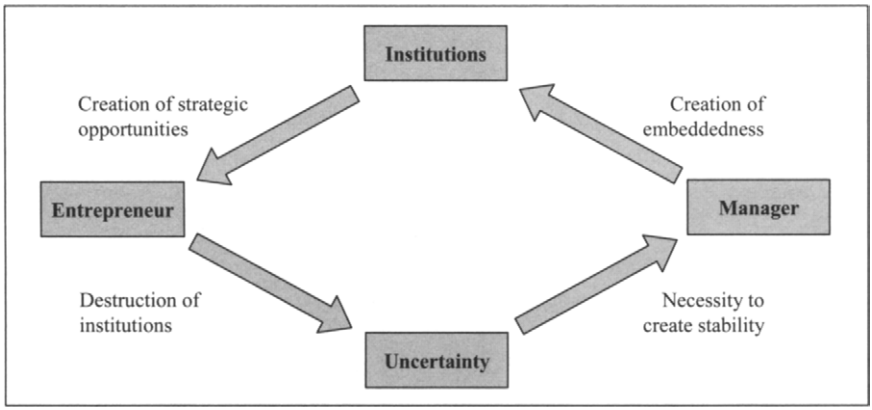


Figure 2-21: Dynamic model of interests and institutions
(Source: Beckert 1999:788)

Finally, Beckert emphasizes the role of social legitimacy and power for the stability of institutions. Any organization has to consider the negative consequences of violating, which will therefore limit its free choice of strategic actions. While the legitimacy debate is at the core of most institutional approaches, many authors neglect or understate the factor of power, which plays an important role in both stabilizing the existing institution and in establishing new ones.

Lawrence (1999), finally, takes a macro perspective and focuses on the construction, dismantling, or transforming of existing institutions on the field level. While Oliver (1991) takes the perspective of an organization embedded in an institutional context and elaborates on the strategies organizations can pursue in response to institutional pressure, Lawrence takes the perspective of an institutional actor – including companies but also professional associations and regulatory authorities – and elaborates on the strategies and mechanisms these actors can employ in order to shape the institutional environment to their benefit. On the one hand, he extends the scope of his research so that different perspectives on the institutionalization process are considered. Taking into account the interconnectedness of the institutional environment, this multi-perspective approach adds further insights into the complex, mutual relations between organizations and (other) institutional actors. On the other hand, his work focuses and extends the knowledge on Oliver's manipulation strategies, especially those involving power and control. Using the concept of deliberate and emergent strategies (Mintzberg and Waters, 1985), he considers emergent institutional strategies alongside deliberate, intended strategies which are supposed to favor the actor's own position. Analogous to

the definition of Mintzberg and Waters, Lawrence views "*Institutional strategies [as] patterns of action that are concerned with managing the institutional structures within which a firm competes for resources*" (Lawrence, 1999:162). The two types of institutional strategies suggested by Lawrence are *membership strategies,* consisting of the definition of rules of membership and their meaning for institutional community, and *standardization strategies,* involving the institutionalization of practices, products or services through the assignment of value beyond their technical value. Both strategies are available only to powerful actors who are accepted as "*institutional leaders*" and who, additionally, possess a critical "*control of information*" (Lawrence, 1999:171).

2.3.4 Neo-institutional theory and the strategy formation process

Beyond influencing or adapting strategies, important strategy scholars also call for a better integration of institutional theory in strategy research. Mintzberg and Lampel (1999), for example, point to the benefits of an institutional approach, especially for the Power, Environmental and Cognitive School of strategy formation. Still, institutional theory, which is primarily driven by Organizational Behavior scholars, is more and more married to strategy research. In the following paragraphs, we will present the work of Hensmans (2003) that introduces a model linking institutional change and the strategy-formation process. We will further reflect on it in connection with the strategy model of Burgelman (1983a) (presented in chapter 2.1.2) and at the same time elaborate on how it can help us to answer the research questions of this study and generate new insights into strategy process research.

Manuel Hensmans (2003) brings institutional theory another step closer to strategy research. According to his understanding, strategy is "*emerging out of the combination of political and institutional processes, and [proposed] as legitimizing or delegitimizing old and new archetypes*" (Hensmans, 2003:357). The strategy-formation process is presented as emerging out of the "*multilevel combination of political and institutional boundary processes*" (Hensmans, 2003:374). Rooted in the inherent logic of institutional thinking which is not limited to processes and actors within the firm, and documented by the consideration of *boundary processes*, he explicitly considers strategic actors outside the focal organization. Strategy becomes very much a legitimizing process in which powerful incumbents are challenged by actors aspiring to power (Emerson, 1962). While the incumbents try to maintain the existing institutional order

that protects their power bases, challengers try to change the status quo.[23] Both need to mobilize collective support for their causes, and both try to objectify their claims and disconnect them from their self-interest, instead presenting them as credible, appropriate, competent, and desirable (Suchman, 1995; Fligstein, 1997; Rao, 1998).

While incumbents generally try to engage in the "*mobilization of a bias*" that builds on their systemic power base, challengers engage in strategic agency and organizational renewal that build on the performative power base. While the former derives from basic rationales and lies in the "unconscious acceptance of the values, traditions, cultures and structures" (Hardy and Phillips, 1999:5) of a field, the latter consists of bringing strategic agency or entrepreneurship into an institutional field and striving to influence critical resource allocations and the decisions that are made in the field. Both strategies end up in a political struggle about the best ways to organize collective action. It is of central importance to gain and maintain an unobtrusive position whereby one can establish the coalitions that are necessary in order to reframe homogenizing systemic power relations.

The sources of systemic power are critical resources on the one hand and discursive legitimacy on the other (Phillips et al., 2000). Critical resources refer to economic capital (for example, venture capital), social capital (for example, a customer base), and cultural capital (for example, access to information). Discursive legitimacy is the symbolic capital that is derived through a political process of rationalizing and downplaying one's own interest at the expense of the opponent's interest that is being revealed, downplayed, or marginalized (Bourdieu, 1993). In doing so incumbents rely on a logic of difference that tries to integrate challenging thoughts in their "*holistic confines of their own archetype of organizing*" (Hensmans, 2003:360). If this logic of legitimization does not succeed, they turn to a logic of equivalence that excludes challengers and constructs a "black-and-white frontier" that demonstrates the arbitrariness of the challenger's claims. Challengers in general directly emphasize the logic of equivalence, through which they try to demonstrate the hegemonic character of the incumbents. In order to be successful they need to form coalitions with other powerful institutional players, including regulatory authorities, unions, media, and other challengers to bring their own causes to the agenda of institutional discussion. Whereas in

[23] Hensmans more exactly distinguishes between four types of organizations: At one extreme, the status quo incumbent that tries to defend its position at any cost by condemning challengers as "revolutionary pirates." At the other extreme, the disruptive challenger that aims at revolutionary changes and discredits incumbents as "Washington Insiders." In-between, there are classic and modern reformers with different degrees of targeted change.

the early phases of a change process the population of incumbents and challengers are separated, they subsequently set up a collaborative playing field and try to conquer by establishing and institutionalizing their archetype of organizing. In a final phase, participant actors work toward a process of stabilization that installs a new status quo to be retained.

Common to all the above mentioned approaches is the fact that they are rooted in the field of institutional organization theory that tries to integrate strategic thinking; i.e., they aim at creating a "*strategic neo-institutional theory*" (Hensmans, 2003:357). Their work helps us to develop what we might call a "neo-institutional theory on strategy process," with a primary cognitive interest in the advancement of strategy process research sparked by the addition of neo-institutional approaches. The advancement of neo-institutional theory in the way the previously mentioned authors were striving for will hopefully be a useful by-product of the research.

Let us now compare the model of Hensmans (2003), that presents an evolutionary model of strategic change in fields from a multilevel-perspective, and the model of Burgelman (1983a) that provides an evolutionary perspective on strategic behavior, corporate context, and the corporate strategy from the single-level perspective of the firm.[24]

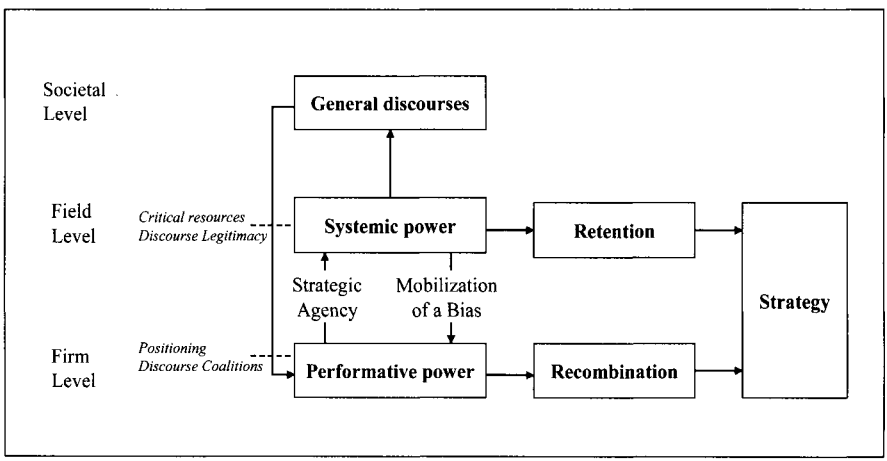


Figure 2-22: Strategic change in fields: An evolutionary model
(Source: Hensmans 2003:362)

[24] For a detailed description of the Burgelman model please refer to chapter 2.1.2.

Referring to Burgelman's induced strategic behavior one might argue that the reproduction and retention of existing organizational pattern through confirmative mobilization of systemic power is induced behavior on the field level. While Burgelman argues that the current concept of corporate strategy determines induced strategic behavior which in turn reinforces the extant corporate strategy, the systemic power (commonly accepted rationales on how to organize) determines incumbent, acquiescence behavior that in turn reinforces the systemic power base. In the one case it is corporate management that determines what is legitimate and desired; in the other case legitimate behavior is defined on the field level by the numerous constituents involved. The mechanisms of reinforcing current strategies and structures seem to be similar.

As for Burgelman's autonomous strategic behavior, the logic might be compared to challenger behavior in Hensmans' model. Autonomous behavior is made possible through the activation of the strategic context which tries to make sense out of initiatives that are outside the current concept of corporate strategy. If successful those initiatives renew and change the extant corporate strategy. While relations within the firm, especially as regards middle management, are critical in Burgelman's model, Hensmans again lifts this issue one level up. In his model, coalitions with other constituents of the organizational field are of critical importance in order to activate performative power, establish new organizational patterns, and recombine or transform strategy.

In both cases the importance of both confirmative behavior producing stability and challenger behavior assuring renewal and long-term survival are acknowledged. Appealing aspects of Hensmans' model are the consideration of external actors and the importance of field-level institutions guiding corporate behavior. Instead of internally defined selection mechanisms, the external market is the playing field on which alternative strategies and organizational patterns directly compete for support. Starting again with Burgelman's model, the consideration of an institutional context might add further clarity to the understanding of the strategic context. The institutional context in which strategic initiatives are embedded might add an additional selection mechanism.[25] Integrating external actors and selection mechanisms, as Hensmans does, and deducing a theory of strategy-formation with a focus on processes internal to the firm are at the core of this dissertation. In this way we hope to close or at least narrow the

[25] For a similar elaboration of the strategic context please refer to Marx (2004) and her work on the role of the social context.

identified research gap – the missing integration of external actors in strategy process research.

2.4 Summary and discussion

Chapter 2 provided an extensive overview of the literature background of this dissertation, consisting of two big building blocks. First, we provided an overview of the relevant streams and constructs in strategy process research. Second, we evaluated three theory lenses according to their potential to advance strategy process research.

After an introduction to the general conceptualizations, principles, and models in strategy process research, we more specifically reviewed existing literature regarding the role of external actors in strategic management research. Despite an astonishingly high number of studies in the field and despite some exemplary exceptions, this review showed that research largely focused on quantitative cross-sectional studies relating to strategy content, not on strategy process. The largest group of studies analyzed the (isolated) effects of regulatory involvement on different elements of corporate strategy, e.g., the impact of external shifts on innovativeness, risk taking and diversification. However, only very few studies exist that employ a holistic research design, include both internal alignments and externally directed responses toward regulatory involvement, and focus on process rather than content issues.

As for consistency, fit, and alignment, these constructs have been widely used in different contexts. In simple language, they refer to how well two variables go together, or how coherent they are. In general, inconsistency might arise if shifts in the environment trigger resource allocations that are no longer consistent with the official concept of corporate strategy but that maintain external fit with the environment. While past research focused on alignment activities within the firm (changes in the different elements of corporate strategy), there are no studies that combine these internal alignments with externally directed responses that might change consistency and fit by changing the environment instead of the organization. Based on our knowledge of current literature, the research design of this study that links consistency analysis with internal alignments and externally directed responses is novel.

Following a review of the literature on strategy process research, we reviewed three theoretical perspectives that appeared to be generally suited for this study. Based on

five clearly defined criteria,[26] we evaluated stakeholder, evolutionary, and neo-institutional theory. In the end, the latter seemed to be most promising in order to advance knowledge on the strategy formation process. The reasons for this choice are: a better balance between deterministic and strategic elements, an explicit integration of external actors, and the precise conceptualization of the environment and its influencing mechanisms. Also, it seemed that neo-institutional theory might be "fresher" and hence better suited to produce novel insights into the strategy formation process than, for example, the frequently used evolutionary theory.

[26] (1) Consideration of both an analytical and a social, political perspective; (2) balance between deterministic and strategic elements; (3) explicit consideration of external actors; (4) suitable conceptualization and operationalization of the external environment; (5) well established, profound theoretical basis.

3 Research framework

The goal of this dissertation is to analyze the impact of regulatory actors on strategy formation and how corporations can manage external influences on corporate strategy and structure. More specifically, the analysis consists of the following three parts: (1) Direct influences of regulatory actors on strategy formation, (2) Internal alignment processes of strategy and structure, and (3) Externally directed responses toward regulatory involvement in order influence the institutional environment and the regulatory actors.

Given the multiplicity and broadness of our research objective, we employed multiple units of analysis and a multi-level research design. Specifying regulatory involvement, we further introduced regulatory initiatives as triggers of change and context variables. Units and levels of analysis, as well as regulatory initiatives and their role in this study, will be presented in chapter 3.1. Chapter 3.2 will then introduce the theoretical research framework of this study, specify the three research questions and their corresponding research strategies, and highlight the links between the three parts of the research.

3.1 Unit and level of analysis

Using one ***unit of analysis*** could lead to excessively abstract theorizing, while multiple units of analysis can serve as a device for focusing the study and for "*generating significant opportunities for extensive analysis, enhancing the insights into the single case*" (Yin, 1994:44). For this reason and due to the complexity and broadness of our study, we used two different units of analysis: resource allocations for part one of this study (first research question), and the firm for parts two and three (second and third research questions).

Picturing a corporation's competitive approach, resource allocations have long been a popular unit of analysis (Chandler, 1962; Bower, 1970; Hofer and Schendel, 1978). As prior research has shown, strategy formation manifests itself through the allocation of scarce resources over time (Bower, 1970). Consequently, resource allocations are very well suited to analyze the impact of regulatory actors on strategy formation.[27] As visible signs of the corporation's executed strategy, they may or may not be in line with

[27] Strategy formation is a rather abstract term in the first place. Conceptualizing it as a process of subsequent resource allocations allows us to precisely analyze the impact of external actors: Strategy formation is affected if resource allocations are affected.

the official concept of corporate strategy. While consistency should be expected in times of stable environments, decreasing levels of consistency are likely to be the result of increased turbulence in the environment, or, relating to this dissertation, of increased influence of regulatory actors.[28]

For parts two and three of our research, we used the firm as unit of analysis. We further employed two sub-units of analysis represented by the two market units of the case company that operate rather independently from each other. According to Yin (1994), this research design resembles a Type 2 embedded case study design, in which the generated insights on the level of subunits can be returned to the major unit of analysis. We opted for this embedded design since it enabled us to compare results across two subunits of analysis that were expected to use different approaches toward regulatory influences, which was supposed to enhance theory generation.[29]

While the firm was the unit of analysis for parts two and three of this study, we focused on different facets for each part. More precisely, part two analyzed alignments of the six elements of corporate strategy as presented in chapter 2.1.5. Hereby, we investigated what changes were realized and in what sequence. While the analysis of resource allocations and their consistency with the concept of corporate strategy helped to determine *if* regulatory involvement impacts strategy formation, we were interested in the question of *how* strategy formation is impacted throughout the second part of our research.

During the third part of our research, we focused on the firm's political activity. So far, we have concentrated on the effects of regulatory actors on strategy formation, but in this research phase we reverse the relation and elaborate on the corporation's externally directed response strategies and its opportunities to influence the regulatory environment. In our view, the question of how internal elements of corporate strategy and structure are aligned in response to regulatory pressures is closely linked to the question of which externally directed strategies are pursued. Both generate the set of opportunities that should be considered when reflecting on the relation between regulatory involvement and strategy formation.

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[28] Decreasing levels of consistency should hence signal increased influence of regulatory actors on resource allocations and consequently on strategy formation.

[29] One of the two subunits was only acquired in 2003 by the case company and hence possessed a rather independent approach for managing regulatory influences.

As for the ***level of analysis*** our main focus was on the corporate level. However, we also considered processes on the divisional and operational management levels. According to Floyd and Lane (2000) this multi-level approach is well suited to analyze strategy processes. Going beyond the micro-level, we also considered the macro-level, which consists of the organizational field in which the focal company is embedded. Asking the question of how companies can manage and shape their environment – as we do in the third part of our research – created the need to consider interaction processes on the field-level as well. Scott (2001) attributes the most informative power to studies that "*trace the effects of salient and influential processes across two or more levels*" (Scott, 2001:196). Another reason for a multi-level approach lies in the fact that the research combines process issues, which operate on the micro-level (e.g., the behavior of organizational actors), with content issues, which operate on the macro-level (e.g., interactions of firms with their environments) (Lechner, 2003:2).

Figure 3-1 summarizes the units and levels of analysis of this dissertation. As mentioned above, we used two different units of analysis: resource allocations and the firm. As the figure below shows, we further focused on different facets of the firm (elements of corporate strategy and corporate political activity). With regard to our level of analysis, the overall focus lay on the corporation; however, all research questions included boundary-spanning considerations, with research question three even including the field, corporate and divisional/operational levels.

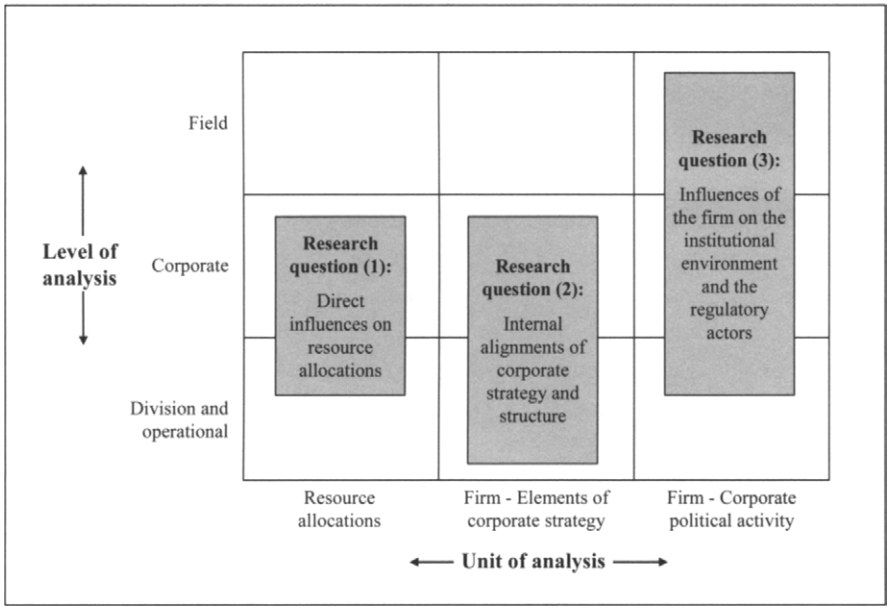


Figure 3-1: Units and levels of analysis for this dissertation

To support our analysis, we further introduced ***regulatory initiatives***. Regulatory initiatives are focused undertakings of political or regulatory actors that aim at changing the regulatory environment (Post and Mahon, 1980). Generally, a regulatory initiative is started and led by political actors and in the end transferred into a law or by-law. Due to legislation processes that need to be followed, public involvement and lobbying of different stakeholder groups, the content of a regulatory initiative may change over time. Political and regulatory actors do not operate in a vacuum, and even though they posses the final decision authority, they depend on general support by the majority of concerned stakeholder groups. Due to these mutual interdependencies corporations have the opportunity to negotiate the final content of regulatory initiatives, and they do frequently use this opportunity if the impact of the initiative is large enough. Even though our research objective is not to observe the evolution of the regulatory initiatives over time – in this case they would be our unit of analysis – we still introduced them for two principal reasons.

First, they seemed to be very well suited to operationalize regulatory involvement; consequently, they helped us to explicitly observe the impact of regulatory actors on strategy formation. Acting as triggers of change, we could furthermore depict the set of corporate responses, with regard to both internal alignments and externally-directed

responses. Finally, regulatory initiatives enabled us to lead focused interviews with our corporate informants. Instead of speaking about the impact of regulatory actors on strategy formation in abstract terms, we were able to discuss real issues of regulatory involvement.

Second, these initiatives functioned as a context variable for our study that enabled us to compare results across different types of regulatory initiatives (e.g., nuclear power, market opening, emission trading, etc.). This proved to be extremely helpful since it generated variance and encouraged theory building. Depending on the initiative characteristics, we could observe different types of corporate responses. And based on these observations we could not only describe internal alignments and externally directed responses, but we could also test existing predictors or deduct possible new ones.[30]

3.2 Theoretical framework

In order to develop a better understanding of the strategy-formation process with regard to an integration of external actors, we established a researchable framework that allows us to analyze discrete actions on a lower level and ultimately to aggregate the findings. Otherwise, the research would remain too abstract (Yin, 1994). The following figure specifies the generic research framework mentioned in chapter 1.2 and represents the framework for guiding this study. Overall, we are interested in the mutual influences between the regulatory environment – comprised of regulatory actors and regulatory initiatives – and the corporation. While we focused on the direct effects of regulatory actors on corporate resource allocations in a first step, we used regulatory initiatives (Post and Mahon, 1980) to elaborate on the impact on corporate strategy and structure (defined by the six elements shown in Figure 3-2 and explained in chapter 2.1.5) in the second step of our study. Finally, we researched the externally-directed corporate responses to influence the institutional environment and its actors. The three distinct parts of our research will be explained in more detail below.

Compared to the very basic framework presented in chapter 1.2, we also included an intermediary level of institutions. We hereby use regulative, normative, and cognitive institutions (Scott, 1995) to explain the influences of regulatory actors on strategy formation. Furthermore, these institutions represent the general rules of the game

[30] For a detailed introduction on the regulatory initiatives used in this study please refer to chapter 4.3.2.

within the industry field and the influencing mechanisms between the corporation and the regulatory actors.

The overall methodology combines elements of the resource-based analysis methodology of the ICS project developed by Schmidt (2000) and elements of the work of Klement (2001) who has been using a similar analytical framework for her analysis of the institutional changes in the German paper industry.

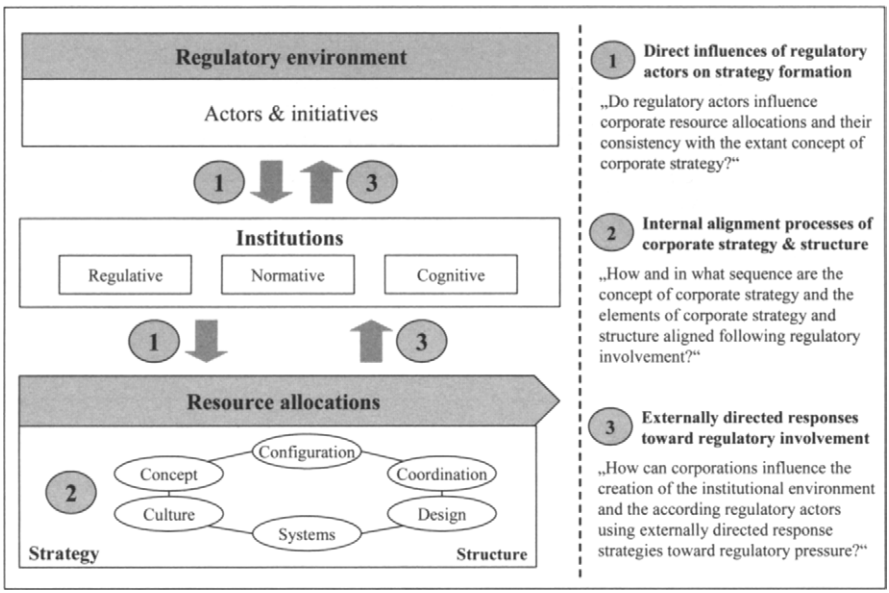


Figure 3-2: Research framework

Part 1: Direct influences of regulatory actors on strategy formation

In the first step, we elaborated on the general influence of regulatory actors on strategy formation as manifested by the corporation's resource allocations. At this point we asked if and eventually to what extent regulatory actors impact corporate strategy. An impact should hereby be reflected in the consistency level between the official concept of corporate strategy and actual resource allocations, or in other words between strategic intent and strategic action. As mentioned in chapter 2.1.5, we hold that consistency is important and a key top management responsibility (Burgelman and Grove, 1996). In our particular case, however, inconsistency may not initially be a result of internal processes (autonomous behavior or inertia), but a consequence of external involvement. Ultimately, it may result from an inevitable dissonance between governmental objectives (e.g., on environmental protection or market opening) and profitability or

efficiency objectives of the corporation. Inconsistency might hence be the price for external fit with the requirements of the (regulatory) environment. In any case, dissonance has to be resolved and consistency increased in the long run.

Having said all this, we hold that most insights can be generated from the development of the consistency level over time.[31] For this reason, we used a dynamic approach that pictures the course and turning points of the consistency curve. Once the curve had been developed, we analyzed its particularities, especially, the resource allocations responsible for inconsistencies which will also highlight any regulatory influence with a negative impact on consistency.

The following Figure 3-3 shows the research model employed at this first step of our study. The consistency level is hereby defined as the share of resource allocations that, in a certain period (e.g., six months or a year), are consistent with the defined concept of corporate strategy. Consequently, for each resource allocation, the consistency will be judged (0=inconsistent; 1=consistent),[32] then all resource allocations over a defined time period will be aggregated to form the consistency level for that period (number of consistent resource allocations divided by total number of resource allocations).

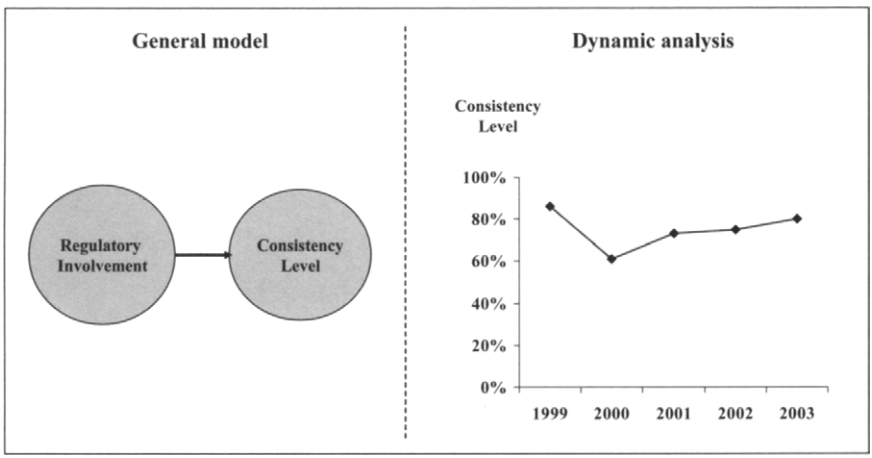


Figure 3-3: Research model part 1

Part 2: Internal alignment processes on the corporate level

[31] In the future we will refer to the "consistency curve" when talking about the development of the consistency level over time

[32] An explanation of why we employed a binary approach can be found in chapter 5.3 or at Schmidt (2000).

In part 2 of our analysis we elaborated on how external actors impact strategy formation. More specifically, we explained how and in what sequence the six elements of corporate strategy are aligned. Consequently, we focused on the question of how strategy changes in this part of our research, while we analyzed if strategy formation was affected in the first part.

For this part of our dissertation we used regulatory initiatives as triggers of change that represent concrete exertions of influence of regulatory actors. Based on a number of regulatory initiatives (which will be introduced in chapter 4.3.2), we analyzed internal alignments of the six elements of corporate strategy and their alignment paths. The initiatives were generated through an analysis of inconsistent resource allocation identified in the first part of this research. We further used press research, industry conference proceedings and expert interviews (not at the case company) to confirm and complement the set of most relevant regulatory initiatives for the electricity and gas industry.[33]

The result of aligning corporate strategy and structure is finally expected to reduce dissonance within the organization, to re-achieve fit, and to increase overall consistency. Guiding questions at this point include the following: (1) At what point does corporate strategy officially change? (2) Which elements change first? (3) Are there different types of reaction patterns or phases?

[33] The decision to phase out nuclear power, for example, led to resource allocations that were inconsistent with the current concept of corporate strategy. Nuclear power was hence one of the regulatory initiatives that resulted from an analysis of misaligned resource allocations during phase one. While indications on the possible negative effect of renewable energy also appeared during the first part of this research, emission trading was only specified during the following secondary research (press, conferences, and expert interviews). Market opening and anti-trust completed the list of regulatory initiatives considered for this study. See chapter 4.3.2.

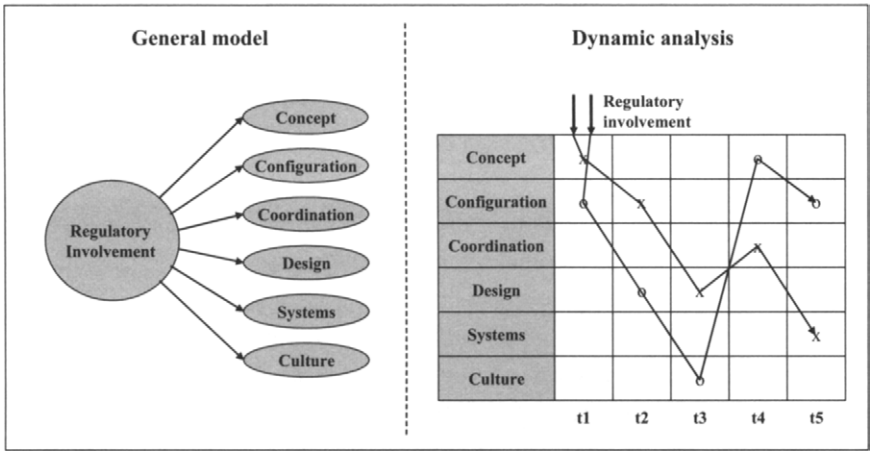


Figure 3-4: Research model part 2

Part 3: Externally directed responses toward regulatory involvement

In step 3 of our analysis we were interested in the influences of corporate management exercises on the institutional environment and its actors. Regulatory involvement not only influences strategy formation and the elements of corporate strategy, but also induces externally directed corporate responses that aim to influence the external environment. The latter is not God-given or solely determined by political actors; rather, it results from complex interactions among the different actor groups within the field. For this reason, corporate involvement in its creation is important.

Relating to the work of Hillman et al. (2004) and Oliver (1991), who provide a meaningful model on corporate political activities (CPA), we elaborated on the different types of externally directed corporate responses.[34] While the degree of involvement (from not active to very active) and the direction of corporate responses (from strict adherence to strict resistance) were analyzed on a general level, we were also interested in how this led to specific activities (constructive negotiation, deferment, etc.). Comparing the corporate responses across regulatory initiatives that were once more used as triggers, we analyzed possible antecedents of corporate political activities, including the ones provided by Hillman and her colleagues and Oliver (issue salience and issue competition, most importantly).

[34] We employ the term corporate political activities synonymously with the term externally directed corporate responses since both aim at influencing the regulatory environment and its actors.

Guiding questions for this part of our research included the following: (1) what are the strategies and tactics of the externally directed corporate responses towards regulatory involvement? (2) Are there different types of reaction patterns or phases across regulatory initiatives? (3) What are the possible predictors of externally directed corporate responses?

3.3 Summary and discussion

In this chapter we introduced the rather complex research framework for our study. According to the research questions formulated in chapter 1.2, this dissertation consists of three parts that used different units of analysis and focused on different levels of analysis.

The first part focused on the direct influences of regulatory actors on strategy formation using resource allocations as unit of analysis and included the corporate, business and operational levels. Through the analysis of the development of consistency over time, we aimed at determining whether strategy formation (as represented by corporate resource allocation) was affected by regulatory actors.

The second part, which dynamically analyzed the influence of regulatory actors on corporate strategy and structure, employed the firm, or more precisely, the six elements of corporate strategy, as unit of analysis. The corporate, business and operational levels formed equally important levels of analysis. During this part of our research, we analyzed how strategy formation was impacted, and hence we looked and how and in what sequence elements of corporate strategy were changed.

Finally, the third part referred to the influences of the corporation on the institutional environment and consequently elaborated on externally directed responses toward regulatory involvement. As in the second part, the firm represented the major unit of analysis; however, the focus lay on the firm's corporate political activity. While the corporate level remained the principal perspective of the study, we also considered processes on the field level, as well as on the business unit or operational level. For this part of our study we reversed the causal logic and asked how the corporation might influence the environment and its actors.

4 Research setting

In order to make the processes of interest – influences of regulatory actors on strategy formation – transparently observable, we had to choose a research setting which offers extreme situations (Eisenhardt, 1995). In the following chapter we will outline why we selected the German energy industry in general and E.ON in particular (chapter 4.1). Chapter 4.2 will then briefly introduce the German energy giant E.ON. Departing from the focal organization, we will provide an overview of the environment of the German energy industry in which E.ON operates (chapter 4.3). This environment went through significant changes that have been formed not only through regulatory actors and incumbent utilities like E.ON but through the interactions of a number of relevant actors in the field. Those will be presented in chapter 4.4. The chapter concludes with a summary and discussion (chapter 4.5).

4.1 Industry and case study selection

The German energy sector has always been characterized by significant regulatory involvement through various governmental authorities (i.e., federal and regional ministries, antitrust-authorities, and regulatory authorities). After decades of governmental protection in which regulation acted as a buffer against competition, the situation changed drastically in the past 15 years. During those years, numerous regulatory initiatives have been launched with the goal of promoting specific environmental and competitive issues. The role of regulation went from buffering to promoting change. For the incumbent utilities this meant that while regulation supported economic interests and profitability for a long time, they now had to comply with regulatory demands that were opposed to their economic interests. These changes and the apparent conflict between the new organizational context and the firm's inherent objectives further adds to the adequacy of our research setting (Meyer and Scott, 1983). Therefore we suggest that the German energy sector is very well suited to elaborate on the management of regulatory influences of corporate strategy and structure.

Prior to its fundamental reorganization through the energy law amendment in 1998, the German energy business was characterized by electricity providers with monopolistic supply areas contractually defined. Through demarcation agreements and exclusive concession contracts (based on the Act against Restraints of Competition from January 1, 1958), electric companies could prosper buffered from competition through regulatory protection. During this time, the eight interregional utilities produced about 80% of the total energy, owned the transmission network, and even retailed and dis-

tributed 40% of the total energy consumption (Reinhardt, 2003). However, starting on the European level in the early 1990s, energy policy changed dramatically. In order to achieve the most important goals of macro economic efficiency and competitiveness of the energy system, EU Directive 96/92/EC on the Internal Market for Electricity called for a complete market opening. This decision had two major implications for German utilities: on the one hand, they had to expect competition in their home markets; on the other hand, new energy business opportunities outside the country were open.

Next to market liberalization and competition, environmental issues developed into a serious topic of energy policy. In 1996, EU Directive 96/61/EC officially introduced the goal of a reduction and prevention of environmental pollution. Accelerated by the changes in the German government in 1998 when the Green Party got elected and assigned the Ministry of the Environment, several regulatory initiatives proceeded: (1) Phase-out of nuclear power, (2) reduction of greenhouse gases through installation of a trading scheme for emission rights, and (3) the encouragement of renewable energies.

Altogether, regulatory changes on competitive and environmental issues led to dramatic changes in the environment of energy companies, especially for the big interregional companies. Since the impact is biggest for them, they seem to be best suited to function as case companies. Out of the former eight, only four are left to date: E.ON (which resulted from the merger of Veba and Viag), RWE (having merged with VEW), EnBW (now part of French EdF), and Vattenfall (having acquired HEW, VEAG and BEWAG).

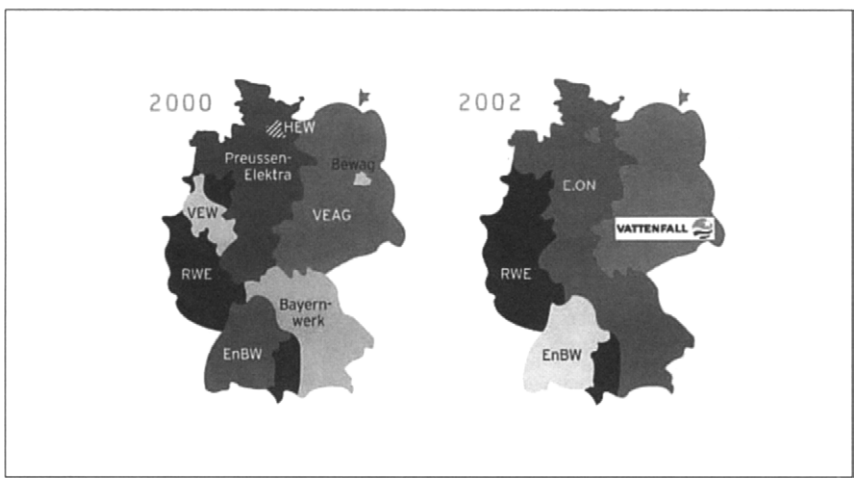


Figure 4-1: Market consolidation in the German energy sector

Only two of the remaining utilities, E.ON and RWE, have independent headquarters in Germany. For several reasons, they are better suited for our study. First, they can act much more autonomously and they play the most active role in the reshaping of the German (if not European) energy market. Second, they both not only defended their home markets, but also seized growth opportunities in foreign countries (UK, USA, Scandinavia and others). Finally, both engaged in immense restructuring and portfolio reconfiguration during the last years. We also suggest that the perspective of an incumbent defendant is more interesting and richer than that of new market entrants for the purpose of this study. While both RWE and E.ON would have been suitable case companies, we opted for E.ON because of the impressive Mergers & Acquisitions history, turning well above 80bn Euro between 2000 and 2003 and still actively shaping the portfolio. Second, E.ON seems to be more energy-focused than its rival RWE, with significant shares in water and environmental services. Finally, the structural measures initiated after the changes in the regulatory environment, e.g., the installation of a corporate center function regulatory management, seem to be very interesting and fruitful for our research.

4.2 Introduction to the selected case company: E.ON

E.ON was born on June 16, 2000 when the merger between Veba and Viag was enlisted in the German Commercial Register.[35] It brought together two large conglomerates with a consolidated turnover of more than 70 bn Euro, and united two of the strongest interregional energy utilities in Germany. From the beginning the history of the two companies was greatly influenced by politics. Veba was founded by the state of Prussia in 1929 as a holding for state-owned electricity and mining interests. Viag was founded by the government in Berlin in the year 1923 as a holding company for diverse operations such as power generation, fertilizers, aluminum, and packaging. Both companies were privatized in two stages: 75% of the state owned shares in Veba that were sold in a public offering in 1965, the rest in 1987. Viag's privatization was realized in 1986 and 1988.[36]

While state ownership decreased, influence of the regulatory environment remained strong and greatly influenced the strategy of the firm. While assuring stable profits, growth options within the energy sector were traditionally unavailable. This fact led to a diversification of both companies. By 1998, Veba had operations in seven business

[35] For more information on the case company, please also refer to Reinhardt and Frankenberger (forthcoming).

[36] Source: Joint Merger Report of the Boards of Management of Veba AG and of Viag AG (Germany, 1999).

units (electricity, oil, chemicals, telecommunications, real estate, logistics, and electronics), while Viag was active in five business areas (energy, telecommunications, chemicals, packaging, and aluminum). While the combined energy business only accounted for less than 20% of 1999 sales, roughly two thirds of the profits arose from that segment that held a net profit margin of about 20% both at Veba and Viag.[37]

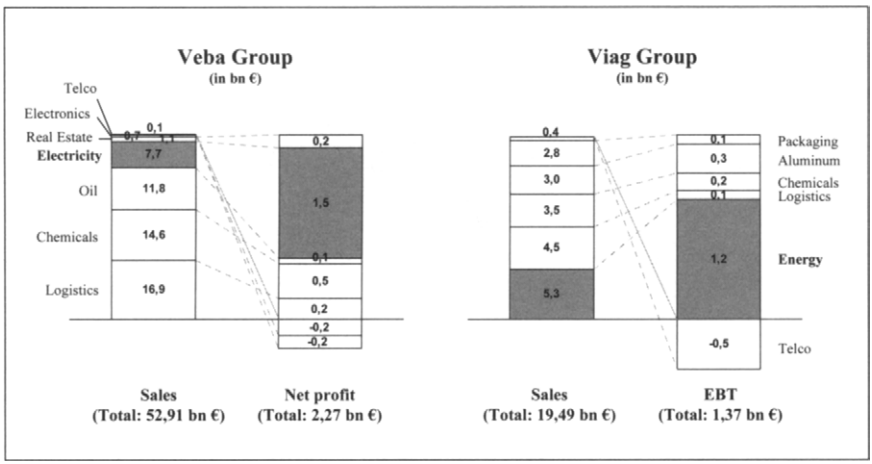


Figure 4-2: Sales and profit split in 1999 of Veba and Viag
(Source: Annual reports 1999)

Starting in 1998, Veba decided to concentrate their activities and start a "*focus and growth*" strategy on the business units of energy, chemicals and telecommunication. Viag formulated a "*two pillars philosophy*" leading to a reduction of the diversification degree, while remaining vague about the future direction. The first pillar (Service) consisted of two goals: first, to become a European leader in energy, and second, to belong to the Top 3 telecom providers in selected countries. As for the second pillar (Innovative Industries) the focus was set on specialty-chemicals and life-science. For aluminum and packaging a "*value maximizing*" strategy was formulated. The logistics business was clearly put at disposition. With the realization of the merger between the two companies the strategy of focus and growth was reinforced.

From June 2000 on, a clear focus on the two businesses (energy and chemicals) was established. The objective was to develop into a "*multi-utility European Powerhouse*" and "*world leading specialty chemicals group*". Telecom was considered an "*important business unit*", yet a stock market placement (not further specified) was sched-

[37] Please refer to the Annual Report of Viag and Veba for the year 1999

uled to begin as soon as possible. The real estate business received the tag of a complementary business unit; all the other business units were up for value maximization and divestiture.

E.ON strategy according to application for official quotation (June 2000)

- **Overarching objectives: Focus strategy, active portfolio management, value growth, active player in consolidation process**
- **Clearly focused company with two core businesses: Energy and Chemicals**
  - Multi-utility European Power House (electricity, gas, water, oil)
  - World-leading speciality chemicals group with active portfolio management
- **Telecom as "important business unit"**
  - Development according to prior strategic and financial planning
  - Stock market placement as soon as possible (indefinite share)
- **Real Estate as "complementary business unit"**
  - Growing contribution to the group's profit
  - Reorientation towards integrated real estate group
  - Value added services linking with the core energy business
- **Other activities (logistics, aluminum, packaging, electronics) to be value-maximized and divested at „suitable time." Sales revenues to be used to grow core business**

Figure 4-3: E.ON strategy according to the merger concept
(Source: Application for official quotation, "Börsenzulassungsprospekt", June 2000)

The strategy of focus and growth was further refined during the time between June 2000 and July 2001, resulting in a company with a clear strategic focus on electricity and gas. Even parts of the energy business (oil) and the chemicals unit, as well as the telecom business and the other activities, had been sold or put on the list for divestitures. The vision of getting a global powerhouse was defined. This included the objective to develop into a pure-play energy service provider holding a global leadership position. A best-in-class aspiration was set with a focus on cost leadership and customer service. Finally, the convergence of electricity and gas was recognized and included in the strategy of the firm. While non-utility activities were set for disposal, value-creating acquisitions to support the leading European position and to further globalize the business were targeted, with a focus on a broad expansion within Europe and selected global acquisitions, mainly in the US. Looking back, one can state that within only four years (mid 1997 to mid 2001) E.ON – respectively Veba and Viag – developed from a diversified industrial conglomerate into a much focused, multinational, multi-utility energy group.

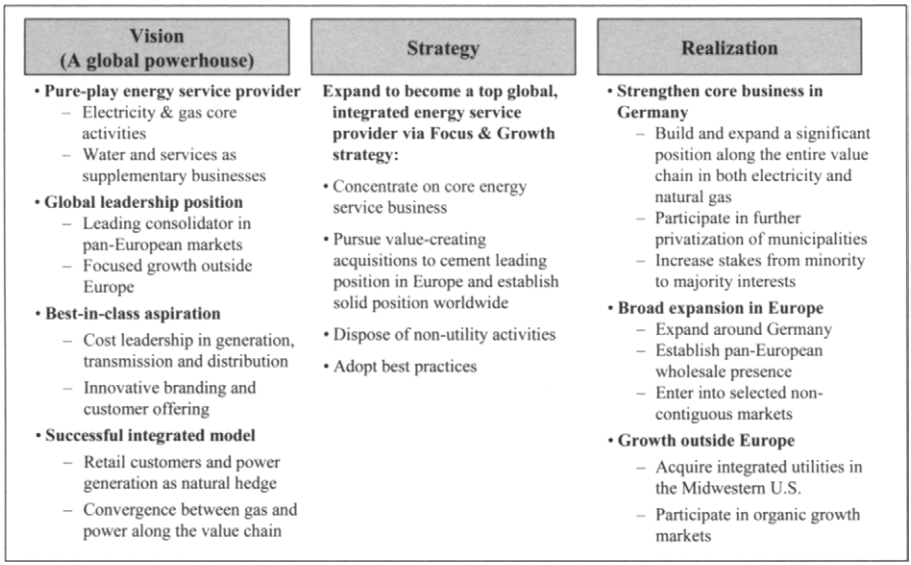


Figure 4-4: E.ON strategy on July 2001
(Source: E.ON "Strategy and key figures", 2002:9-11)

Having realized the focus and growth strategy by mid 2003, a new strategy, labeled "*Integration & performance*", became active on May 1, 2003. At that date, Wulf Bernotat took over from Ulrich Hartmann as CEO of the firm. While the company had invested and divested more than 80 bn Euro in the preceding years, the focus shifted towards the integration of the acquired companies and the realization of synergies across the group. The headquarters of the firm developed from a pure financial holding into a management holding. Corporate headquarter functions were installed in order to assure the transfer of best practices, to achieve goals of operational excellence, and to realize efficient regulatory management. Strategic market management developed into a central goal of the firm; acquisitions were only considered on a much smaller scale and focused on the regions of Central Europe, Scandinavia, UK, and US Midwest. Sales for 2003 totaled to ca. 46.5 bn Euro, with 22.5bn Euro realized by E.ON Energie, 12 bn Euro by Ruhrgas, 10 bn by Powergen, and only the remaining 2bn by non-utility activities (Viterra and Degussa).

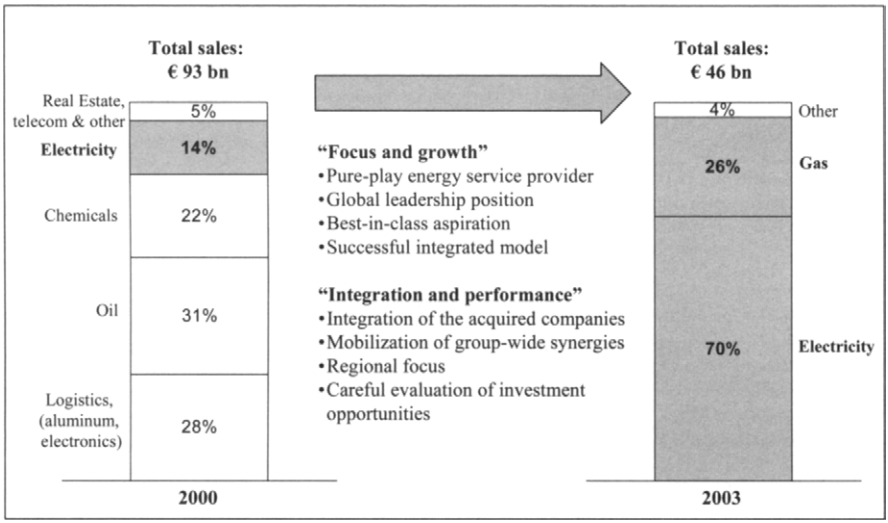


Figure 4-5: Strategic transformation at E.ON 2000-2003
(Source: Annual reports 2000, 2003)

4.3 German energy sector

Before presenting the regulatory initiatives that are of central importance for this dissertation (chapter 4.3.2), we will briefly introduce the energy value chain and related generic business models (chapter 4.3.1). This is necessary in order to understand the scope of market opening, which at present refers primarily to a non-discriminatory access to the transmission and distribution network. The calls for regulation clearly focus on this part of the value chain, and not on generation or sales.

4.3.1 Introduction

Prior to market liberalization, demarcation agreements and regional monopolies protected incumbent utilities. While the interregional companies (interregionals) were primarily concerned with the generation and transmission of electricity (and gas), regional and local utilities took care of the distribution and retail of electricity/gas. Fixed contracts between interregional utilities and regional/local ones determined and protected the sources of energy. While regional and local utilities did not have a choice regarding their energy supplier (interregional), the end user did not have a choice on the regional or local utility. Consequently, a sales function was not required. The interregionals owned and still own the transmission network; regional and local utilities

owned and still own the distribution network.[38] With market liberalization, the environment for the incumbents changed dramatically: new entrants - mostly in form of energy retailers - challenged the established players. Those started to invest downstream on the value chain, shifted their focus towards the end user, and tried to protect their assets, most importantly their networks. While competition on the level of generation and retail is realized to date, distribution and especially transmission require a system of non-discriminatory third party access (TPA) to achieve fair competition.

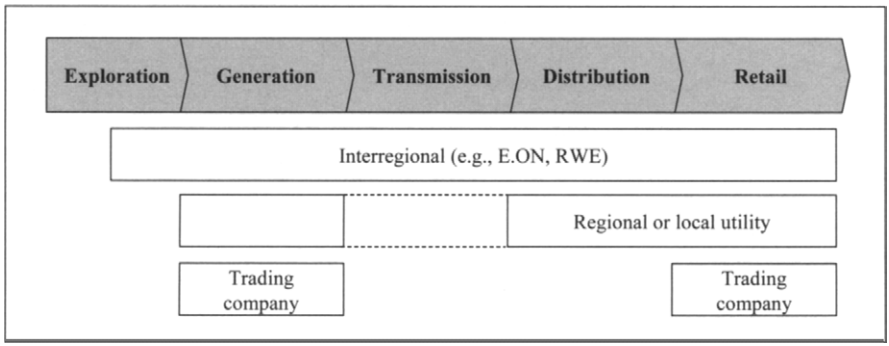


Figure 4-6: Energy value chain and generic business models

4.3.2 Regulatory initiatives as triggers of change

Press research, expert interviews and industry conference screenings suggest that the changes in the regulatory environment of the German energy industry were primarily driven by five initiatives concerning both environmental and competitive issues. Environmental issues consist of the three separate but inter-linked initiatives of renewable energy, nuclear power, and emission trading. Competitive issues include market opening and anti-trust legislation. While differing in the way and extent to which they influence the incumbent energy firm, they all represent regulatory shifts that force the firms to react. An evaluation of their particular relevance for this study will follow in chapter 6.1.5.

Issue	Objective	Regulatory basis
Renewable Energies	Increase share of renewable energy (solar, biomass, geothermal, wind, etc.): 4.2% of total primary energy supply, 12.5% of power consump-	Renewable Energy Law from March 29, 2000 "Gesetzes zur Neuregelung des Rechts der Erneuerbaren Energien im Strombereich", effective since August 1, 2004

[38] The transmission network is used for long distance transport from the locus of generation to the locus of demand and operates at the high voltage level. The distribution network, on the other hand, covers the last kilometres to the end-user and operates at a lower voltage level.

	tion by 2010 (20% by 2020)	
Nuclear Power	Phasing out of nuclear energy within the following decades (maximum of 32 years of remaining production time)	Amendment of the Nuclear Power Law of April 27, 2002
Emission Trading	Reduce greenhouse gas emissions by 8% (throughout the EU) by 2008-2012 compared to the level of 1990, according to the Kyoto Protocol Germany committed itself to reducing CO2 emissions by 21% by 2008-2012	EU-Directive for trading CO2 emissions allowances adopted on October 23, 2003 "Gesetz über den Handel mit Berechtigungen zur Emission von Treibhausgasen"[39] [TEHG], passed on March 1, 2004. National Allocation Plan as of May 28, 2004 Start of trading on January 1, 2005
Market Opening	Realize an open internal (EU) electricity (and gas) market. Measures: Non-discriminatory grid access, establishment of an independent regulator, unbundling	EU Directive on Internal (Gas and) Electricity effective since August 4, 2003 Transposition into National Law by July 25, 2005 (one year later than expected) Electricity and gas markets to be fully open to competition by July 1, 2007
Anti-trust	Limit market power of the dominating players in order to protect the customers	EU legislation for large mergers[40] according to the Council Regulation (EC) No 139/2004 of January 20, 2004. National legislation according to the law against competition restraints "Gesetz gegen Wettbewerbsbeschränkungen (GWB)", effective since January 1, 1999; and) and "Wertpapierübernahmegesetz (WpÜg)" last amended on November 25, 2003

Figure 4-7: Overview of the five regulatory initiatives considered

(1) Renewable energies. Directive 2001/77/EC of the European Parliament and of the Council issued on September 27, 2001 seeks to increase the proportion of electricity produced from renewable energy sources in terms of a percentage of electricity consumption by 2010 to 22% throughout Europe.[41] Due to the natural potential of renewable energy sources in Germany, this translates into a national target of 12.5%. The logic behind this objective is the potential for the exploitation of renewable energy sources, which are underused in the Community at

[39] Also called "Treibhausgasemissionshandelsgesetz".

[40] The European Commission has exclusive jurisdiction over mergers between firms, with a combined worldwide turnover of at least 5 billion Euros and a turnover within the European Economic Area of more than 250 million Euros each. If the companies concerned have more than two-thirds of their European turnover in a single EU country, the merger is examined by the competition authority of that country because the latter is better placed than the Commission to examine its potential effects.

[41] "Renewable energy sources shall mean renewable non-fossil energy sources (wind, solar, geothermal, wave, tidal, hydropower, biomass, landfill gas, sewage treatment plant gas and biogases)" (Directive 2001/77/EC, article 2a).

present. This is considered to be a priority measure to achieve environmental protection and sustainable development. Based on EU legislation, Germany passed two important laws: the Renewable Energy Sources Act[42] in 2000, and its amendment, the Amending Law to the Renewable Energy Sources Act[43] realized in 2004. Both specify the general conditions to enhance the generation, transmission, distribution, and retail of electricity from renewable sources. According to the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) (2004), the act is one of the most effective and efficient instruments for climate protection in Germany. In 2003, for instance, carbon dioxide emissions were reduced by the amount of about 53 million tons due to the use of renewable energy sources, wherefore 23 million were attributed to the effects of the act. In 2010, the act is supposed to lead to a reduction of at least 40 million tons. For energy incumbents such as E.ON, the impact refers to the energy mix of the company's electricity generation on the one hand, and the terms of in-feed from alternative energy into the transmission grid of E.ON on the other hand.

(2) Nuclear power. With the change in the German government in 1998 resulting in the Green Party becoming part of the ruling coalition, energy policy regarding nuclear power changed significantly. On April 27, 2002 the New Atomic Energy Act[44] entered into force, making fundamental changes to the 1959 Atomic Energy Act: Instead of promoting nuclear energy, the purpose of the act is now to phase out nuclear energy generation in a structured manner. After long and controversial debates, nuclear power plant operators (E.ON, RWE, EnBW, and HEW) accepted the decision of the German Government to phase out nuclear energy in a joint agreement.[45] The New Atomic Energy Act legally secures this agreement. The key points of the act are: (1) Construction of new commercial nuclear power plants is banned; (2) the residual operating life of existing nuclear power plants (NPPs) is restricted to 32 years from the time of the plant's start up; (3) a maximum permitted residual electricity volume for each individual nuclear power plant is laid down; (4) the electricity volumes of older NPPs can be transferred to newer plants; (5) operators are obligated to erect and use interim storage facilities for spent fuel rods at the location of the NPP; and (6) there will be a ban on transports of irradiated fuel rods from nuclear power plants to reprocessing plants starting on July 1, 2005.

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[42] "Gesetz für den Vorrang Erneuerbarer Energien" (Erneuerbare-Energien-Gesetz) [EEG] ("Act on Granting Priority to Renewable Energy Sources"). Passed by the German Bundestag on February 25, 2000.

[43] "Entwurf eines Gesetzes zur Neuregelung des Rechts der Erneuerbaren Energien im Strombereich" [EEG-Novelle]. Passed by the German Bundestag on April 2, 2004. Effective since August 1, 2004.

[44] "Entwurf eines Gesetzes zur geordneten Beendigung der Kernenergienutzung zur gewerblichen Erzeugung von Elektrizität" ("Act on the structured phase-out of the utilisation of nuclear energy for the commercial generation of electricity"). Passed by the German Bundestag on December 14, 2001.

[45] "Vereinbarung zwischen der Bundesregierung und den Energieversorgungsunternehmen", signed on June 14, 2000.

This will cause a drastic reduction in transports of nuclear waste.[46] Despite the legal foundation of the nuclear energy phase-out, the topic remains contentious, not only between energy supplier and government, but also between national and regional governments and across political parties. For instance, the government of the Bavarian State has developed its own energy concept, which calls for the renunciation of the nuclear energy phase-out agreement. This illustrates that the conservative opposition parties CDU and CSU hold a different position and thus, after their part victory in the 2005 elections, a change of government could also signify the end of the nuclear energy phase-out.[47] This fact does not facilitate planning for energy utilities such as E.ON. Yet, at present, all parties agree on the given commitments, and all public discussion on the issue has been abandoned for the time being.

(3) Emission trading. The installation of a trading system for emission rights goes back to EU Directive 93/389/EWG, which contained the decision to establish a system of observing emissions of CO2 and other greenhouse gases (GHG). On a global level, the Kyoto protocol of 1997 established clear objectives for the reduction of greenhouse gas emissions: Compared to 1990, GHGs were supposed to decrease by 8% within the period from 2008 to 2012 (target for EU as a whole). While some countries, most prominently the USA, have not yet signed the protocol, the German government aims for a reduction of 21%. In 2003, the European Commission passed Directive 2003/87/EC[48], which instructs the member states to establish an emissions trading scheme (ETS) through January 1, 2005. The rationale of emissions trading is to transform the atmosphere into a commodity that is related to costs; emissions of GHGs are therefore linked with the holding of allowances for those emissions. The ETS mechanism is comprised of a so-called "cap" and "trade" system. A cap system indicates that the absolute amount of emission allowances is limited. This limitation is determined by the government and the defined reduction targets (21% in the case of Germany) that are transferred to single companies through the national allocation plan. Trade system refers to the case where every company is endowed only with a basic configuration of allowances for GHG emissions. If this basic configuration cannot satisfy the requirements, the company has two options. The first is to reduce emissions in order to meet the cap; the second is to purchase additional allowances, wherefore the possibility to trade such allowances must exist. This system provides

[46] In practice, such transports will be limited to the return of German nuclear waste from reprocessing. The German Government is obligated to take back Germany's nuclear waste stored abroad.

[47] After the step back of Chancellor Schröder and re-elections on September 18, 2005, the ruling coalition of SPD and Green Party lost their majority. CDU/CSU became the strongest party and will lead the future government. At the moment when this dissertation is edited (October 5, 2005), there has not yet been a decision on the future coalitions.

[48] Directive 2003/87/EC of the European Parliament and the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC.

economic incentives for companies to reduce or eliminate their emissions in order to minimize costs. By reducing emissions to a level below their limit, companies can sell the excess of allowances to other companies or have them credited for future use. As a company's interest in reducing emissions, selling, or purchasing allowances largely depends on the price at which emission allowances are traded, market mechanisms cause emission reduction to take place where it is most efficient.[49]

In Germany, the following initiatives were passed to fulfill the European requirements. On March 10, 2004, the German Bundestag passed the following law on the trading of emission rights, *Gesetz über den Handel mit Berechtigungen zur Emission von Treibhausgase*[50] [TEHG], which represents the principle law for the implementation of the EU Directive. As a by-law of the TEHG, the German Bundestag passed the *Verordnung zur Umsetzung der Emissionshandels-Richtlinie für Anlagen nach dem Bundes-Immissionsschutzgesetz,*[51] which adds guidelines for monitoring and reporting obligations. On March 31, 2004 the government adopted the first National Allocation Plan (NAP) in order to meet the EU Directive on schedule. After subsequent improvements, especially in the coal sector,[52] the German Bundestag passed the law on the national allocation plan, *Gesetz über den Nationalen Zuteilungsplan für Treibhausgas-Emissionsberechtigungen in der Zuteilungsperiode 2005 bis 2007* (NAPG), on May 28, 2004. While the period from 2005 to 2007 functions as a test period, the second phase (based on a new allocation plan) is expected to actually lead to the targeted reduction of GHG emissions. For large energy utilities such as E.ON, the system for trading emission rights represents a significant potential cost factor that needs to be considered in strategic planning activities.

(4) Anti-trust. On January 20, 2004, the Council of Ministers adopted Council Regulation (EC) No 139/2004 concerning the control of concentrations between undertakings.[53] This new regulation significantly increased the powers of the Commission to review and, if necessary, block transactions having a Community dimension, while at the same time bringing more flexibility to the review process. The objective was to ensure that the process of reorganization does not result in lasting damage to competition: "*A concentration which would significantly impede effective competition, in the common market or in a substantial part of it, in*

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[49] While the emission certificate-trading scheme is supposed to function as described, there is a controversial discussion on its effectiveness among political, corporate, scientific and social actors.

[50] Also called "*Treibhausgasemissionshandelsgesetz*".

[51] To meet the "*Bundes-Immisionsschutzgesetz*".

[52] For details about the remedies see "*Beschlussempfehlung des Vermittlungsausschusses*" (2004).

[53] Also called "the EC Merger Regulation"; entered into force on May 1, 2004. This regulation replaces Regulation No 4064/89 of 21 December 1989 on the control of concentrations between undertakings.

particular as a result of the creation or strengthening of a dominant position, shall be declared incompatible with the common market" (Regulation No 139/2004, article 2 para. (3)). Together with the EC Merger Regulation, the Commission has published guidelines on the assessment of horizontal mergers,[54] which contain detailed information about the analytical approach that will be adopted by the Commission when reviewing mergers between actual or potential competitors in the same relevant market. The guidelines in particular provide information about: the Commission's appraisal of the different unilateral and coordinated effects that may result from a transaction; how the Commission will approach a potential entry analysis, countervailing buying power claims; and the efficiency defense. In Germany, the legal basis for the examination of concentrations is the Act against Restraints of Competition [ARC].[55] The exclusive responsibility for mergers that do no fall under EU control is assumed by the Federal Cartel Offices of Germany. Yet, in several cases the Ministry of the Economy tried to influence or overrule decisions of the cartel office. For example, the merger between E.ON and Ruhrgas was first banned by the Cartel Office, but then accredited through ministerial approval. This, in turn, resulted in a complaint by several competitors to the Supreme Court in Düsseldorf ("Oberlandesgericht"). In the end, an extrajudicial agreement was reached between E.ON and the competitors. This case, above all, highlights the sometimes ambiguous objectives of anti-trust regulation: On the one hand, market-dominating positions shall be avoided to protect consumer interests and fair prices, on the other hand, national or European champions are protected in order to support domestic players and employers. It also highlights the conflict between governments and their regulatory authorities that do not always stand on the same side.

(5) Market opening. For a long time, the dominant opinion held that the electricity market as a whole is described by a natural monopoly. However, distinguishing between the four successive activities along the value chain – generation, high-voltage transmission, low-voltage distribution, and retail – only transmission and distribution are natural monopolies (Joskow and Schmalensee, 1983; Vogelsang, 1993). Generation and retail, however, are competitive stages and therefore predestined for an opening for competition (Egger, 1997). However, prior to its fundamental reorganization through the Industry Law Revision Act[56] in 1998, the German electricity market was characterized by energy-supply companies ("Elektrizitätsversorgungsunternehmen EVU") with a monopolistic supply task in supply areas contractually

[54] "Guidelines on the assessment of horizontal mergers under the Council Regulation on the control of concentrations between undertakings."

[55] "Gesetz gegen Wettbewerbsbeschränkungen" [GWB]. Passed by the German Bundestag on August 26, 1998.

[56] *Energierechtsnovelle*, amending law to the *Energiewirtschaftsgesetz* [EnWG]. Passed by the German Bundestag on April 24, 1998.

delimited from each other. These monopolistic supply tasks, however, also implied a duty aiming for a secure and economical supply of electricity (Fritz and König, 2000). In 1996 the EU Directive 96/92/EC[57] required a market opening of the European and German electricity market in order to "*increase efficiency in the production, transmission and distribution of this product, while reinforcing security of supply and the competitiveness of the European economy and respecting environmental protection*". As indicated above, only transmission and distribution are monopolistic and cause market failure if not regulated (Brunekreeft and Keller, 2004). For this reason, special attention has been given to those two sectors. As a result of market opening, end users should receive free choice of suppliers. The EU Directive required at least 35% of the market to be opened by 2003. Up to date, most countries realized 100% free custumer choice by now, at least in theory.[58]

On June 26, 2003 Directive 2003/54/EC[59] entered into force as an amendment to Directive 96/92/EC. Both Directives focus on three main points, which are discussed below: (5.1) Liberalization of generation stage, (5.2) access regime, and (5.3) vertical unbundling.

(5.1) Liberalization of generation stage. Legal entry barriers at the generation stage have been completely removed. Directive 96/92/EC provided for a gradual market opening in three steps: the first on February 19, 1999, the second step on February 19, 2000 and the third step on February 19, 2003. For the construction of new generating capacity, the member states are/will be able to choose between two different procedures or a mixture of the two. The first is the so-called authorization procedure, which requires member states to set up published criteria for the grant of authorizations. Those criteria include safety and security, protection of the environment, energy efficiency, economic and financial capabilities, and public service obligations (Directive 2003/54/EC, article 6). Second, there is a tendering procedure that allows member states to plan the construction of new capacity. Member states are required to develop an inventory of new capacity to be constructed, including replacement of old capacity (Directive 2003/54/EC, article 7). Details for the tendering procedure need to be published at least six months prior to the closing date for the tenders. Both procedures shall follow objective, transparent and non-discriminatory criteria. The difference between the two procedures is that in the tendering procedure the member state sets up an inventory of the need for future generating capacity, and the supplier who best fulfills the specified criteria is chosen. As for

[57] Directive 96/92/EC of the European Parliament and of the Council of 19 December 1996 concerns common rules for the internal market in electricity. It entered into force two months later on February 19, 1997.

[58] Source: EU Commission as of December 31, 2004; appeared in E.ON AG, Strategy and Key Figures 2005 (accessible via Internet at www.eon.com).

[59] Directive 2003/54/EC of the European Parliament and of the Council of 26 June 2003 concerns common rules for the internal market in electricity and repeals Directive 96/92/EC.

the authorization procedure, anyone fulfilling the published criteria or technical conditions is allowed to enter the market and build a power plant.

(5.2) Access regime. Non-discriminatory network access is crucial for a competitive level playing field. Article 20 of Directive 2003/54/EC declares that member states have to implement a system of third party access (TPA) to the transmission and distribution networks based on published tariffs, applicable to all eligible customers and applied objectively and without discrimination between system users. Furthermore these tariffs have to be approved prior to their entry into force (ex ante). Directive 96/92/EC allowed countries to choose between regulated and negotiated third party access; the latter being equal to self-regulation.[60] With Directive 2003/54/EC, all member states have been required to install one ore more regulatory authorities who have to be independent from the interests of the electricity industry (article 23) and who are responsible for monitoring and ensuring non-discriminative, competitive and efficient market functioning. In March 2003, therefore, the German government announced the establishment of a regulator by July 2004.[61]

(5.3) Vertical unbundling. Vertical unbundling refers to a separation of the different value chain activities, most importantly the transmission and distribution activities. The rationale for unbundling is the conflict of interest that arises if the network operator also owns generation and retail activities, as this may lead to discrimination against third parties (with regard to grid access). Furthermore, cross-subsidies between the different activities, or in other words, a cost split that attributes high shares of overhead to the network activities, might artificially increase network access fees, and thus exacerbate competition. EU Directive 2003/54/EC requires legal unbundling both of transmission system operators (articles 10 and 12) and distribution network operators (articles 15 and 16). Thereby, the transmission system operator and distribution network operator "*shall be independent at least in terms of its legal forms, organization and decision making*" (articles 10 and 15, respectively). Furthermore, these articles specify that the management of the transmission system operators and distribution network operators shall not participate in company structures of the integrated electricity undertaking. This means that management decisions should be exempt from conflicts of interest. Since fair access to network capacity is one of the single most important pre-conditions for competition, vertical unbundling is a central measure for the success of market opening.

In Germany, the Energy Industry Law Revision Act was adopted by the German Bundestag and went into force on April 29, 1998. As a consequence of Directive 2003/54 EC, the Ger-

[60] Germany was the only member state that had chosen negotiated third party access.

[61] Although generally agreed upon, the regulator only started working on July 1, 2005.

man government is currently working on a new revision of the Industry Law act.[62] For incumbent utilities such as E.ON, market liberalization in 1998 first opened up new growth opportunities in Germany and abroad. The merger between Veba and Viag and the acquisition of Ruhrgas enhanced the market position of E.ON, and fostered the leading position in Germany and Europe. The 1998 Energy Industry Law Revision Act also led to greater efficiency and cost-saving measures that further improved the competitive position of the firm. On the other hand, unbundling activities and political pressure on network access fees and energy prices increased. Despite all market opening efforts, the German electricity market is dominated by four large interregionals. E.ON AG and RWE AG together hold a dominant market share of 60%; EnBW AG and Vattenfall Europe AG add another 20%.

4.4 Actors in the field

Having presented E.ON and the regulatory environment of the German energy industry, we so far have focused on the case company (as large incumbent) and the relevant political and regulatory actors. As mentioned above, however, there are many more actors involved in the formation of the institutional environment, and many more actors hold interest in the field. This chapter will briefly introduce the level playing field and the most important actor groups.

Presenting the different actors – or stakeholders – of the focal organization, we refer to existing frameworks in literature (Donaldson and Preston, 1995; Post et al., 2002; Müller-Stewens and Lechner, 2003a) and apply it to the situation in the energy industry.

[62] "Entwurf eines Gesetzes zur Neufassung des Energiewirtschaftsrechts". The latest version was announced on February 25, 2004.

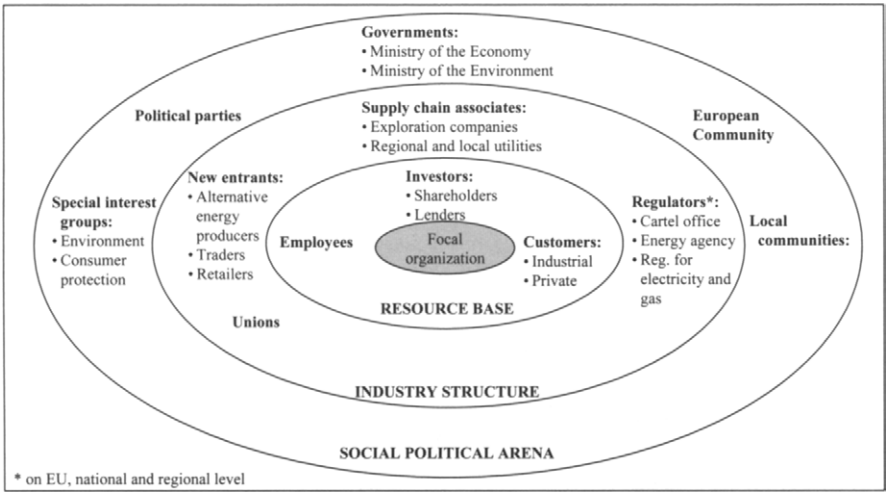


Figure 4-8: Stakeholders in the energy industry
Source: adapted from Post et al. (2002)

Based on the distinction by Post et al. (2002), we distinguish between stakeholders within the following three dimensions: resource base, industry structure, and social-political arena. All of them pursue specific interests that may be in line with the focal organization's (in our case incumbent E.ON) interest, or they might be opposed. All of the stakeholders form coalitions around common interests, and all of them should be considered by the focal organization. In addition to the depicted actors, there are also numerous industry associations that promote the interests of their members (e.g., VDEW, VDI, VIK, etc.). Since they do not pursue their own interests, they are not considered stakeholders of the focal organization; yet they need to be considered as powerful, external actors, who might help or hinder the focal organization's interests.

The following paragraphs represent a neutral introduction of the different actor groups. Although actors from all spheres are included (resource base, industry structure, sociopolitical environment) this dissertation focuses on the relation between political actors (governments and regulators) and the incumbent energy firm. In order to understand the full picture, however, other actor groups are included where appropriate. Remember also that different interests and coalitions might exist across the five regulatory initiatives under investigation. A detailed discussion including positions, roles, interactions and institutional creation can be found in the results section (chapter 6).

Resource base. (1) As in all firms, the employees represent a central determinant of success for the corporation. In the specific case – elaborating on the influence of regu-

latory involvement on corporate strategy and structure – we suggest the interests of the employees (safety of the workplace, good working climate, fair remuneration, etc.) can be aligned with the goals of the focal organization. Being part of the internal context of the firm, we will further assume that the interests of the firm are equal to those of their employees, although we acknowledge that this may not be the case in reality. Intrinsic values and norms in the cognitive maps of the individual might counteract the interests of the firm.[63] This topic, however, is not part of the dissertation.

(2) Investors, both shareholders and lenders, aim for value generation and safe paybacks of their credits. In both cases, a company's profitability is of central interest to this group of shareholders. As such, they are in line with the incumbent corporation's efforts to keep the privileges of the past and protect the profits. They might be positioned at the opposite end of the continuum from political actors, and for corporate management the balancing of the interests of those two important stakeholder groups is a central task.

(3) Customers are primarily interested in pricing and security of supply. While the latter supposedly will be shared by the incumbent energy firm, the former is significantly opposed to the corporation's interests. Industrial consumers are currently attacking the development of electricity prices and call for a much stricter enforcement of market liberalization. They link their argumentation with the current discussion about the industrial site in Germany and put political pressure on incumbent energy utilities.

Industry structure. (4) Unions, as the voice of the workers and salaried employees in general, argue for the interests of their members and for the working community at large. However, their arguments might not always be in line with the workers' council of the focal organization. Having their own voice and interests, we consider them as a separate group of stakeholders. In the specific case of this dissertation's topic, we hold that they are of minor importance, since the above-mentioned interests of employees are shared on another level. However, depending on what industry group the union represents (e.g., industrial consumer in high energy-consuming industries), they might engage in lobbying against the focal corporation's interest.

(5) New entrants, by definition, challenge the incumbent monopolies and pursue divergent interests. Requesting a full market opening, they aim at gaining market share at the expense of the incumbents. They introduce and increase competition and can be

[63] As employee, you might be most concerned about the safety of your job, but as father of three children you might support environmental issues that are opposed to the interests of the firm.

considered natural rivals of the incumbent. Aside from competitive market strategies, they fight on the political, non-market scene to promote their interests.

(6) Supply chain associates tend to have interests closer to those of the incumbents. Exploration companies (mostly multinational giants themselves) are closer because they are looking for market opportunities and stable relationships. Regional and local utilities are closely related to incumbents, because they share a somewhat common history with protection from competition themselves; additionally, there have traditionally been strong financial links between the two parties.

(7) Regulatory authorities, in the case of the energy industry, tend to challenge the incumbent and act in order to encourage competition, since they feel that their objectives (e.g., efficient energy system with low prices) are best achieved this way. Cartel offices survey the adherence to anti-trust legislation; the regulator for electricity and gas is responsible for assuring non-discriminatory grid access and fair transmission pricing; and the energy agency deals with total pricing decisions.

Social-political arena. (8) Special interest groups engage in diverse activities to promote their interest. Those might range from political lobbying to activist, radical strategies (as in the case of nuclear power, for example). For our study, environmental protection groups seem to be most important, since the regulatory initiatives on environmental issues introduced above have their support. As for the competitive issues, consumer protection groups critically review price developments and generally argue for lower prices.

(9) Political parties are partially opposed to the interests of the focal organization. The ruling Green party has introduced clear standards to protect the environment. On the other hand, the Liberal party is less stringent on these issues and advocates the strict adherence to the principles of the market economy. Above all, the parties are – or at least should be – the voices of their voters. As such, interests of environmental protection can be found among all parties.

(10) Governments are supposed to set the regulatory framework for the economy. With regard to the situation in the energy industry, opposing standpoints can be found. On the one hand we have the Ministry for the Environment, naturally favoring strict laws against pollution; on the other side is the Ministry for the Economy with a focus on the competitiveness of the national firms, especially the large groups. This leads to a negotiation process between the two ministries in which the actual legislation is decided. Two other factors seem to be worth mentioning: First, the apparent struggle be-

tween legislation and executive, the former being responsible for the installation of regulatory mechanisms, while the latter is in charge of the surveying of the adherence to the laws put in place. Take, for example, the relationship between the government and the federal cartel office. The latter banned the merger between Ruhrgas and E.ON; the former gave ministerial permission. Second, regional and national governments nowadays seem to be most concerned about places of employment, and for this reason they tend to federalize with the interests of large groups on measures that are supposed to keep employment safe.

(11) The European Community develops into a more and more important actor. With regard to both competitive and environmental issues, they initiated directives that formed the basis for the installation of national laws and by-laws. In general, these support interests of free competition and environmental protection and are consequently opposed to the interests of the focal organization.

(12) Local communities, in many cases, still hold shares in the local utilities. This becomes especially interesting when a large utility buys shares in a regional or local utility and then has to negotiate with the communities. In general, local communities are not a very homogeneous group. Nor are they, however, a group from which to expect either extreme pressure or sustainable support.

The following Figure 4-9 summarizes the actor groups, their interests, coherence with the focal organization and their importance for this study. While the overview stays on a general level, certain tendencies can still be identified. First, actors with common interests include employees and investors; the greatest divergence of interests can be found with new market entrants, regulatory authorities and the European Union. The field of political actors (governments, political parties, local communities) is very complex and ambivalent and cannot be categorized easily.

Actor group	Primary interests	Coherence with focal organization	Relevance for this study
(1) Employees	• Safety of the workplace • Good working climate • Fair remuneration	High	Low
(2) Investors	• Profitability • Security of investments • Amortization	High	Medium to high
(3) Customers	• Pricing • Security of supply	Low (for market opening) to high (emission	Medium (industrial customers)

		trading)	
(4) Unions	• Safety of the workplace • Good working climate • Fair remuneration	Depending on industry (energy vs. production)	Low
(5) New entrants	• Market share • Profits • Participation in value generation	Low	Medium
(6) Supply chain associates	• Stability • Reliability	Medium to high	Medium
(7) Regulatory authorities	• Efficiency of the energy system • Fair prices • Competition	Low	High
(8) Special interest groups	• Environmental protection • Prices • Miscellaneous	Low to medium	Low to medium
(9) Political parties	• Job market • Voter support	Medium	Medium to high
(10) Governments	• Job market • Prices • Security of supply	Low (Ministry of the Environment) to high (Ministry of the Economy)	High
(11) EU	• Market opening • Environmental protection	Low	High
(12) Local communities	• Stability • Profits (through participation in local utilities) • Job market • Particular community interests	Medium	Medium

Figure 4-9: Actors, interests and their importance

4.5 Summary and discussion

In order to choose a research setting which offers extreme situations and for which regulatory involvement has always been of significant importance, we selected the German energy sector. After decades of governmental protection, the role of regulation changed dramatically from buffering competition to promoting market opening and change. For the incumbent utilities, this meant that the heretofore safe profits were

threatened through competition in their formerly monopolistic markets. On the other hand, growth opportunities in the energy business were available in their home markets and abroad. Other regulatory initiatives, such as emission trading or the phase-out of nuclear power, triggered significant corporate reactions, too (in terms of both internal alignments and externally directed responses).

The German energy giant E.ON seemed well suited to function as case study company. As a result of shifts in the regulatory environment, the energy group did not only undergo a significant strategic reorientation which resulted in numerous changes in nearly all elements of corporate strategy (internal alignments), the company also actively participated in the creation of the new institutional environment (external responses). Being a highly dynamic organization, we suggest that the company is very well suited to elaborate on the management of regulatory influences on corporate strategy and structure.

The focus of the study was on the relations between large energy incumbents and the actors of the social-political environment: governments, political parties, and the European Union. However, we suggest that the consideration of further external actor groups enriches the findings of this study and is necessary to understand the creation and functioning of the institutional environment. Consequently, we reviewed a significant number of other external stakeholders. First, actors affecting the resource base of the firm: investors who try to defend the incumbents' position in order to secure their own profitability interests; and customers (especially large industry firms) who do not only engage in market transactions with the incumbents or their competitors, but who pursue proper political strategies in order to influence the regulatory environment. Second, actors related to the industry structure such as regulatory authorities: Installed to control the adherence to existing laws and by-laws, they are essential to understand the functioning of the institutional environment.

5 Methodology

In this chapter we will outline the most important methodological issues. After a brief discussion of quantitative and qualitative methodologies (chapter 5.1), we will present the research design of this study (chapter 5.2). Our methodological approach falls into two distinct phases, and since the related research designs and methodologies differ considerably, they will each be discussed in a separate chapter.

Phase I, described in chapter 5.3, consists of an outside-in analysis of resource allocations of the selected case company that have been collected through press research and that were then rated according to their consistency with the extant concept of corporate strategy. This phase deals with research question 1, which analyzes the direct influence of regulatory actors on strategy formation and resource allocations.

Phase II, described in chapter 5.4, refers to the grounded analysis of transcripts from direct interviews with corporate informants and drives our understanding of regulatory influences on corporate strategy and structure one step further. While a first series of 18 interviews formed the empirical basis of this study, a second series of 11 interviews was used to complement and test our findings. This research phase includes both the second part and question of this research, and the third part. Consequently, we elaborate on how exactly and in what sequence external actors influence strategy formation in terms of impacting the six different elements of corporate strategy.[64] Finally, we reverse the influencing logic and ask how the corporation tries to shape its regulatory environment.[65]

Consolidating the results of both phases at the end of the research project, a final step will synthesize the findings, generate general theories and develop testable propositions. Chapter 5.5 will briefly introduce the methodology of this last step.

5.1 General research methodology

While we do not aim at presenting a detailed discussion of qualitative and quantitative research methodologies – which can be found in numerous studies (e.g. Punch 1998,

[64] See chapter 2.1.5 for an explanation of the six elements of corporate strategy: concept of corporate strategy, portfolio configuration, coordination, organizational design, management systems, and leadership and style.

[65] We would like to emphasize once again that we consider the question of how the elements of corporate strategy are aligned following regulatory involvement to be closely linked to the question of how firms react in terms of political influencing strategies. Regulatory involvement triggers both internally directed responses (alignment of corporate strategy) and externally directed influencing strategies.

Marx 2004, or Kownatzki 2002) – we still want to repeat the most important aspects. On this basis, we will then justify the methodology selected for this research endeavor.

5.1.1 Quantitative methodologies

Quantitative research aims to analyze causal relations between numerous pre-defined variables. Frequently, cross-sectional data and variance analysis are employed in order to statistically explain variations in the outcome criteria (dependent variables) through the input factors (independent variables) (Van de Ven and Huber, 1990). Hard methods, based on standardized statistical procedures, are employed on a large, representative sample of data. The art of quantitative research lies in the sharp definition of the underlying research model (dependent and independent variables, as well as possible mediators, moderators and controls) and the development of meaningful hypotheses on specific relations. The actual data analysis is, then, a rather technical procedure. Quantitative methods bear four main advantages (Girtler, 1984; Hart and Bandbury, 1994; Marx, 2004): (1) clear and unambiguous results (hypotheses either supported or rejected), (2) comparability across different studies (due to hard data and standardized analysis) which enhances cumulative research, (3) greater objectivity and reliability due to clear analytical techniques and measures, and (4) high generalizability and external validity (as they are in general based on a large statistical sample).

However, those advantages face an equal number of criticisms (Girtler, 1984): (1) Phenomena internal to the individual or group (interpretation of perceived reality) are mostly neglected due to a strict focus on observations of phenomena external to the individual or group, (2) Quantitative tools are not suited to account for situational and contextual meanings; (3) Quantitative tools are not capable of observing social activities; and (4) There is a danger of false interpretations or irrelevant information (due to pre-defined hypotheses).

5.1.2 Qualitative methodologies

Qualitative research aims to capture authentic experiences in order to explore reality. A major difference to quantitative research is the missing definition of hypotheses and clearly defined dependent and independent variables; consequently, quantitative research has a much narrower focus on a limited number of relations. Conversely, qualitative research tries to depict a holistic picture of reality and aims to develop propositions in the course of the research process. Being much more diverse and fuzzy on analytical issues, the qualitative research process is more open and iterative. Data collection and analysis are interconnected and overlapping (Noda and Bower, 1996). Quali-

tative approaches pursue inductive research, based on soft methods (e.g., interviews or case studies) and interpretive techniques and produce results that are usually very rich and narrative in character. The art of qualitative research is to deal with the enormous amount of information and to extract meaningful findings and generate theories (Weick, 1979).

The general advantages of qualitative methodologies are as follows (Miles and Huberman, 1994): (1) focus on "*naturally occurring, ordinary events in natural settings, on what 'real life' is like*" (Miles and Huberman, 1994:10), including soft issues; (2) rich and holistic data; (3) especially suited for process studies due to long observation period; and (4) well suited for discovering and exploring new areas of research.

On the other hand, qualitative research has several drawbacks, mainly going back to flexible and emergent, rather than clearly defined, methodologies (Katz, 1983; Denzin and Lincoln, 1994). They are: (1) lack of a fixed research design and flexible methods; (2) vulnerability to subjective interpretations of the researcher; (3) limited generalizability of research findings; and (4) difficult reproducibility of studies.

5.1.3 Selection of qualitative methodology with some quantitative elements

Choosing the appropriate methodology is crucial for the success of the research (Yin, 1994; Scandura and Williams, 2000). In our case, qualitative research seems to be most suitable. Looking at (strategy) process, which requires longitudinal observations, qualitative research is most promising (Eisenhardt, 1989). This is mainly because we are interested in the multiple interactions between the different actors of the corporation and of the external environment, most importantly regulatory actors. Qualitative research allows us to take into consideration specific contexts and to elaborate on interactions between multiple actors, which always includes soft issues. As a research problem, political influence activities may be particularly hard to describe using statistical methods. Events are unpredictable and sporadic; outcomes are hard to specify; coalitions are transient; and the environment is extremely complex (Shaffer, 1995). The broad and holistic nature of the research problem further encourages the use of qualitative methods.

From an ontological and epistemological point of view, we employ a post-positivistic approach, which is shared by a substantial body of management and organization scholars (Van Maanen, 1998; Prasad and Prasad, 2002). This means that we understand reality as pre-given but only imperfectly and probabilistically apprehensible. As a consequence, we can never fully comprehend reality but only approximate it (Guba,

1990). This post-positivist position allows us to combine multiple data collection and analysis methods as well as to include various kinds of data (Stablein, 1996) in order to capture as many different facets of an underlying yet unknown reality as possible (Denzin and Lincoln, 1994). For instance, within this study, we use both profound analyses of secondary data and personal interviews with organizational and external informants.

Qualitative procedures that lend themselves to structured and computer-assisted analysis of resource allocation processes are applied (Denzin and Lincoln, 1994). Incidents are coded and transformed into numeric data. Doing so, our methodology transcends the popular but somehow artificial distinction between quantitative and qualitative investigations. This argument is in line with scholars who point to the potential of a synergistic use of different data types (numerical and non-numerical) which might be better suited to cope with the complexities of the objects under investigation (Stablein, 1996).

Selecting the above described research methodology – primarily qualitative – our research is directed towards the development of testable propositions and generalizable theory (Eisenhardt, 1995).[66]

5.2 Research design

The research design describes the strategy, the conceptual framework, the question of who or what will be studied, and the tools for data collection and analysis (Punch, 1998). Since this dissertation contains two different empirical phases, we opted to present the research design along these two phases. Even though they must not be considered to proceed strictly sequentially, it makes sense to separate them as they contain different methodological approaches. Furthermore, they focus on slightly different aspects: Phase I on the question of whether and to what extent strategy formation or corporate resource allocations are influenced by regulatory involvement, Phase II on the questions of how and in what sequence corporate strategy is aligned, and on how the

[66] The mixed research methodology of the dissertation has developed within the ICS project at the University of St.Gallen, which has been functioning as umbrella for all doctoral students at the chair of Prof. G. Müller-Stewens at the Institute of Management. Chapter 5.1.3 is based on the elaborations on the methodological approach of the ICS project. For more information please refer to Müller-Stewens and Schmidt (2003), pages 19ff.

corporation uses externally directed response strategies in order to shape its regulatory environment.[67]

The overarching research strategy is based on a longitudinal retrospective case study within the German energy sector. Data have been collected from various sources: general press research, industry journals and conferences, press releases of the case company, and direct interviews with corporate informants. Data analysis relies on both a computer-based examination of codified resource allocations and on case study narration and theory generation with the help of grounded theory methodologies.

At the end of each of the three parts of our research, we will present propositions related to the according specific research questions. Finally, we will synthesize all findings and generalize them on a more abstract level.

In this chapter, we will first concretize the study design that distinguishes two distinct phases (chapter 5.2.1), and then refer to issue of validity and reliability (chapter 5.2.2). The detailed methodological approaches within the two research phases will then be presented in the following chapters (5.3, 5.4, and 5.5).

5.2.1 Study design: A two-phased approach

As mentioned above, the ultimate objective of the study is to generate propositions and theories on strategy formation – more specifically on the impact of regulatory actors and on how corporations react to that. The goal is to improve integration of external actors into strategy process research.

While the exploratory nature of the research requires an iterative process that generates questions and present propositions at the same time, we still refer to two distinct phases of the project. As mentioned above, within phase I we employ the common methodological approach that has been used across all dissertations within the ICS project (see chapter 5.3). Phase II consists of a grounded theory approach which analyzes the transcripts of the in-depth interviews led by corporate informants at the case company. Figure 5-1 below presents an overview of the focus of interest, unit of analysis, key activities, data sources and analytical strategy for each of the two phases.

[67] Please remember that the first part of this research (first research question) refers to phase I of this study. The second and third part are both included in the second phase of research.

	Phase I: "Resource-based" outside-in analysis	Phase II: "Interview-based" in-depth case study	Synthesis
Focus of interest:	Influences of regulatory actors on strategy formation / resource allocations	– Internal alignment processes on the corporate level (strategy and structure) – Influences of the firm on the institutional environment (externally directed responses)	
Unit of analysis:	Resource allocations	Firm (elements of corporate strategy and corporate political activity	
Key activities:	– Evaluation of corporate strategy development over time – Build up of database and collection of externally available data – Investigation on consistency between stated corp. strategy and actual resource allocations – Identification of relevant regulatory initiatives	– Identification and description of most relevant regulatory initiatives (triggers of change) – Identification and interpretation of internal alignment paths after regulatory involvement – Identification and interpretation of externally directed corporate responses and interaction pattern between corporate and regulatory actors	
Data sources:	– Annual and quarterly reports, road shows, press releases – Newspaper and journal articles	– Weekly press – Interviews with key organizational informants	
Analytical strategy:	– Dynamic analysis of consistency curves for the time between 1995 and 2003	– Case study narration (1995-2005) – Grounded theory, analytic induction	

Figure 5-1: Study design: A two-phased approach

Research in Phase I focuses on the influences of regulatory actors on strategy formation, represented by corporate resource allocations. Primarily we want to see if and to what extent strategy formation is affected by regulatory involvement. We use resource allocations as unit of analysis. Key activities include the overall evaluation of corporate strategy development over time, the buildup of a structured resource allocation database, the collection of data, and the dynamic analysis of consistency between resource allocations and the official concept of corporate strategy. Through an analysis of inconsistent resource allocations, we further try to identify the most relevant regulatory initiatives that impact the corporation. Data sources consist of publicly available data from the case company itself (e.g., annual and quarterly reports). Data from external sources such as newspapers and journals have also been collected to test and complement the information provided by the case company.

Research in Phase II focuses on the question of how strategy formation is influenced. More specifically, we are interested in the internal alignment processes through which the different elements of corporate strategy change following regulatory involvement. Secondly, we are interested in the externally directed corporate responses targeted at influencing the regulatory environment. As unit of analysis we use the firm. On the one hand, we focused on the six elements of corporate strategy that have been introduced in chapter 2.1.5 (concept of corporate strategy, portfolio configuration, coordi-

nation, organizational design, management systems, leadership and style) and that are used for the identification and interpretation of alignment paths. On the other hand, we focused on externally directed corporate response strategies that follow regulatory involvement. In this regard, we aimed at identifying and interpreting corporate political behavior and interaction patterns between corporate and regulatory actors. Prior to analyzing internal alignments or externally directed responses, we identified and described the most important regulatory initiatives that were used as triggers of change and context variables for this second phase of research.[68]

Interviews with corporate informants function as the major data source for this phase of the dissertation. They are supported by information gained through the analysis of weekly press, which adds an external perspective of a public observer to the internal perspective of corporate informants. This also helps us to better elaborate on the interactions between corporate and political or regulatory actors and to understand public discussion on the different regulatory initiatives. Certainly, we also use them to triangulate our findings generated through the analysis of our interview transcripts. The analytical strategy of Phase II consists of case study narration (Eisenhardt, 1989; Pettigrew, 1990) and grounded theory (Glaser and Strauss, 1967; Miles and Huberman, 1994), or more precisely, analytic induction (Hammersley and Atkinson, 1995; Punch, 1998).[69]

The time span of the study ranges from 1995 to 2005. While this implies that large parts of the study had to be undertaken retrospectively, we also have a window of real time observation which started on January, 20, 2004 with the first interview at E.ON and which ended with the last interview conducted on September 30, 2005.[70] This opportunity to "*catch reality in flight*" (Pettigrew, 1990) is supposed to increase the internal validity of our research since we are better able to track cause and effect relations (Leonhard-Barton, 1990). Yet, the core of the study remains a longitudinal retrospective case study approach (Van de Ven and Huber, 1990) that helps to explain the

[68] Hereby, we use the insights generated from the analysis of inconsistent resource allocations conducted during the first phase of this research.

[69] As opposed to pure grounded theory (Strauss and Corbin, 1994), which rejects initial frameworks and fully relies on inductive theory conceptions, analytic induction allows for some guidance and structuration of the data analysis.

[70] A first series of 18 interviews has been conducted between January 20, 2004 and March 9, 2005. Those interviews were transcribed and formed the analytic basis for phase II. A second series of eleven interviews was conducted between September 26 and September 30, 2005 during the preparation of a Harvard Business School Case Study on E.ON (Reinhardt and Frankenberger, forthcoming). These additional interviews with top executives helped to complement our understanding, test our propositions and develop higher-level theories.

temporal sequence in which a discrete set of events occurred based on a story or historical narrative (Abbott, 1988).

5.2.2 Validity and reliability

Validity and reliability of a research design basically refer to four dimensions that investigate the quality of the research (Denzin and Lincoln, 1994): construct validity, internal validity, external validity, and reliability. Although being criteria for quantitative research, they may also be considered for qualitative research that needs to combine systematic procedures with flexible research strategies, since they help to analyze the risk of systematic errors.

First, construct validity refers to the conceptualization and measures of the constructs under investigation. If not achieved, the research might investigate concepts other than the subject of the study. Otherwise, an accurate observation of reality is realized. For our research, we must, for example, assure that alignments of the six elements of corporate strategy are actually caused by regulatory involvement, and not by other factors. We selected the following measures that are all expected to assure construct validity for our research (Yin, 1994). First, we will use multiple sources of evidence including annual reports and press releases, newspapers and journal articles, and personal interviews. Findings derived from grounded analysis of interview transcripts will be verified by extensive analysis of articles appearing in weekly press (see chapter 5.4 for a more detailed description of the methodology). This will help us to triangulate the results of our study (Jick, 1979). Second, we will seek to establish a clear chain of evidence between the question asked, the data collected and the conclusion drawn. We will respond to this by tracing the original regulatory initiative, its impact on strategy formation, and the reactions of corporate actors, and accordingly their interactions with external actors step by step. Finally, we will interact with key informants and conduct a second series of interviews at the end of this dissertation project in order to challenge our assumptions, reflect upon our findings, and close information gaps where necessary.

Second, internal validity refers to the unambiguousness of interpretations of the study results. This means that a researcher must carefully insure that his explanation of the observed phenomena is actually correct. While quantitative research can employ statistical procedures to account for internal validity, we focus on clear research guidelines, especially in phase I, that will be followed by the entire research team. Second, careful case study narration and the establishment of chronological orders of events will help us to achieve internal validity. Third, rooting our findings in existing literature will

help us to avoid misinterpretations. And finally, results will be discussed and cross-checked within the research team and with key informants.

Third, external validity refers to the generalizability of the study findings. While significant criticism of qualitative research – especially for single case studies – arises on this issue, we hold that this is the price for generating new theories. However, we agree that measures should be taken that increase external validity to qualitative research, too. While the reproduction of the case in a different environment would certainly be most fitting, this is not an option within this dissertation. Yet, we will trace and compare the effects of regulatory involvement across two highly independent business units of the case company E.ON, one of which (Ruhrgas) operated as an independent company until its acquisition in the year 2003. Furthermore, we compare our findings across different types of regulatory initiatives. Taken together, we generate sub-cases that increase external validity. And finally, exemplary ad-hoc interviews with representatives of other utility companies (such as E.ON's largest competitor RWE) will help us to develop a more solid theory.

Fourth, reliability refers to the reproducibility of the research findings, i.e., another scholar could independently conduct the same research and would generate the same findings. Especially for phase I, in which a standardized database is set up and clear rules for coding and rating are established and documented in a handbook, we should achieve a fair level of reliability. This is especially true for a qualitative study. For phase II, following a more classical grounded theory approach, reliability is certainly harder to achieve. The use of basic statistics on the density of codes should nevertheless increase the reliability of the study. Backing the primarily creative process of deducting findings from hundreds of pages of interviews with more objective counts on how frequently certain codes and categories appeared in the data will still fail to produce the reliability of a quantitative study, but it should raise the level of reliability one can possibly achieve for a qualitative study. As for all qualitative research endeavors, case study protocols and memos taken after each interview and during the research process should further add to the reliability of this study.

5.3 Phase I: Resource-based outside-in analysis

As mentioned above, Phase I focuses on the question of whether and to what extent regulatory actors influence strategy formation. More precisely, we analyze whether external involvement leads to inconsistency between resource allocations (strategic action) and the official concept of corporate strategy (strategic intent).

The methodology employed goes back to Schmidt (2000) and combines qualitative and quantitative elements (through a transfer of qualitative, non-numerical data into numerical data). It has been used as ground-methodology for all dissertations within the ICS project, and it has also be refined by the research ICS team during the course of the project (Müller-Stewens and Schmidt, 2003b). The combined methodology (qualitative and quantitative) increases the transparency and objectivity of the research, a general weakness of qualitative case study research that has often been criticized (Katz, 1983; Kirk and Miller, 1986; Denzin and Lincoln, 1994). In the course of the project, a structured online-based database has been developed and tested by the members of the ICS project. This helped to deal with the enormous amount of data and enabled the transformation of heterogeneous data into a joint format that supports data collection, processing, analysis, and storage (Van de Ven and Poole, 1990; Poole and Van de Ven, 1999). For each dissertation the database provided the basis for the empirical work. It helped us to get familiar with the case company and to explore first hypotheses for the further research endeavor.

5.3.1 Data collection Phase I

(1) Identification of relevant incidents.

Within the framework of an outside-in analysis, we looked at activities that affect tangible resources that are inherently codable and easy to access, measure, and record from an outside-in perspective. More precisely, we defined five types of resources to be included in the database: financial, physical, human, organizational, and technological. Intangible resources such as brands, images, and skills were not included, but might be the subject of interviews with key organizational informants at a later stage. According to an outside-in approach, relevant material is taken from multiple sources of evidence such as company documents (e.g., annual reports, road shows, etc.), business press articles, and various external research sources (e.g., analyst reports, databases, etc.). This allowed us to gather secondary data that is stable, unobtrusive, exact and broad in coverage. All sources have been physically stored and can be retrieved at any time. This is important since not all information could be included in the online database, and thus the complete records help to retrace the complete history of resource allocations. In order to ensure the validity of collected data, a second researcher has cross-checked the data entries.[71] In addition, information from phase II has been

[71] For the E.ON case, a bachelor thesis was supervised. Data entries were made by both the bachelor student and myself. All entries in the end have been cross-checked by the two researchers.

compared with and integrated into the systematic data collection effort (data triangulation).

In the case of E.ON, 459 relevant empirical observations (incidents) have been identified and entered in the online database for the time between 1995 and 2003. Next to quarterly and annual reports, road shows and press releases, extensive research in newspapers and professional journals has been conducted with the help of the Factiva database. The following Figure 5-2 provides examples of incidents/resource allocations that have been included in the database.

Date	Source	Resource allocation
June 1, 2000	Journal Article, "Energie und Management", 06/2000	Merger of PreussenElektra subsidiary Thüga and Viag daughter Contigas Energie AG
October1, 2000	Annual report 2000, page 56	Building of E.ON Trading consolidating all energy retailing activities of E.ON energy
October 21, 2002	E.ON Newsletter	Acquisition (through Powergen) of TXU's British retail business servicing 5.5 mn customers for electricity & gas and of 3 coal- fired power stations
August 14, 2003	E.ON Newsletter	Creation of a new corporate center function for "Regulatory management"
December 12, 2003	E.ON Newsletter	E.ON sells 32.1% of their shares in Eastern German Gas company VNG to EWE as required by state in order to get the approval for the merger with Ruhrgas

Figure 5-2: Examples of resource allocations included in the database

(2) Transformation of data and description of incidents

The collected raw data first had to be sorted and transformed into records. All 459 selected incidents have consequently been entered as unique observations in the form of a bracketed string of words capturing the basic elements of information. Since the original data from publicly available sources (e.g., articles, press releases, etc.) were in general too long to be entered directly into the database, their wording had to be adjusted and streamlined. In order to ensure systematic data gathering and ease data analysis, incidents were coded. In line with Van de Ven's (1990; 1995) work, predefined tracks have been used for the coding of resource allocation data. All tracks have been narrowed to be specific and easy to apply (Weber, 1985). In order to in-

crease their validity all tracks are discussed with research colleagues and organizational informants (Yin, 1994). In addition, coding rules and instructions have been tested for reliability with independent observers. They are documented in the Resource Allocation Database Handbook (Frankenberger and Schmid, 2003) and contain all information that is needed to replicate the data-generating process with different individuals.[72]

The following table presents an overview of the selected coding tracks.

1.	Acting business unit within multi-business firm
2.	Affected business unit within multi-business firm
3.	Affected region (e.g., worldwide, Europe, North America, Africa)
4.	Affected functional area (e.g., marketing, sales, production)
5.	Type of resource transaction (e.g., investment, budgeting, alliances)
6.	Transaction volume in million currency units
7.	Affected resource category (e.g.. financial, physical, human, organizational,)
8.	Decision level(s) primarily involved in resource allocation decision (board, division, operations)
9.	Impact on business configuration (extension, reduction, consolidation)
10.	Impact on coordination mechanisms (transfer, sharing, recombination)
11.	Impact on organization design elements (structures, processes, governance)
12.	Impact on management systems (e.g., planning, budgeting, control, appraisal)
13.	Impact on leadership elements and firm values (leadership style, values, artifacts)

[72] As a general guideline, we emphasize that the coding has to focus on the sub-categories and indicators that are concerned in the first place. Incidents tend to affect (directly or indirectly) more than one of them; however, the actual coding should be used sparingly. Take for example the case of an acquisition: While configuration is certainly the principal sub-category affected, one could argue that this incident also influences the organizational design adding further units to the organization chart. We do not share this interpretation and ask for an exclusive coding of the sub-category configuration, since the essence and logic of the organizational design is not affected directly. Secondly, we ask for an exclusive coding of shifts or mergers of different business units as only affecting the organizational design. Coordination will only be influenced indirectly and should not be coded. Finally efficiency improvement, cost-cutting or restructuring incidents should be coded exclusively at the sub-category coordination since the realization of synergies and the better use of the existing resources through sharing, transfer and recombination is at the core of incident. Certainly the efficiency, cost-cutting or restructuring effort can lead to changes in the processes of the firm (part of the sub-category organizational design) or in the management systems. Yet, if not explicitly pointed out, these sub-categories should not be coded.

14. Impact of external context (economic, ecological, societal or political) on resource transaction

Figure 5-3: Coding tracks
(Source: Müller-Stewens and Schmidt, 2003)

The coding structure serves as a meta-analytic framework for the researcher. Conducting an investigation with such a structure is in line with the strategy process research methods used by other scholars (Hart, 1992; Eisenhardt, 1995; Pettigrew, 1995; Van de Ven and Poole, 1995) but contrary to the grounded theory approach (Glaser and Strauss, 1967; Strauss and Corbin, 1994).

Following Van de Ven and Poole (1995), indicators have been used to transform each record into dichotomous variables. Indicators are derived from the tracks used for the coding of incidents. Hereby variables with the value 1 represent the existence of a given indicator; the value 0 represents its absence. This quantification of qualitative data then permits statistical analysis; for example, frequency distributions or regression analysis can be used to investigate relationships among the variables observed during the data collection process (Schmidt, 2000).



Figure 5-4: Coding structure of the Resource Allocation Database

Especially important for our research study is the coding track "impact of external context", more specifically the indicator "political/regulatory". This enables us to analyze all incidents that affect or have been affected by the political (or regulatory) context of the firm.

5.3.2 Data analysis phase I

(1) Consistency rating

Description and analysis of strategic behavior require answers to the questions of when and how far decisions and activities concerning resource allocation deviate from the publicly announced corporate strategy. In this regard, the category "output" can be

used. This category reflects the consistency between resource allocation activities and the "official" corporate strategy. In order to assign incidents to the output category, the core elements of the concept of corporate strategy that have been presented to the public (e.g., via roadshow, annual report, or other forms of corporate presentations) need to be outlined in a separate document. Researchers should confirm this outside-in strategy concept by triangulating several data sources. This document finally serves as benchmark for the assessment of resource allocation incidents.

We used a rank-ordered indicator variable to rate the consistency level of resource allocation decisions on a scale from one to four[73]:

1. *Contradiction*: Resource allocation decision contradicts intent of the corporate strategy
2. *Modification*: Resource allocation decision deviates from intent of the corporate strategy
3. *Conformity*: Resource allocation decision conforms to intent of the corporate strategy
4. *Compliance*: Resource allocation decision executes corporate strategy.

The output category contains dichotomous alternatives and has been rendered exhaustive by adding the option "unknown". Our rating is based on a comparison of each decision with the corporate strategy concept of the company where the resource allocation decision is taken. In order to force assessors to decide in favor of either a consistent or an inconsistent rating, we consciously avoid a Likert-type 5- or 7-grade scale. Individual decisions are rated as inconsistent with the corporate strategy concept if they are in outright contradiction to it or represent a modification of it. On the contrary, resource allocation decisions are rated as consistent if they are either conforming to the corporate strategy or if they can even be interpreted as an evident act of implementing the corporate strategy concept.

(2) Validation of collected data and consistency rating

In order to produce results as objective as possible, we use a conservative rating strategy. In cases where a clear positive or negative relationship between the corporate strategy concept and the decision concerned cannot be established, the observation is excluded from the analysis. The rating has been done by two observers acting independently. If they cannot reach consensus on the rating, the observation is likewise

[73] Even though we used a four-item scale to initially rate the consistency level, we consolidated the ratings to a dichotomous variable during our analysis (consistent or inconsistent).

dropped from the analysis. Furthermore, two important mechanisms have been installed to ensure the highest possible quality of the rating judgments: First, the Resource Allocation Database Handbook provides instructions for the rating procedure to help ensure that individual assessments are based on the same rationale. Second, each researcher was asked to comment on the logic of his rating in the case of difficult judgments.

After a download of the database into a Microsoft Excel file all resource allocations of the last 3.5 years (merger between Veba and Viag), as well as critical earlier resource allocations have been double-checked. In this process, original sources have been consulted again and extended by new ones. Since the first results from the outside-in analysis built the starting point for the interviews with key organizational informants, they were once more cross-validated through corporate management. Records derived from publicly available sources and incident ratings could be checked in terms of factual correctness and reliability. Comments, remarks, and anecdotes from interview partners could be used to confirm, revise, and complement preliminary data entries, as well as to check whether assumptions on connections drawn among individual incidents are plausible (Poole and Van de Ven, 1999).

(3) Dynamic analysis of consistency levels and identification of process patterns

After each incident had been rated and data entries had been validated, the complete data set of E.ON was transformed into spreadsheet format. Graphing data helped identify and compare structural patterns in time-sequence data, such as cycles, turning points, or breakpoints. In order to do this, the consistency of the individual incidents was aggregated over a certain period of time (generally 6 months) to form the consistency level (a value between 0 and 1) of resource allocations for the according time frame. Connecting the consistency levels, the consistency line could be drawn which helped to generate first insights on convergent and divergent phases. The aim of the analysis was to identify event streams and crucial phases within the development of resource allocation processes over time and to interpret patterns, for example, how and why incidents appeared in particular chronological sequences or socially meaningful time cycles (Pettigrew, 1995). The identification of breakpoints was especially critical for discovering transitions between cycles of activities (Van de Ven and Poole, 1995). What were the reasons behind convergent or divergent consistency lines? To answer this question two principle strategies had been employed: (1) Sub-samples were analyzed with regard to their specific consistency lines, for example, only incidents within a certain business unit could be included in the analysis, or only incidents initiated by the board level, or of course, only incidents affected by external, political involvement.

(2) Inconsistent resource allocations were selected and analyzed in detail. Through this process, we could derive early hypotheses that could later be challenged in interviews with key organizational informants.

(4) From inconsistent resource allocations to regulatory initiatives as triggers of change

All dissertations within the ICS project might find it interesting to analyze inconsistent resource allocations. Specific to this dissertation, however, is the special purpose of this analysis. Going beyond the surface of inconsistency, we want to better understand the reasons behind, and especially the role of, external regulatory involvement in this respect. As briefly mentioned in chapter 5.2.1, we will elaborate on how strategy formation is affected by regulatory actors in the second phase of this dissertation. For this analysis we will use specific regulatory initiatives as context variables and triggers for internal alignments in the six elements of corporate strategy (and for externally directed corporate responses).

The analysis of inconsistent resource allocations in the first phase of the dissertation might help us to point out developments in the external environment that caused the inconsistency by directly affecting the according resource allocation decision. In this way, we should gain first insights on the most important regulatory initiatives for the purpose of this study, at least those with a "negative" effect on strategy formation. The identification of regulatory initiatives will further drive and structure our analysis in order to understand the detailed impact of regulatory actors on strategy formation, which will be analyzed for each regulatory initiative and finally consolidated to a more general theory.

5.4 Phase II: Interview-based in-depth case study

While phase I of this dissertation analyzes whether strategy formation was influenced by external actors, phase II goes one step further and asks how strategy formation is influenced in terms of alignments at the six elements of corporate strategy and the sequence of these alignments. Secondly, we analyze externally directed corporate responses designed to shape the corporation's environment. Interviews with corporate informants and the inductive analysis of their transcripts are at the core of phase II. In this chapter we will introduce the methodology used for data collection (chapter 5.4.1) and data analysis (chapter 5.4.2) in more detail.

5.4.1 Data collection phase II

As explained in chapter 3.1 we use regulatory initiatives to trigger our analysis in phase II of this dissertation for two reasons: First, they represent concrete forms of regulatory involvement, which allows us to structure and focus our research. Second, they enable us to compare our findings across different types of contexts, which should inspire the research process and also increase the reliability of this study.

Consequently, at the beginning of research phase II, we need to determine which regulatory initiatives are relevant for this study. As mentioned in chapter 5.3.2, the analysis of inconsistent resource allocations that have been influenced by regulatory actors provides us with an adequate starting point in this respect. Literature research, industry conference proceedings, and informal discussions with industry experts at an earlier stage of the dissertation helped us to confirm and complement the set of regulatory initiatives. In order to facilitate a clear description of following data collection and analysis methodologies, we shall anticipate the selection of market opening and emission trading as relevant triggers and context variables for our further research at this point. The initiatives of renewable energies, nuclear power, and anti-trust were dropped after the first interviews (for an explanation please refer to chapter 6.1.5).[74]

Data collection for phase II of this research included two sources. First, and by far the most important, we used personal, in-depth interviews with corporate informants to gather data for our analysis. Second, as a complement to the primary interview data, we also used the three most renowned weekly journals in Germany to collect articles covering market opening and emission trading (secondary data). The use of two independent sources, primary and secondary, internal and external, helped us to compare and triangulate our findings.

With regard to in-depth interviews, an interview guideline was developed based on secondary research and selected expert interviews.[75] After an introductory interview with a key person within the corporate development department, a series of semi-structured interviews (Strauss, 1987) was conducted on the corporate level with senior executives from all relevant functions; ranging from political strategy and regulatory management, to corporate development, M&A, and market management. This helped

[74] Chapter 6.1.5 will describe the rationale of this selection in more detail, since it was in fact the first (minor) result of the second research phase. However, we prefer to introduce market opening and emission trading at this point since this will make the description of the further research steps and methodologies much easier and more concrete.

[75] The interview guideline is presented in the appendix.

us to gain an understanding of the corporate level impact of regulatory actors and the according responses of the firm. In a second step, we focused on the market unit level, since activities directed to the management of regulatory involvement and day-to-day interactions have been historically located at that level. Consequently, valuable knowledge on the evolution of the regulatory initiatives, its impact on the firm and on the corporate responses could be found on that level. Representing the firm's core electricity business in Germany and Central Europe, we included E.ON Energie in our research. Furthermore, we elaborated on Ruhrgas AG, which had been successfully acquired at the beginning of 2004 after a long struggle with regulatory authorities and competitors, and which is now representing the European gas business.[76] Altogether, 18 senior managers at E.ON had been interviewed representing a cross-section of different levels and functions as shown in the following Figure 5-5.[77]

	Corporate level	Market Unit 1	Market Unit 2	**TOTAL**
Market functions (Corporate Development & Strategy)	7	2	3	12
Non-market functions (Politics & Regulatory Affairs)	2	1	3	6
TOTAL	9	3	6	18

Figure 5-5: Interviews conducted at E.ON

In selecting interview partners, we employed theoretical sampling as opposed to statistical sampling (Eisenhardt, 1995). The criteria for selecting our interlocutors were based on the individual's expected knowledge and on the expected validity of the information provided, as well as on the anticipated extent of cooperation (Glick et al., 1990). Our interlocutors were all senior managers, and included "high-level informants" with a holistic perspective on the issue of managing regulatory involvement and "low-level informants" with a specific perspective on the regulatory initiative under research (Brown and Eisenhardt, 1997), for example, the project manager for emission trading.

All interviews were conducted in a semi-structured way following the methodological suggestions of Strauss (1987) and Strauss and Corbin (1998). During the research

[76] Through this shift in the level of analysis we could benefit from two different perspectives (electricity and gas) on the regulatory initiatives and the related corporate responses. The comparison of possibly different responses bore the potential to complete our understanding and add to a more holistic picture.

[77] Additionally, the president of the German Federal Cartel Office and the Head of Strategy at RWE had been interviewed. For details, please refer to the appendix.

process, the interview guideline had been slightly adapted to the individual interlocutor and advanced to focus on specific issues (Wiedemann, 1995). However, the general structure of the interview guideline has remained consistent throughout the entire research process. The first part always focused on the general organizational context, such as the organizational structure, role, and responsibilities of the concerned functions. The second part elaborated on the regulatory context in which the organization was embedded and included issues such as the relevance of the different regulatory initiatives, existing power coalitions, or the multiplicity of the environment. Part three then referred to the concrete impact of regulatory initiatives on strategy formation in terms of alignments at the six elements of corporate strategy and the sequence in which they occurred. Finally, part four dealt with externally directed corporate response strategies and the efforts of the corporation to influence its environment.[78] Naturally, the questionnaire reflected the different research questions of the second phase of our study, with parts three and four of the questionnaire to specifically address the two research questions of how regulatory actors impact strategy formation and how the corporation in turn impacts its regulatory environment.

After each interview, immediate field notes were taken to explicitly document important observations (Mayring, 1996). If possible, internal documents such as reports or presentations were requested to complete and check the information provided by the interviewees (Punch 1998, Jupp 1996).

With regard to secondary press research, we followed established methodologies for the structured analysis of press data. Hoffman (1997), for example, used extensive and structured press research to elaborate on institutional changes in organizational fields, which is somewhat related to our research undertaking. With the help of the online database LexisNexis, 185 articles spanning from January 1, 1995 to March 1, 2005 were identified through key word search. Due to restrictions with regard to manageable amounts of data, research was limited to the three most important weekly magazines in Germany (*Spiegel*, *Stern*, and *Focus*). Being interested in a general evaluation of how the regulatory initiatives developed and how they were perceived in public discussion, the magazines seemed to be well suited.[79] After an initial screening, 53 articles about emission trading were selected for further analysis; in the case of market opening only 19 articles were of sufficient importance to be selected. All articles were

[78] The interview guideline is presented in the appendix.

[79] The public pressure on the incumbents, for example, could be well analyzed through article research in these magazines.

electronically stored, documented and structured with the help of Atlas/ti.[80] Each article was also entered into a Microsoft Excel spreadsheet that allowed for complementary analyses.

At the end of the dissertation project, we used a second series of eleven interviews with top executives conducted during the preparation of a Harvard Business School Case Study on E.ON (Reinhardt and Frankenberger, forthcoming), to complement and test our findings. These interviews with board members and senior executives of E.ON AG, E.ON Energie and E.ON Ruhrgas also supported the development of higher-level theories (as presented in chapter 7).[81]

5.4.2 Data analysis phase II

Clearly, the analysis of interview transcripts dominated data analysis of phase II. Press data was analyzed separately and then used to confirm (or question) the results generated through the analysis of interview data. Both analytical approaches shall be discussed in this chapter. While the results chapter clearly distinguishes between the findings related to the impact of regulatory actors on strategy formation (in terms of internal alignments) and the ones related to the influence of the corporation on its environment (in terms of externally directed responses), we refrain from this distinction in this chapter since both parts generally employ the same methodological approaches. In the few cases where the analytical strategy differs, we will explicitly highlight and explain the deviation.

From a theoretical standpoint, phase II of this research creates an interpretive or theoretical case that focuses on emerging conceptual and theoretical ideas rooted in existing literature (Pettigrew, 1990). The general methodology goes back to grounded theory approaches (Glaser and Strauss, 1967), and more specifically analytic induction[82] (Hammersley and Atkinson, 1995; Punch, 1998), in which concepts are developed inductively from the data and raised to a higher level of abstraction where the relation-

[80] Atlas/ti is software that supports the analysis of qualitative data. For more information, please refer to chapter 5.4.2.

[81] Interview partners included the CEO of E.ON AG, the CEO of E.ON Energie and a board member of E.ON Ruhrgas. For a complete list of interlocutors please refer to the appendix.

[82] In contrast to pure grounded theory that rejects initial frameworks and fully relies on inductive theory conceptions ("letting the data speak"), we will allow for some guidance and structuration of data analysis. The findings of secondary research and the results of research phase I are taken as starting points for the inductive analysis in phase II.

ships between the constructs are traced.[83] According to Miles and Huberman (1994) the data analysis follows three kinds of activities: data reduction, data display, conclusion drawing and verification. Activities do not strictly follow this sequence, but might include one or more feedback loops, meaning that conclusion drawing might cause a new set of data collection activities (see Figure 5-6).

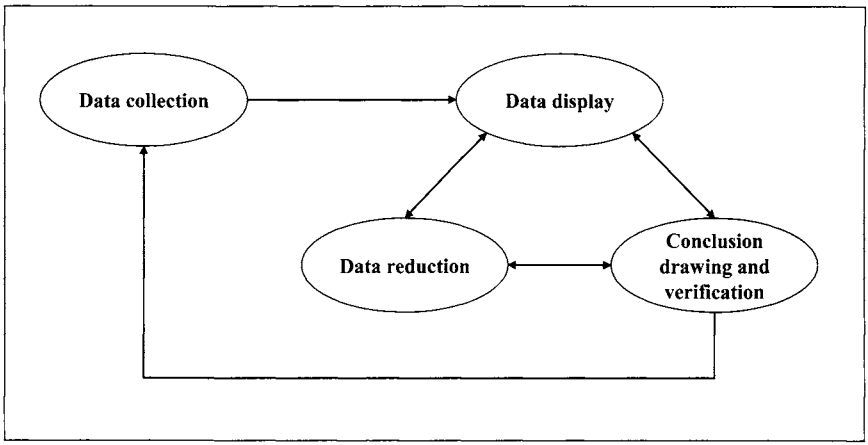


Figure 5-6: Data analysis phase II
(Source: Miles and Huberman, 1994)

(1) Data display refers to an organized and compressed way of presenting the data using graphs, charts, or diagrams. The benefit of those graphical representations is the ease of use for interpretation and conclusion. *(2) Data reduction* most importantly consists of selecting, focusing, and simplifying the data (Miles and Huberman, 1994). In earlier stages it includes editing, segmenting and summarizing activities; in later stages coding, memoing, conceptualizing and explaining the data (Punch, 1998). Codes and memos are the primary results of data display and reduction. Coding hereby refers to a systematic and disciplined activity, and means "*putting tags, names or labels against pieces of data*" (Punch, 1998:204). First, there are descriptive codes that help to summarize segments of original data. Second, pattern codes are more interpretive and bring together the less abstract descriptive codes. Memoing, on the other hand, is a creative process and means "*theorizing write-up of ideas about codes and their relationships as they strike the analyst while coding*" (Miles and Huberman, 1994:72). Memos help the researcher to move forward from the empirical to the con-

[83] To support this task we will use the knowledge workbench ATLAS/ti. Further information will appear later in this chapter

ceptual level (Punch, 1998). *(3) Conclusion drawing and verifying* include abstracting, comparing, and in the end integrating codes and memos into a coherent picture of data to formulate properly derived propositions.

Analytical strategy for interview transcripts

Analysis of interview data took up by far the largest share of research capacity. For the questions of both how regulatory actors influenced strategy formation and of how the corporation in turn influenced its regulatory environment we followed four steps during our analysis. First, we engaged in an exploratory, inductive analysis that structured and categorized our data (data display and reduction according to Miles and Huberman, 1994). Second, we split data into several sub-sets and tried to generate context-specific findings. Third, we interpreted our results in the light of neo-institutional theory. Fourth and finally, we rooted our findings in existing literature to come up with final conclusions and propositions. According to Miles and Huberman (1994), steps two to four would refer to conclusion drawing and verification.

(1) Exploratory, inductive analysis to structure and categorize our data

The basis of data for the exploratory and inductive analysis in our case has been formed by 18 interviews with senior managers at the case company and the resulting 344 pages of interview transcripts and 17 pages of interview summaries and notes that have all been stored and analyzed with the help of the knowledge workbench Atlas/ti (Muhr, 1991). In order to reduce and structure the large amount of data, we followed the standard methodological guideline of open, axial, and selective coding (Strauss and Corbin, 1998). The goal was to assign meaningful codes to specific quotations (text passages) within the interview transcripts and to aggregate these codes to higher order, more abstract categories and sub-categories. In the end we were able to identify 114 codes that were grounded in 992 quotations. Due to multiple coding for a single quotation, a total of 2,571 code assignments have been realized.

The first five interviews have been coded using the *open coding* procedure, i.e., free codes, representing concepts; their properties or dimensions have been identified in the raw data and assigned to specific quotations. We furthermore started to group the codes and concepts into more abstract categories. At this stage of open coding, 86 different codes had already been generated and linked to some 300 quotations. Figure 5-7 below gives some examples of quotations and their assigned codes; for more please refer to the results chapter.

Code	Quotation
Scenario planning	"We had a market model which developed scenarios for which the regulatory environment was one of the key inputs. One access was regulatory developments, on one sight highly regulated, on the other sight fully deregulated."
Regulatory support function	"I [head of corporate center function regulatory management] am also involved in day to day problems. And sometimes salespersons would request advice since one of their customers has a regulatory problem, and he wants to know if we can help."
Constituency building	"Prior to final legislation, we are certainly involved in many discussions between the different parties, within the ruling coalition, or outside [the political scenery] and we can see coalitions evolving."

Figure 5-7: Examples of quotations and their assigned codes

Before continuing with the coding of the remaining transcripts, consistency checks were made showing that certain codes could be consolidated while others were too broad and needed further specification.[84] While open coding divided the data into small parts, the next step of *axial coding* systematically linked the codes to categories and sub-categories that helped to reassemble the data, add a more precise and complete explanation of the phenomena under research and prepare theory generation. For this dissertation project and in order to reflect the specific research questions, the codes were consolidated under two core categories: (1) internal alignments, and (2) external responses. During the research process, the coding scheme was refined through the introduction of several sub-categories and categories (see results chapter).

Finally, *selective coding* integrated and refined the theoretical findings. New codes, properties and dimensions were selectively added where necessary, and the consolidation of sub-categories and categories was further refined. Some categories, especially those that were not sufficiently developed by empirical data, were enriched through adding new data and continued coding.[85] While selective and axial coding are very similar, selective coding operates on a slightly higher theoretical level and tries to work its way down from core categories to categories and so forth. Axial coding fo-

[84] In the case of "regulation", for example, three new codes replaced the existing one: "regulatory management" (which stood for the role and organization of the according corporate center function), "regulatory system" (which consisted of quotations describing the content and functioning of the regulatory system), and "regulatory authorities" (which was used for quotations involving the regulatory body as external actor.

[85] Theoretical sampling systematically allows for choosing further interview partners during the course of the research project based on their expected contribution to the generation of results.

cuses more on linking codes with sub-categories and categories and hence is more of a bottom-up process.

Along the entire analysis we followed suggestions by Glaser and Strauss (1967) or Strauss (1987), including an ongoing identification of generative questions, the coding and linking of concepts, the power of memos,[86] and the intersequential dependence of coding, memoing and integrating new data.[87] The use of memos, in particular, turned out to be a powerful tool for structuring and documenting the creative thought process during data analysis. Altogether 41 memos – almost all grounded in distinct transcript passages – provided valuable insights for theory generation in the further progress of research.

(2) Split of data into several sub-sets and generation of context-specific findings

This part is at the heart of this dissertation. It is the most critical step for the generation of generalizable findings, the development of testable propositions, and hence the advancement of research on strategy formation and the impact of regulatory actors. Splitting data into different subsets – most importantly relating to the two regulatory initiatives of market opening and emission trading, and to the two sub-units of analysis E.ON Energie and E.ON Ruhrgas – allows us to deepen our analysis, generate variance, compare results, and hence generate generalizable, context-specific findings.

We consequently elaborated on both research questions, relating to internal alignments and externally directed responses, by comparing results across different analytical dimensions (the two regulatory initiatives and the two sub-units of analysis). The according questions were: What are the differences between market opening and emission trading (and between E.ON Energie and E.ON Ruhrgas, respectively)? Why do these differences exist?

On the one hand, we relied on classical methods of qualitative, rather creative research (Punch, 1998; Strauss and Corbin, 1998). Based on the interpretation of our structured and categorized interview transcripts, we tried to create theoretical findings and used logical argumentation and direct quotations as empirical evidence. On the other hand, we conducted co-occurrence analyses and added partly quantitative density measures that allowed for some sort of objective proof (Muhr, 1991). We found this approach

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[86] As introduced above, memos refer to the creative process of "*theorizing write-up of ideas about codes and their relationships as they strike the analyst while coding.*" (Miles and Huberman 1994:72)

[87] A detailed description of the general methodological work process of grounded theorizing can be found, for example, in Kownatzki, M. (2002).

extremely helpful to inspire disciplined creative processes of theory generation, and to support or reject possible theories generated through purely qualitative approaches.

While the separation of findings between the two sub-units of analysis is easy since all interviews led by corporate informants of E.ON Energie only referred to E.ON Energie, and accordingly for E.ON Ruhrgas, the generation of initiative-specific findings was more difficult. Since literally all interviews covered both market opening and emission trading, co-occurrence analyses were required to identify the context in which certain responses were given. We used advanced query methodologies within Atlas/ti to separate answers related to market opening and emission trading. We hereby decided that if a code, representing any form of internal alignment or external response, was no further than 32 lines[88] away from an initiative code[89] (market opening or emission trading), then we consider that both codes "co-occurred". In other words, we would assume that an according statement was made specifically related to that regulatory initiative.

In order to allow for further analytical dimensions we used document families to distinguish between answers from E.ON Energie, E.ON Ruhrgas, and E.ON AG (corporate level), as already mentioned above. In the same way, we distinguished between respondents from market functions (corporate development, corporate strategy, M&A) and non-market functions (politics, regulatory management). Due to this analytical structure, we ended up with 72 queries each for internal alignments and external responses. [90]

The result of these co-occurrence analyses were specific coding trees, which naturally all had the same structure (categories, sub-categories, codes, and their links), but a different number of empirical groundings (quotations) assigned on the level of the individual code. We used these density measures (number of codes) to compare findings across the analytical dimensions. This allowed us to get indications on the relative im-

[88] 32 lines represent roughly one page of interview transcripts. We are aware that this definition can only be regarded as a proxy and does not fulfill statistic criteria; however, we argue that it will help us to further strengthen the qualitative logic of our argumentation and provide some quantitative indications.

[89] All parts referring to any particular regulatory initiative were coded in the same way as internal alignments or external responses.

[90] Two regulatory initiatives (emission trading and market opening) x three levels/units of analysis (E.ON AG, E.ON Energie, E.ON Ruhrgas) x two functional backgrounds (market and non-market) x six sub-categories for the alignments (and accordingly external responses) = 2 x 3 x 2 x 6 = 72.

portance of the different codes, sub-categories, and categories.[91] Moving ahead, this helped us to describe the different types of internal alignments and external responses.

So far, all of the above mentioned referred to both research questions of how regulatory actors impact strategy formation and of how the corporation in turn tries to impact the regulatory environment. At the end of this step, however, analytical paths differ. While research on the first question continues with an analysis of the sequence in which the alignments of corporate strategy and structure take place, research on the second question continues with a more detailed analysis along analytical dimensions that do not seem to work for internal alignments (we will come back to this two paragraphs below).

As for alignment paths along which the six elements of corporate strategy change following regulatory involvement, we already formulated some more specific question in chapter 3.2. Using interview transcripts and codes that have all been linked to one of the six elements of corporate strategy, we are now able to follow the sequence of alignments. While categorization and coding provide a static view on alignment in the first place, we can still use them for the efficient retrieval of relevant quotations. Furthermore, low density of any of the elements of corporate strategy can indicate that this particular element might not have changed at all, or only very little, and hence might not have been part of the alignment sequence. Otherwise, studying relevant passages in our interview transcripts and adding insights from secondary press research (discussed later in this chapter) should help us to draw alignment paths. As already indicated in chapter 3.2, we will once again distinguish between market opening and emission trading for the reasons provided above.

As for externally directed responses, we further distinguished between the corporate and the market unit level, as well as between the functional backgrounds of our respondents. We considered these additional analytical dimensions worthy of investigation since we expected possibly interesting findings on the different types of responses from different levels and backgrounds. According to the analysis on the two regulatory initiatives and sub-units of analysis, we employed relative density measures to derive propositions relating to the specific type of responses from the corporate and market level, respectively. In the same way, we elaborated on the differences between re-

[91] If, for example the code "deferment" only represents 10% of all external responses in the case of market opening, but 20% in the case of emission trading, we would take this as an indication that externally directed corporate responses towards emission trading put more emphasis on deferment tactics (which is supposed to be a rather resistant behavior, at least if compared to a code such as "constructive negotiation").

sponses from market functions (e.g., corporate strategy) and non-market functions (e.g., regulatory management).

(3) Interpretation of results in the light of neo-institutional theory

As shown in chapter 2.3, neo-institutional theory provides an interesting perspective for analyzing the strategy formation process, especially for the purpose of this study. For this reason, we will interpret all findings in the light of neo-institutional theory. This means that we will explain the impact of regulatory actors on strategy formation through regulatory, normative and cognitive institutions. At the same time, we will elaborate on their creation and on the role of corporate actors in this process.

While it might seem more natural to analyze the influence of the corporation on its regulatory environment with the help of neo-institutional theory, we will also relate to the question of how external institutions are reflected within the firm; more specifically, by the six elements of corporate strategy. In sum, we hope that neo-institutional theory will help us to develop theoretical findings and propositions. In chapter 7, we will then present a neo-institutional framework on strategy formation and integrate prominent strategy process models (Burgelman, 1983a; Burgelman, 1991) with progressive research on neo-institutional theory (Hensmans, 2003).

(4) Theoretical rooting and final conclusions and propositions

At the end of both chapters 6.2 and 6.3, we will relate our findings to the current literature. We will thereby keep the two parts (impact of regulatory actors on strategy formation and influence of the firm on the regulatory environment) separate; an integration will follow in chapter 7. Relevant research streams for rooting our findings included research on fit (Venkatraman and Camillus, 1984; Miller, 1992) or work on aligning strategy and structure (Chandler, 1962; Cook et al., 1983) in the case of internal alignments. In the case of externally directed response strategies, among others, we specifically linked to the work on corporate political activities (Hillman et al., 2004), strategic responses to institutional pressures (Oliver, 1991), and strategic actors in institutional fields (Hensmans, 2003).

For both research questions, we will first deduct generalizable findings and propositions in terms of general characteristics of internal alignments and external responses following regulatory involvement. In doing so, we will present a typology for each of the two. Second, we also take into account context-specific responses and try to identify possible predictors of internal alignments and external responses. This will allow us to be more specific about the type of alignments or responses that we can expect

under certain conditions. For this step, the comparison of findings across the two regulatory initiatives (market opening and emission trading) and across the two sub-units of analysis (E.ON Energie and E.ON Ruhrgas) was of central importance. We also needed to elaborate on the more abstract characteristics of the initiatives and sub-units of analysis that caused the variance in alignments and responses.[92]

Analytical strategy for press research

The purpose of analyzing press data was to confirm (or question) the findings gained through the analysis of interview transcripts, which were at the analytical core of the second phase of our research. To some extent, we could also add new insights into the impact of external actors on strategy formation and vice versa, influences of the corporation on the regulatory environment and its actors. The external perspective on the subject helped us to complement research, especially regarding the roles of different players (regulatory actors and incumbent utilities, but also the scientific community, new market entrants or international institutions) in the forming of the regulatory initiatives under research. Due to the fact that we considered articles spanning a period of ten years, we could furthermore observe how roles were changing and how the regulatory initiatives were evolving. Another important facet was the general opinion of society towards the subject, since it is supposed to influence the activity of both political actors and industry incumbents.

According to Hoffman (1997), we structured press research along clear analytical dimensions. For our study, those dimensions and the corresponding questions were as follows:

- *Content:* What were the main issues of the initiative (e.g., global warming, economic effects, conflict between the USA and Europe, pricing or free choice of supplier)?
- *Actors:* Who were the main actors in shaping the regulatory initiative? What were the most important coalitions (e.g., governments, international institutions, industry firms)?
- *Timing:* When did the initiatives appear on the agenda? What were the different phases in the evolution of the regulatory initiative?

[92] We certainly could not formulate propositions directly related to emission trading ("for emission trading, alignments..."), but we had to identify the characteristics of emission trading – issue salience, competition, etc. – that were responsible for the different alignments and responses in order to formulate general propositions ("the more salient and initiative, the more alignments ..."g).

- *Corporate responses:* What were the dominant response strategies of incumbent utilities? What were the most important interactions during the evolution of the regulatory initiative? How did the intensity of interactions change?
- *Public pressure:* What was the attitude towards the incumbent? Which actor was under most public pressure?

To structure and analyze the data, we employed three distinct research strategies. (1) Atlas/ti- based coding, including the use of density measures. Similar to the analysis of interview transcripts (see above), this step helped us to reduce the amount of data, direct our research and deduce findings related to the importance of certain codes or categories. For consistency reasons, we employed the general coding structure developed during the analysis of interview data and only added new codes for issues that have not been covered, so far (e.g., public pressure on the incumbent).[93] (2) All articles were briefly summarized and then analyzed using Microsoft Excel. For this step, we had to read all 72 articles in detail and extract their most important aspects, which made our understanding much more complete. We further explicitly documented information along the above-mentioned analytical dimensions. Hence, we received both a good overview and a holistic picture of the main arguments. (3) Word count analyses, finally, provided further indications on the relative importance of selected issues. Analyzing the question of who was driving emission trading, for example, we found that the minister of the environment was mentioned 126 times, which might not be surprising. However, word count analysis also showed that the minister of the economy was mentioned 118 times which might be somewhat astonishing and provide evidence that opposing political interests might have worked in favor of incumbent utilities.[94]

Unlike the analysis of interview transcripts, the results of press research will not be presented in detail, although an extensive summary exists and can be obtained from the authors of this study. Instead, we will include them in chapters 6.2 and 6.3 wherever they seem to be helpful.

[93] The structuring and retrieval functions of the software dominated the analysis. Compared to the analysis of the interview transcripts, research remained at a more general and basic level.

[94] The Ministry of the Economy was in general acting in favor of industry firms and incumbent utilities, while the Ministry of the Environment was more driven by environmental concerns.

5.5 Consolidation and theory building

While research in phases I and II (presented in chapters 6.1, 6.2, and 6.3) remains closer to the three related research questions, the findings will be synthesized and generalized on a higher level at the end of the dissertation project (see chapter 7). This will allow us to holistically elaborate on: the role of external actors in the strategy formation process; issues of consistency, fit and alignment; internal alignments of the six elements of corporate strategy; and externally directed corporate responses to regulatory involvement. As prior research (Baron, 1995) has pointed out – and this study confirmed this view – particular consideration should also be given to the interface between market and non-market components of corporate strategy and how both can be integrated. The first, hereby, refers more closely to internal alignments, the second to externally directed responses or political strategies.

More precisely, consolidation and theory building will focus on the presentation of a theoretical framework that integrates aspects of how regulatory actors impact strategy formation and of how the firm in turn influences its environment. The framework will be based on neo-institutional theory and refer to regulative, normative and cognitive institutions (Scott, 2001). It will specifically include mechanisms through which these institutions influence the firm, but it will also elaborate on the options of corporations to influence each of the three institutions.

Since research focuses on regulatory actors but also considers the interdependencies with other external actors, such as capital market analysts, industry firms, or new entrants (Post et al., 2002), we will refer to this larger context in a specific sub-chapter within chapter 7.

We will also integrate the work of Burgelman (1983a; 1991) on strategy process with the work of Hensmans (2003) on a more strategic version of neo-institutional theory, and enrich the resulting boundary model on the co-evolution of corporate strategy and industry with findings from our own research.

As mentioned above, we further consider that an integration of market and non-market strategy can enrich theory on strategy formation and combine aspects of, so far, largely separate research streams of classical strategic management (Hart, 1992; Hart and Bandbury, 1994), and corporate political activities (Hillman et al., 2004). For this reason, we elaborate on the importance of the components under different contexts and provide some concrete indications on how the two can be better coordinated.

5.6 Summary and discussion

The overall methodology of this dissertation is a longitudinal retrospective case study. Due to the complex nature of our research undertaking, we selected an exploratory, two-phased research design.

Phase I is consistent with the general research methodology used within the ICS research project at the University of St.Gallen under the chair of Prof. Dr. Günter Müller-Stewens. It analyzes the direct impact of regulatory actors on strategy formation, as represented by subsequent resource allocation decisions. More precisely, we elaborate on the effect of regulatory involvement on corporate resource allocations and their consistency with the official concept of corporate strategy over time. Based on publicly available secondary data, we built an online database that helped us to structure and analyze 459 resource allocations that have been collected for the case company. Specifically analyzing inconsistent resource allocations led us to identify concrete regulatory initiatives that heavily influenced strategy formation. After these initiatives were confirmed and complemented by press research, conference proceedings and expert interviews, they were used as triggers and context-variables for the second phase of this dissertation.

Phase II then drives our understanding one step further, since we explicitly analyze how strategy formation is influenced by regulatory actors; more precisely, how the six elements of corporate strategy change (internal alignments). Conversely, we also research how the firm tries to influence its environment using externally directed response strategies (external responses). This phase uses case study narration and grounded theory methodologies and employs two types of data sources.

First, at the empirical core of this dissertation, 29 in-depth interviews with corporate informants have been conducted. Hereby a first series of 18 interviews have been transcribed, coded and categorized with the help of the knowledge workbench Atlas/ti. A second series of eleven interviews with board members and senior executives which was conducted at the end of this dissertation was used to complement and test prior findings and to support higher-level theorizing.

The structured interview data (of the initial 18 interviews) has then been analyzed with the help of co-occurrence analyses and density measures that supported classical methods of logical argumentation and evidence through quotations. Distinguishing findings between the two principal regulatory initiatives (market opening and emission trading) and between the two sub-units of analysis (E.ON Energie and E.ON Ruhrgas),

we were in the end able to formulate context-specific propositions for both research questions during this phase.

As a second source of data, we used weekly journals, which we analyzed for the time period between 1995 and 2005. Altogether, 72 articles on market opening or emission trading could be extracted. We systematically structured these articles and analyzed them across several dimensions (content, actors, timing, corporate responses, and public pressure on the incumbent utility) using Atlas/ti, Microsoft Excel, and general word counts. In this way, we could confirm (or question) and complement our findings from the analysis of interview data.

Rooting our findings in existing literature and interpreting them in the light of neo-institutional theory, we formulated propositions for all three specific research questions. Furthermore, we synthesized our findings of both phases and generalized them on a higher level. This was important for advancing theory on strategy formation, the impact of regulatory actors, and the corporation's ability to manage regulatory involvement. Among other benefits, it resulted in the introduction of a neo-institutional, theoretical framework that integrates aspects of how regulatory actors impact strategy formation and of how the firm in turn influences its environment. It also helped to enrich strategy process models with newer trends of neo-institutional theory and to better understand the importance of market and non-market components for strategy formation.

6 Results

The results section is divided into three subchapters that are related to the three research questions of this dissertation. This chapter focuses on theoretical rooting and the deduction of propositions, which clearly relate to these research questions. Theory building on a more general level is realized in chapter 7.

Chapter 6.1 refers to the impact of regulatory actors on strategy formation and the research questions of whether regulatory actors influence corporate resource allocations and of their consistency with the extant concept of corporate strategy. Based on 459 resource allocations at the case company E.ON, we analyzed the development of consistency between strategic intent (official concept of corporate strategy) and strategic action (resource allocations) over time. Results suggest that regulatory involvement builds up coercive pressure on the incumbent utility and negatively influences consistency.

Chapter 6.2 drives our understanding one step further with regard to what exactly happens inside the firm. Being interested in the question of how and in what sequence strategy formation is affected by regulatory actors, we elaborate on internal alignments of the six elements of corporate strategy.[95] We base our analysis primarily on 344 pages of interview transcripts generated through 18 personal interviews with corporate informants and compare results across two regulatory initiatives and two sub-units of analysis. We found that different types of initiatives seem to induce different types of internal alignments and alignment paths. Since we had aimed at context-specific, generalizable theoretical propositions, we elaborate on the more abstract determinants of corporate responses that will be presented at the end of this chapter (e.g., public pressure, perceived opportunity structure). Those determinants will not only be used for internal alignments, but also for externally directed responses.

Chapter 6.3 discusses externally directed corporate response strategies following regulatory involvement and the research question of how the corporation can influence the institutional environment and its regulatory actors. As in chapter 6.2, we use interview transcripts and comparisons across initiatives and sub-units of analysis to come up with context-specific propositions. Also, we distinguish external responses across dif-

[95] See chapter 2.1.5 for an explanation of the six elements of corporate strategy: concept of corporate strategy, portfolio configuration, coordination, organizational design, management systems, and leadership and style.

ferent functional backgrounds (market and non-market) and management levels (corporate and market unit).

Please remind that all propositions result from the analysis of one single firm and its interactions with regulatory actors. While our empirical evidence supports the propositions, they might be limited to the specific context under research (regulation changing from protecting a firm's interests to advocating changes that are at least partly opposed to the firm).

6.1 Direct influences of regulatory actors on corporate resource allocations

In this first research phase, we analyzed the impact of regulatory actors on strategy formation. Since strategy formation can be conceived in terms of resource allocation commitments (Bower, 1970; Noda and Bower, 1996), we specifically looked at the influence of corporate actors on resource allocations and the degree of their consistency with the official concept of corporate strategy. The analysis of the consistency level over time was relevant since it provided us with indications on periods of dissonance between strategic intent and strategic action and, at the same time, on possible misfits between organization and environment. Relating to our research question, we suggest that regulatory involvement should be reflected in the consistency level.

While certain inconsistencies have to be accepted and are even vital to the strategic renewal of the firm, we hold that in general it is management's responsibility to assure consistency between strategic intent and strategic action (Burgelman and Grove, 1996). Reasons for inconsistencies, however, can be numerous, and can relate to phenomena inside or outside the firm. At this stage of research we tried to find indications that external factors impacted the consistency level over time. If the consistency level remained constant despite differing levels of external involvement, it would be difficult to claim that regulatory involvement had an effect on corporate strategy and structure. On the other hand, if a relation could be found between the level of regulatory involvement and the consistency level, this would justify further research on the question of how strategy formation was actually influenced.

Chapter 6.1.1 presents the development of the consistency level over time and shows that several divergent and convergent phases occurred during the past years. Chapter 6.1.2 then links these findings with the impact of external involvement and shows that in times of high regulatory involvement, as indicated by relatively many resource allocations influenced by external actors, consistency decreased. Reflecting these findings

in the light of neo-institutional theory (chapter 6.1.3), we will relate our findings to current literature and develop our propositions (chapter 6.1.4). Based on an analysis of inconsistent resource allocations that has been complemented by press research, conference proceedings, and expert interviews, we then selected two regulatory initiatives that turned out to be most relevant for the purpose of this study. The reasons for this choice, which also links the two research phases, will be presented in chapter 6.1.5.

6.1.1 Development of consistency level over time

For our analysis of the consistency between strategic intent and strategic action (i.e., between the concept of corporate strategy and actual resource allocations), we considered the time frame from 1995 to 2003.[96] Before the merger between Veba and Viag, the resource allocations at the larger organization, Veba, had been analyzed. During this time four different concepts of corporate strategy were active and functioned as benchmarks for the consistency rating. The wording has been taken directly from company sources to avoid interpretations of third parties (including the researchers). The complete concepts of corporate strategy can be found in the appendix (see also chapter 4.2). A brief introduction is given in the following lines:

- ***Concept no.1 (Jan. 1995-Dec. 1997):***[97] Successful conglomerate with a strategy of "*shaping changes, developing values*"
- ***Concept no.2 (Jan. 1998-Jun. 2000):***[98] "*Focus and growth*" with multiple industry focus on energy, chemicals, and telecommunications
- ***Concept no.3 (Jun. 2000-Apr. 2003):***[99] "*Focus and growth*" strictly on energy, and chemicals (which was dropped in 2001), divestment of all non-utility activities
- ***Concept no. 4 (May 2003-to date):***[100] "*Integration and performance*" with a focus on operational excellence and the use of group wide synergies

The consistency level was analyzed based on 459 incidents collected for the time frame from 1995 and 2003. For 42 incidents no reliable judgment could be made or

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[96] We did not continue the research past 2003, since we moved on with a more detailed analysis of concrete effects on the corporation's strategies, structures, and processes and since a continued outside-in analysis did not seem to produce additional insights.

[97] Source: Veba annual report 1995. Concept was active before 1995, yet the analysis only started in that year.

[98] Source: Veba annual report 1998. At the same time, Viag pursued a "*Two pillars strategy*" with the same industry focus, but extended to the areas of aluminium and packaging.

[99] Source: Merger concept, June 2000 and E.ON AG, Strategy and Key Figures 2002.

[100] Source: E.ON AG Newsletter of Aug. 14, 2003 and company presentation Aug. 2003.

there was no influence on the concept of corporate strategy. After the rating process made the distinction between high and low degrees of consistency or inconsistency, we focused on evaluating whether the resource allocation was consistent with the extant concept of corporate strategy or not. The following table presents the number of available incidents per half year (HY) and states the rating made.

Consistency Ratings	1995 1.HY	1995 2.HY	1996 1.HY	1996 2.HY	1997 1.HY	1997 2.HY	1998 1.HY	1998 2.HY	1999 1.HY	1999 2.HY	2000 1.HY	2000 2.HY	2001 1.HY	2001 2.HY	2002 1.HY	2002 2.HY	2003 1.HY	2003 2.HY	Total
Unknown	2	3	4	1	5	2	2	4	2	3	0	1	3	1	5	2	0	2	42
Positive High	7	8	13	8	15	6	19	9	10	5	5	10	4	10	14	16	5	13	177
Positive Low	15	11	24	9	23	15	10	6	10	8	8	27	4	9	4	5	2	4	194
Negative Low	2	0	1	1	3	0	6	3	6	0	1	8	2	0	0	0	1	0	34
Negative High	0	0	0	0	0	0	0	0	1	1	0	2	1	0	0	2	0	5	12
Total	**26**	**22**	**42**	**19**	**46**	**23**	**37**	**22**	**29**	**17**	**14**	**48**	**14**	**20**	**23**	**25**	**8**	**24**	**459**

Figure 6-1: Resource allocations and their consistency rating

As Figure 6-2 shows, there are three divergent phases: (1) from the first half of 1998 to the first half of 1999; (2) from the second half of 2000 to the first half of 2001; (3) from the second half of 2002 to the second half of 2003. The consistency level falls to roughly 75%, which is significantly under the 89% average of the whole time period under analysis. Compared to other cases within the ICS project, this value seems to be at a level that raises concerns on the resource allocation decisions of the firm and that calls for further analysis.

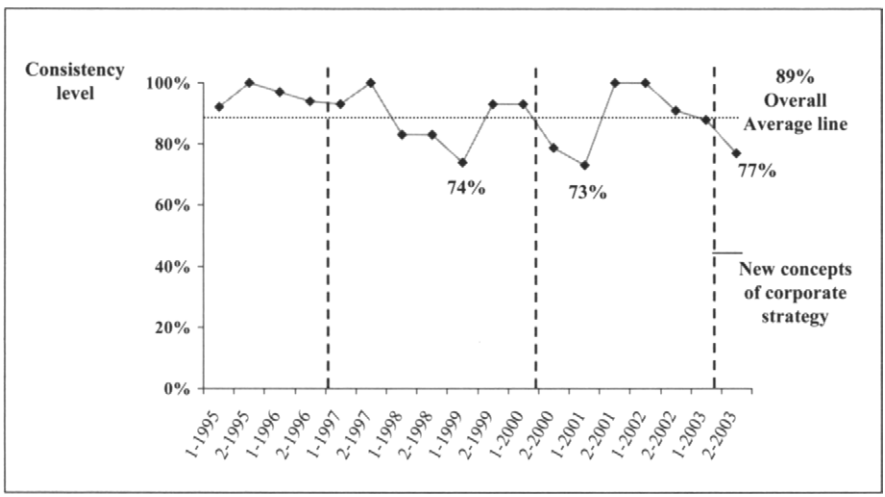


Figure 6-2: Consistency line, Veba/E.ON 1995 to 2003

Analyzing the misaligned resource allocations showed that different reasons were responsible for the inconsistencies. In the first phase of inconsistency, investment or divestment decisions that were considered to be non-core and core activities, respec-

tively, were responsible for the decreasing level of consistency. In the second phase, there were three reasons for inconsistency. (1) Struggle regarding the correct portfolio strategy (determining what businesses are core activities), especially in the period after the concept of corporate strategy had been refined. (2) Commitments made because of state laws, primarily the phase out of nuclear power. (3) Conditions that had to be fulfilled in order to get a clearing statement from the cartel office for the merger between Veba and Viag. Finally, in the third phase of inconsistency, the decreasing consistency was primarily due to consequences of market opening and the required divestment activities following the acquisition of Ruhrgas. These weakened the competitive position of the firm, yet they were necessary in order to realize the merger with Ruhrgas and thus gain a large share in the gas business.

6.1.2 Impact of regulatory involvement

As indicated in the previous section, regulatory involvement was partly responsible for inconsistencies between the resource allocations and the defined concept of corporate strategy. In general, the influence of regulatory involvement increased, as can be seen in the following Figure 6-3. After privatization issues in 1995 and 1996, the share of resource allocations that were influenced (in most cases forced) by regulatory involvement increased steadily from 1998 to an intermediate high of 25% in the second half of 2000 and a climax in the second half of 2003 with 38% - i.e., more than every third resource allocation - being directly affected by regulatory involvement.

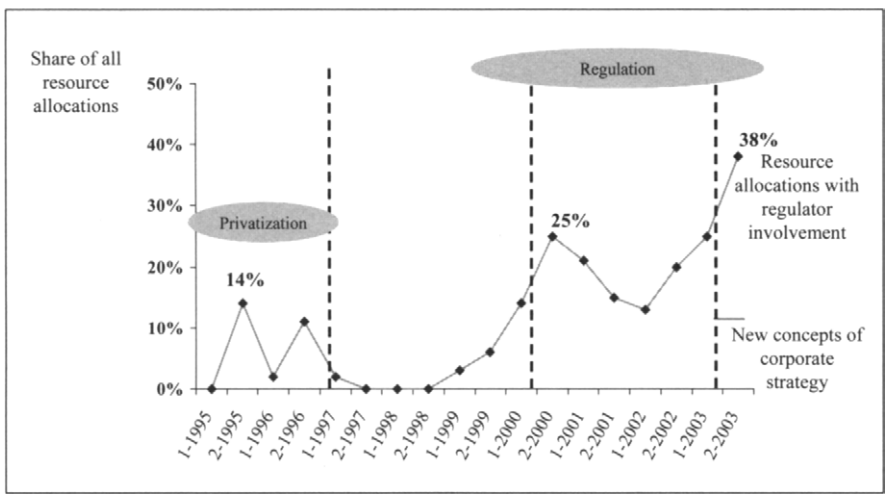


Figure 6-3: Share of resource allocations affected by regulatory involvement

Thus, while regulatory involvement in the time between 1995 and 1996 acted in favor of the consistency level, because E.ON benefited from privatizations, since 1999 regulation has been acting against the interest of E.ON. This argument is supported by an analysis of the consistency level if resource allocations without regulatory involvement are not considered (see "Without regulative" in the following Figure 6-4). In this case, the average consistency level raises to 92% and proves completely consistent (100%) since the second half of 2001. On the other hand, the consistency level of resource allocations with regulatory involvement (regulatory consistency) was very diverse. Mostly, it has been in the area of 50%, meaning that every second resource allocation, on average, was not in line with the official concept of corporate strategy.[101]

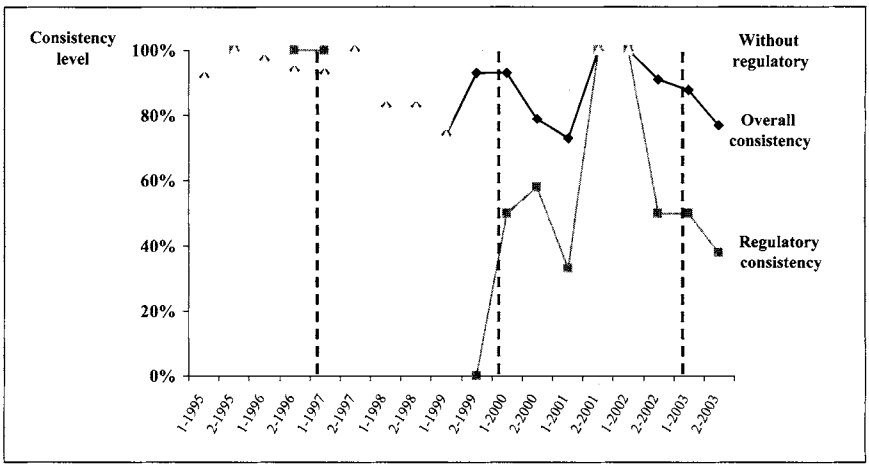


Figure 6-4: Regulatory consistency vs. overall consistency

While we do not pretend that the analysis of the consistency levels fulfills the criteria for sound statistical methodologies, they nevertheless can serve as indicators for the impact of regulatory involvement on resource allocation decisions. Supporting the primarily qualitative approach of this dissertation, we suggest at this point that regulatory involvement does have an influence on the consistency between resource allocations and the defined concept of corporate strategy and that consistency decreases at the same time regulatory involvement increases.

[101] For the second phase of inconsistency (second half of 2000 to the first half of 2001), the minimum level of consistency would stand at 86% (instead of 74%). As for the third phase (second half of 2002 to the second half of 2003), complete consistency would be realized (instead of 77%).

6.1.3 Institutional mechanisms at work

The first institutions that come to mind are probably regulative institutions in the form of laws and by-laws that force corporations to comply with the requirements of political actors. And indeed, in many cases, for example the phase out of nuclear power or certain divestment requirements, coercive pressure has forced resource allocations that would otherwise not have been undertaken. And despite its opposed strategic goals (e.g., that nuclear power is an integral part of the energy mix and that market leadership is the strategic ambition of the firm), E.ON had to follow the regulatory requirements and plan for the phase out of nuclear power and to divest strategically interesting assets. While the involved political actors naturally relied heavily on regulative institutions, they also engaged in the creation of according normative institutions.

Speaking of nuclear power, for example, normative institutions related to environmental protection started to exert normative pressures on energy incumbents like E.ON. Pushed by the ruling Green Party in Germany and backed by a growing public concern about nuclear power, the company had to re-consider its approach towards this source of energy.

Finally, cognitive institutions also contributed to the influence of political actors on strategy formation. Liberalization and market opening, for example, next to being a regulative institution rooted in laws and judicial decisions by the Cartel Office, received broad support from political, industrial, and private actors who all believed in the general value of competition. Independent of any specific assessment of the energy industry, competition was considered to be the most effective way to guarantee market efficiency.[102] As such, it can be considered a cognitive institution that exerts a more subtle, but no less assertive, pressure on energy incumbents to comply with requirements for market opening and fair competition.

Overall, it seems that regulative institutions, primarily, but also normative and cognitive institutions have affected corporate resource allocations, leading to increased inconsistency between strategic intent and strategic action, or in other words, between the concept of corporate strategy and corporate resource allocations. The resulting demand for a re-alignment of the different elements of corporate strategy and hence the increase of consistency can also be explained using neo-institutional arguments.

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[102] As part of the general belief system for any market economy, competition is considered a central ingredient for efficient market functioning and hence for public welfare. This is not a fact that needs to proven, but a fact that is taken for granted and generally not contested.

We suggest that consistency functions as a normative institution requiring corporate management to re-align corporate strategy in case of inconsistency and, as a result, to guarantee sustainably high levels of consistency. External stakeholders – such as capital market analysts – first want corporate strategy to be in line with their own interests (primarily sustainable profitability). Second, they rely on the information on corporate strategy and strategic direction that is provided by the firm. For this reason, management faces normative pressure to assure that resource allocations reflect the defined strategy. Consequently, consistency can be considered a normative institution for corporate management that needs to be followed in the medium and long term.

Opposing the regulative and normative pressures from shareholders and the capital market, other external actors formulate their expectations, too. The state, or more precisely, governments, political parties, and regulatory authorities also place demands on the corporation's strategy and structure. Bearing in mind the welfare of the whole economy, these actors want the concept of corporate strategy to be aligned with macro economic benefits. In this way they build up institutions and pressures that, in many cases, are opposed to the normative and regulative institutions and pressures created by shareholders and the capital market. In general, political actors install regulative institutions that reflect their interests and demands.

In sum, besides the general normative institution of consistency, energy incumbents like E.ON face two conflicting regulative institutions: (1) micro economic profits and shareholder return forcing the generation of superior rents for shareholders and owners, which are rooted in shareholder laws, voting and decision rights. And (2), macro economic benefits in terms of public welfare and (cost) efficient market functioning, which are transferred into according general laws and by-laws that force incumbents to open their markets for competition.

Using neo-institutional theory, consequently, helped us to understand the coercive, normative, and cognitive pressures confronting organizations when facing regulatory involvement which may require resource allocations that are not consistent with the extant concept of corporate strategy. It also helped us to highlight the critical role of consistency and the resulting pressure to re-align corporate strategy, which acts itself as a normative institution for corporate management.

6.1.4 Theoretical rooting and propositions

In the first phase of our empirical study, we elaborated on the influence of regulatory actors on strategy formation. More precisely, we looked at their impact on corporate

resource allocations and their consistency with the officially communicated concept of corporate strategy. While we do not suggest that complete consistency at any time is the ultimate goal that leads to superior performance, we still hold that high consistency is an institution and clear objective for corporate management and a top management responsibility (Burgelman and Grove, 1996).

While reasons for inconsistency can be manifold, research showed that in the case of E.ON external, regulatory influences were the main trigger. These influences included requirements for the approval of major mergers and acquisitions, market opening, and the decision to phase out nuclear power. Analyzing 459 resource allocations and four concepts of corporate strategy over nine years, from 1995 to 2003, we found three divergent phases in which the consistency between strategic intent and strategic action decreased significantly - from an average of 89% to 74%, 73%, and 77%, respectively. In times of decreasing consistency, the share of resource allocations influenced by regulatory involvement increased at the same time. Regulatory consistency – signifying the consistency of resource allocations that have been influenced by regulatory involvement – at 50% was significantly lower than overall consistency.

We are aware that our analysis remains qualitative in nature and does not meet strict criteria of statistical analysis. However, we suggest that in the context of our study there is evidence that regulatory actors affect corporate resource allocations and, hence, strategy formation. We also suggest that in our case (regulator changes from protecting the firm to promoting changes against the interests of the firm), there is a negative effect of regulatory involvement on the consistency between strategic intent (concept of corporate strategy) and strategic action (resource allocations).[103] This inconsistency then leads to institutional pressures that will require alignments of the six elements of corporate strategy.

The outside-in approach of this research phase that exclusively relies on publicly available data does not allow us to elaborate on the concrete alignment activities within the firm (see chapter 6.2). Nevertheless, we may formulate the following hypothesis on the direct effect of regulatory involvement on resource allocations and its consistency with the official concept of corporate strategy. It is important to remember that these propositions are context-specific and relate to the fact that the regulator

[103] We argue that the officially communicated concept of corporate strategy is a valid representative of the actual strategic intent of the firm, and that possible biases through informal or secret elements of actual strategy can be neglected. The importance of external communication and the control function of shareholders and the capital market which would punish non-compliance to communicated strategies leads us to this suggestion.

changes from protecting the firm to promoting changes that contradict the interests of the firm. This may lead to the fact that the defined strategy does not comply with regulation, but actual resource allocations still have to be in line with existing law.

Proposition 1a: *Increased regulatory involvement leads to the creation of strong regulative institutions that impact corporate resource allocations and, hence, strategy formation.*

Proposition 1b: *If regulation changes from protecting the firm to promoting changes that contradict the firm's interests, and if as a consequence corporate strategy does not comply with regulation, regulatory involvement negatively affects the consistency between resource allocations and the official concept of corporate strategy.*

Proposition 1c: *Increased inconsistency increases the institutional pressure on the organization to re-align corporate strategy (in terms of its six elements).*

Considering the fact, that the environmental shifts were backed by regulative institutions, i.e. laws and by-laws, it seems compulsory that corporations act accordingly with regard to their executed strategy (resource allocations). Consequently, these propositions do not come to us as a surprise. However, we still think it was worth while undertaking this step before more specifically analyzing how strategy formation was impacted. Prior research that questioned a general impact of external actors on strategy formation (Miles and Cameron, 1982; Oster, 1982; Zajac and Shortell, 1989) and that consequently supported our research plan – first elaborating if strategy formation was influenced at all, and then how it was impacted –, analyzed more general, less coercive, environmental shifts.

As for proposition 1c we find confirmation in the research of Bacharach et al., who see "*alignment as prompted by the search for consistency*" (Bacharach et al., 1996:503). Consequently, this links our first research phase with the second phase and further encourages our research undertaking to better understand internal alignments of the six elements of corporate strategy.

6.1.5 Selection of relevant regulatory initiatives

As a result of the analysis of misaligned resource allocations, press research, industry conference proceedings, and expert interviews, we identified five regulatory initiatives that represent concrete influences on corporate strategy and structure. In the following paragraphs we will highlight why we focused on market opening and emissions trad-

ing and de-select the remaining initiatives (nuclear power, renewable energies and anti-trust regulation).

The environmental and competitive issues under research in this dissertation project vary significantly as to their effect on the corporation and their interests. Regulation on renewable energies, for example, does not hold the same magnitude of influence as, for example, the decision to phase out nuclear power. Furthermore, the status of regulation and negotiation differs and this factor influences our selection decision. If, for example, the regulatory system is fairly well established and managing regulatory involvement is limited to efficiently executing given regulatory procedures, we cannot survey interactions leading to the creation of new institutions. The missing dynamic of such a situation prevents us from further investigation of the subject.

We excluded *anti-trust regulation* from further analysis for several reasons. At present, there are no significant changes under way, legislation is comparatively established and at a mature state. Institutions are at hand to handle anti-trust procedures. Hence, the institutional environment can be described as relatively stable. Neither governments nor other actors strive to change the existing institutions. This means that companies can focus their efforts on managing existing regulatory practices. Relevant issues regularly include the appointment of the responsible authority (regional, national, EU) for the evaluation of a merger or acquisition project and the definition of the relevant market for judging whether a dominating position is reached or not. Corporate management's potential to influence these decisions is limited, although information-based strategies built on in-depth market knowledge can help. As a general strategy, large corporations can encourage the creation of a cognitive institution that says that national or European champions are good for the whole economy and prevent unfriendly takeovers. ("Let us acquire and get bigger instead of being acquired.") National governments tend to like this idea and, in general, support the creation of national or European champions as long as they are headquartered in their country. The real challenge is convincing the relevant anti-trust authorities, who tend to be much more restrictive and critical of Merger & Acquisition projects. Discussions with people who are responsible for M&A projects in E.ON revealed that meeting this challenge is a very bureaucratic and operational task. In general, the companies need to assure that the required procedures are followed and that all documents are submitted on time. The process of examining M&A projects is driven by judicial procedures. All in all, managing anti-trust issues comprises only very few really strategic activities as can be seen in the following quotation of a senior M&A executive at the case company:

"*There are only very few windows of opportunity in the operational contact with regulatory authorities that management can use to positively influence the examination process; all is dominated by judicial procedure rules.*" (P3:11)[104]

Hence, it will be hard to add knowledge to the strategic management of regulatory influences on corporate strategy and structure. For this reason we decided not to pursue the regulatory initiative of anti-trust management.

Second, we excluded *nuclear power*. As mentioned in chapter 4.3.2, in April 2002 the German government and the plant operators agreed on a phase out of all existing nuclear power plants and a ban on new ones. While the struggles about the agreement were fierce beforehand, at present there is no open discussion on the issue. Corporate managers back out of any discussion as to the official position of their firm and as to the agreed compromise.

„*As for nuclear power, the only thing I can say is that there is the compromise on nuclear power and that we will hold on to it.*" (P3:705)

While there are discussions behind the scenes on the sense of the decision, nobody seems to have an interest in opening up the discussion at present. However, the topic is very popular as it relates to the reduction targets for CO^2 emissions, since nuclear power capacity must be partly replaced by conventional coal or gas power plants, which will automatically increase emissions. Therefore we will touch on nuclear power when analyzing the developments in the field of emissions trading, but we decided not to continue our analysis of it as a proper regulatory initiative. In addition to the above mentioned reasons and the perceived "on hold" status of the initiative, it became clear that nobody would be willing to talk about this very political subject other than in terms of official statements.

The third regulatory initiative that we decided not to elaborate on is *renewable energies*. The decision goes back to the issue's salience, on the one hand, and its interdependencies with emissions trading on the other hand. First, the support of renewable energy, although a high priority issue for German environmental policy, is only of limited economic importance for the large incumbents. Corporate management attends much more closely to both emissions trading and market opening. The impact of renewable energies on the competitive position of the large energy utilities is very lim-

[104] P3:11 indicates that this quotation is derived from interview transcript (or Primary document) number 3, line 11. A list of interview partners is provided in the appendix; however, we randomly assigned interview transcript numbers to make them anonymous.

ited. Even a share in total energy consumption of 12.5% by 2010 is no threat for the incumbent utilities, especially since they try to seize the opportunities of renewable energy technologies themselves, as can be seen at E.ON, which built an independent business unit for renewable energies. Second, the newly established trading scheme for emission rights aims at the same target. The discussion on renewable energy could consequently be integrated into the analysis of the regulatory initiative on emissions trading.

Market opening and *emissions trading* remained as relevant regulatory initiatives for further elaborations. They appeared in the list of regulatory initiatives responsible for inconsistency and they are both of significant importance to energy incumbents, even though market opening has to be considered more important. Both were confirmed by press research, conference proceedings, and by expert interviews. Furthermore, they differ according to their issue characteristics, both employing Oliver's (1991) typology of strategic responses toward institutional pressures and the model on corporate political activities provided by Hillman and her colleagues (Hillman et al., 2004). These differences are of central importance for the generation of context-specific propositions in the further progress of research.

6.2 Internal alignments of corporate strategy and structure

This chapter will show how regulatory actors affect strategy formation in terms of internal alignments of the six elements of corporate strategy. In a first step, chapter 6.2.1 will describe the inductively derived typology of internal alignments we found when using a grounded theory approach to code and categorize raw data from the interviews. The typology naturally evolved from the data and provides us with a holistic picture on all internal alignments that could be observed in the interview transcripts. At the end of this sub-chapter we relate the identified codes to the six elements of corporate strategy that were used for further analyses.

Elaborating on how and in what sequence the elements of corporate strategy were aligned following regulatory involvement, we then compare results across the two regulatory initiatives of market opening and emissions trading (chapter 6.2.2). Second, we compare alignments across the two sub-units of analysis, E.ON Energie and E.ON Ruhrgas (chapter 6.2.3). At all times, the analysis of interview transcripts dominates the research process and guided theory generation. Additionally, we include results from our press research to support findings generated through the interview analysis.

In chapter 6.2.4 we interpret our findings in the light of neo-institutional theory, before they will be linked to current literature in chapter 6.2.5. At that point, we will also elaborate on the more general characteristics of a context (e.g., public pressure or perceived opportunity structure) in order to identify determinants or predictors of corporate responses that could be used for internal alignments (and externally directed responses).[105] Only then will we be able to formulate context-specific, generalizable theoretical propositions on how and in what sequence the six elements of corporate strategy are aligned following regulatory involvement.

6.2.1 General results on internal alignment activities

For the core category of internal alignments 22 codes were conceptualized and grounded in empirical observations within the interview transcripts. As a result, a total of 455 text passages (or quotations) was linked to the 22 codes. The code with the highest density was scenario planning, which had been grounded 64 times, as opposed to the least dense code of expert hiring with only one grounding in empirical data.

The codes were then grouped into four more abstract, higher order categories and seven sub-categories. The four categories can be explained by the 4 C's of internal alignments: (I) context screening and setting, (II) coordination and control, (III) competence bundling and corporate parenting, (IV) communication. With regard to the related sub-categories we might refer to the 7 C's of internal alignments. Context screening and setting was further divided between (1) context (external) screening and (2) context (internal) setting. Coordination and control activities that are closely related to each other can nevertheless be separated for analytical and conceptual purposes to form (3) coordination and (4) control. According to the same logic, we distinguish between (5) competence bundling that consists in the build-up of know-how on the corporate level and (6) corporate parenting that refers to the use of corporate level knowledge in order to add value to the market unit level. Finally, the category of communication has not been further differentiated, and is consequently identical to the sub-category (7) communication.[106]

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[105] Context hereby focuses on the regulatory initiative (emission trading and market opening) or the subunit of analysis (E.ON Energie or E.ON Ruhrgas) that can be characterized through more abstract variables, like public pressure on the incumbent or the perceived opportunities or threats associated with a regulatory initiative, for example.

[106] While the distinction between categories and sub-categories might not seem obvious, we still think it is of good value for the structuring of our analysis. However, we did not intend to create abstract categories subsuming two sub-categories. For this reason we simply linked the sub-categories instead of finding a new semantic expression.

Figure 6-5 shows the coding network generated during the research process. Along with the structuring of codes and categories, density measures (numbers in the Figure 6-5) help to determine the importance of the different categories and codes. For example, the number 101 at context screening indicates that the sub-category context screening has been grounded in empirical data 101 times. Compared to corporate parenting (15 times), this sub-category has apparently received more attention by corporate managers. While these density measures are not meant to provide statistical evidence, they do objectify and support the general findings of qualitative research.

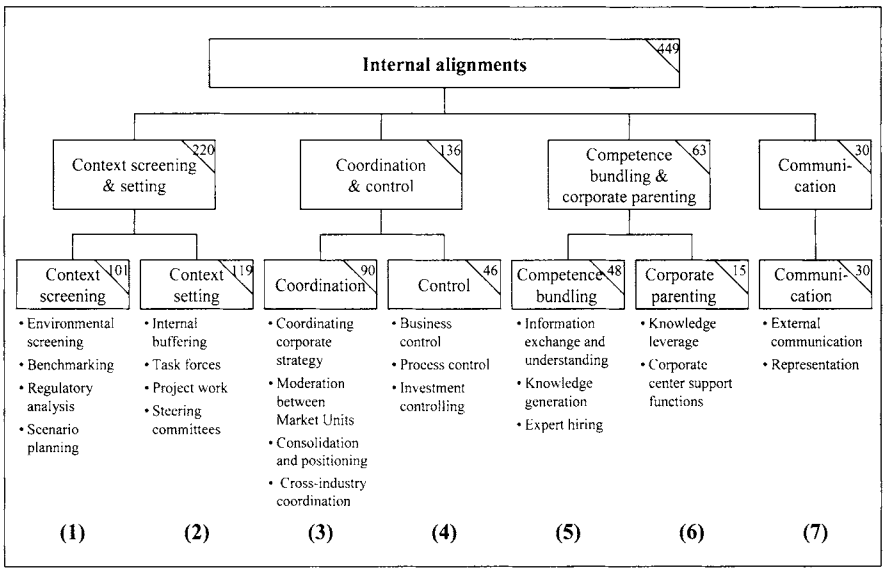


Figure 6-5: Coding network on internal alignments

Context screening and setting is the dominant category, with 220 empirical groundings (= 48% of all codings on internal alignments), followed by coordination and control (31%). Competence bundling and corporate parenting (14%) is well behind but still significantly more important than communication (7%).

A detailed description of the seven related sub-categories and their codes, including direct quotations from the interviews, will be presented in the following pages.

(1) Context screening (101)[107]

[107] You will always find the number of times a certain category or code was grounded in empirical data in brackets.

Context screening includes corporate activities that elaborate on the developments in the environment of the firm and on how the firm can react to shifting environmental conditions. Starting with environmental screening on an ongoing basis, issues are identified and prioritized according to their expected impact on the firm. Once selected as high importance issues, further investigations, like benchmarking across industries and countries, are launched. Also, regulatory analyses are initiated that aim to shed light on the expected strategies of regulatory actors. Finally, based on the knowledge of the environment created through the just-mentioned activities, scenario-planning techniques try to deal with uncertainties about the future state of the environment.

Environmental screening (29)

"Clearly the environment is part of any strategic decision, so that's where you always have to begin." (P14:131).

Thus, screening the environment for all kinds of factors is the starting point of any strategy. This includes market screening for investment opportunities, technology tracking, competitor analysis, and, last but not least, the screening of the regulatory environment.

In industries like electricity and gas, market components are much easier to deal with since the major market players are well known, sales is still not a dominant function and technology is primarily driven by plant engineering and construction giants like Siemens, ABB, and GE. On the other hand, regulatory forces have a much greater effect and form the source of uncertainty for incumbent utilities. While certainly considering a broader set of actors who might influence the course of the firm – including such market players as customers and suppliers – the focus rests on regulatory actors.

"Market screening in our industry looks really different from other industries. We live in a very structured world that we are very familiar with, we know all the players, and we know their equity structure ... So, in general, you are dealing with privatizations or sales of present incumbents ... and then, depending on the political and regulatory environment, some issue would appear on our agenda." (P14:121-125)

On the one hand, certain markets and their political and regulatory developments are under permanent or contingent screening for potential investment opportunities. On the other hand, and even more importantly, the general evolution of the regulatory environment on the European and national level is under permanent surveillance. Almost literally *"having an ear on current developments"* (mentioned five times in our interviews) is one of the key challenges.

"Since we tend to be where the music is, metaphorically speaking, we do react to external influences by politics that function as an early-warning system, meaning we keep our ears open and listen to what is planned." (P18:21)

"We have our ear at the pulse of time to make sure that if harm raises anywhere we are aware of it and we can react on it." (P5:389)

Having identified critical issues, the responsible political departments would then have to summarize the discussion on potential law amendments, briefly assess possible impacts (from a regulatory and legal standpoint), and feed a report into the strategic discussion within the firm. This way, a political perspective on the markets would be added to the classical competitive market perspective.

For incumbent market leaders, being one step ahead of regulatory developments seems to be an important factor of success. Consequently, an ongoing screening of regulatory conditions prepares the firm for eventual opportunities or threats and allows for quick responses when required.

"Having observed the developments and discussions on the regulatory conditions over a period of years, I will then have a short setup time to work on the topic intensively." (P10:141)

Benchmarking (3)

While environmental screening is about the ongoing process of issue identification within the (regulatory) environment, benchmarking is a much more targeted approach of anticipating possible states of regulation. Borrowing from classical management tools, the concept of benchmarking can also be employed in the case of regulation. Comparisons with industries (such as telecommunications and postal service) that have gone through comparable changes can help analyze the regulatory environment of the energy business. Benchmarking with other countries can also be useful.

"I do think it really makes sense to look into other countries, compare, and see what has happened on the international level." (P15:278)

Although concrete developments in the national markets might not be directly deduced through the process of benchmarking, the spectrum of possible regulatory schemes becomes more transparent. Furthermore, the firm will be better prepared for possible changes to come and will strengthen its negotiation position vis-à-vis the political institutions (based on the knowledge of different markets and the lessons learned).

"The possible characteristics of regulation in Germany and their economic effects do vary extremely. You just have to look into other markets in which a regulatory authority has existed for several years and you will realize how diverse these are, how large the differences are." (P11:205)

Regulatory analysis (5)

Regulatory analysis is closely related to benchmarking but goes one step further. Basically, it is about analyzing the regulatory body in great detail. The challenge is to anticipate the regulator's possible nature, functions, responsibilities, and tasks; and also to evaluate more operational topics such as its possible staffing since this directly impacts its possible scope of operations. Hence, regulatory analysis should help the incumbent utility to better understand regulation and evaluate possible response strategies.

"If I had to look at the process [of regulation], I would start with asking what he does, the regulator. Who he is, how he is, what are his ambitions, and did he already make any experiences in other fields. And this is what we did. We looked at the concepts he used and tried to figure out whether he will just scratch on the surface or whether he will really dig deep. We asked ourselves when he will start his work and which options we would have to act against him." (P15:163)

Again, comparisons to other countries or industries were of great importance since they indicated where regulation could be applied and what alternatives were at hand.

"What are the guiding principles of regulation in telecom and postal service, and how easily can they be transferred to electricity and gas? If they can not be transferred what are the alternatives?" (P15:173)

Scenario planning (64)

Scenario planning is basically the continuation of the above-mentioned activities of context screening; it crosses the border from an observation task to a task of creation. Linking developments in the regulatory and market environments of the firm provides the basis for the development of alternative corporate response strategies. Starting with the formulation and evaluation of possible environmental scenarios (including an impact analysis), strategic options for the corporation are developed. Scenario planning in general is a widely used management tool, and it has been used to deal with regulatory uncertainties within parts of the E.ON group. Now, strong efforts are aiming to introduce scenario planning techniques on all levels of the firm.

Unlike simple forecasting methods that would extrapolate from past developments, scenario planning is supposed to provide a more solid fundament for planning.

"On the one hand, there is a scenario based approach that is used very much by companies like Shell. On the other hand, there is the approach of linear extrapolation like most classical consultants use at present. Now we want to set up a scenario driven approach like Shell used to do in the past ... that reflects on possible states of our world of tomorrow, including external influences." (P5:171-173)

One of the main reasons for introducing scenario planning is the conviction that uncertainty about the future state of the environment is too high and that it could be managed more efficiently with the help of scenarios.

"If you make a decision on new power plants today, you know that they are going to be in use for thirty or forty years, which means you act under high levels of uncertainty, and this requires the consideration of manifold spheres of influence, emissions trading and other questions. Hence, in such a situation scenario planning is inevitable." (P13:105)

While the most basic market forecasts, for example on oil prices, would be bought from specialized market research firms, the primary task of E.ON scenario planning efforts rests on an identification of the most important drivers of future market scenarios, as a first step. And the regulatory environment turned out to be one of the most important drivers.

"We had a market model which developed scenarios for which the regulatory environment was one of the key inputs. One access was regulatory developments, on the one hand highly regulated, on the other hand fully deregulated." (P6:81)

In addition to regulatory scenarios (non-market components), scenarios are also developed for market components, e.g., the future importance of decentralized electricity generation or electricity and gas substitution. The result is a two-dimensional scenario matrix in which future states of regulation are combined with future states of selected market development.

"Then we had another access, which was in the wholesales side extensive gasified generation. So, if you go to the top right in the corner [of the scenario matrix] you had high regulation and high uptake of gas." (P6:85)

Having drawn the playing field for the future energy market, response strategies are developed for each scenario (combination of regulatory and market environments).

These strategies integrate market and non-market components, and try to formulate the best answer for any given scenario.

"The question then was, 'What are the parameters of dealing within that scenario?' And to find a pathway of how to get there. To understand what was driving a high uptake of gas fired generation. So it was really to look at what the different options were." (P6:87)

From a more political perspective two approaches are considered. First, a more passive one that builds on required internal alignments in the corporation's strategy, structures, and processes. Second, a more active one that relies on possible external response strategies in order to shape the regulatory environment according to the firm's interests.

"In the end we pursue two different approaches. On the one hand, how do we expect the regulatory environment to change and how do we need to prepare ourselves for this change. So this is a rather passive approach. At the same time, you have to build a more active approach. What do we think we must do in order to influence the regulative environment? Because as a large energy conglomerate we can certainly do that, and so we have to play both the active and the passive part." (P5:217)

Finally, during the strategy formation process a certain scenario will be selected and included in the official strategic plan. Along with supporting strategic decisions, scenario planning is also valued for its contribution in systematically and profoundly reflecting on the different strategic directions the firm might want to or have to follow.

(2) Context setting (119)

While context screening primarily consists of activities that aim at analyzing the corporation's external context, context setting is about shaping an internal context suited to dealing with the challenges of the environment. Context setting is also very much concerned about processes and structures that are meant to deal with external contingencies. The focus is hence much more on the process of firm reaction and less on its simple content. Overall, context setting received the highest empirical grounding, with 119 quotations accumulated on the related codes (i.e., one in four quotations on internal alignments). More precisely, we distinguish between internal buffering, task force work, project work (slightly more formal than task forces), and steering committees.

Internal buffering (3)

Internal buffering deals with measures that aim to protect the operational (or technical) core of the firm. Faced with regulatory guidelines, E.ON opted for partial accordance in order to protect other parts of its operations from regulatory interference. When calls for an unbundling of accounts became clear for all integrated utilities of a certain size, E.ON opted for the spin-off of its complete transmission business.

"Once you realize that you have to accept the political will, you need to make the best out of the situation and keep the transportation business legally independent, and this includes information flows and other aspects, so that you become a regular customer of the transportation organization." (P14:145)

Going beyond unbundling of accounts, the firm went one step further than required by current legislation, not in an effort to showcase the firm's role model function to drive market opening but to protect the rest of the business.

"If you stick with an unbundling of accounts, and if your accounts are not properly reflected in the structure of the different allocation groups, you run into trouble because you need to break down so many different costs. So, if you don't introduce a new organization, you risk having to open your books for the entire business to the regulator. And if you don't want this to happen, then you have to find other ways, I mean strategic ways." (P15:103)

There was no alternative to following regulatory guidelines, of course; however, many of the negative effects could be passed on to suppliers or customers, investments in the transmission grid were postponed, and the organization became more efficient. In this sense, real damage to the technical core of the organization was circumvented.

Task forces (20)

Task forces represent a common form of organization that conducts preliminary research on issues that have been identified as somewhat important for the firm. In general, they bring together individuals from different backgrounds with relevant expertise to handle specific problems. Coordinated by functional representatives whose departments seem most suited, they seek a common solution.

"In order to influence the legislation process and hence the strategic direction of the body of laws, we formed a task force where we brought together the necessary expertise from the different parts of the organization. And we worked on an agreed on common position that could then be communicated to the political actors." (P7:59-61)

Most members would be assigned to the task force temporarily for its day-to-day operations but remain in their functional responsibilities and hierarchies. However, for more important task forces and in critical moments, a core group might be permanently assigned to the task force.

"They [the members of the task force] come from different departments or companies, but they work together as a task force. And then there might be a core group which is released from daily business and which would concentrate exclusively on the task force work." (P10:231)

As compared to project work, task forces in general are much less formalized and work at a lower intensity level. They may precede the formation of a project team if the related topic is considered important enough to justify a broader and more detailed approach. Task forces help to quickly assess the importance of an issue and prepare for its further handling by other organizational structures as needed.

"Task forces are the first step towards the solution of a problem. Whether the task force will finally solve the problem or not will be determined in a relatively short time after its installation. If an understanding is reached that broader knowledge is required, decentralized know-how might be bundled in a project structure. If the issue's relevance is further increased by legislation, for example, we might even think about organizational structures to deal with the issue in the long run." (P13:205)

Project work (65)

As indicated above, projects are used as organization forms to elaborate in greater detail on issues that are supposed to significantly affect the firm. During coding, project work was subdivided into three major project phases: project generation (15), ongoing project groups (37), and project results (13). Since they are closely related we opted to present them within one section of the dissertation.

Project teams, which may have started as small and informal working groups or task forces, are formed upon awareness that current activities are not adequately preparing the organization for the changes to come. In the case of emissions trading, for example, a project group was created at E.ON in 2002 to reflect the growing strategic importance of the issue.

"In that phase we realized that current activities on the issue of CO^2 reduction were not enough anymore. We realized that the topic had to be addressed much more thoroughly, and we couldn't handle it with the people assigned to the issue in addition to

their day-to-day business. So we had to push the work to the next level that would be suited for this important, for this strategically important, subject." (P13:183)

In general, central staff functions play a major role in initiating and moving forward project work. Reflecting on the major strategic challenges of the firm and acting as catalyst for upcoming ideas, corporate center departments frequently drive the installation of the cross-functional project team. They also take part in project work and play a major role in the preparation of board decisions.

"We [the corporate center] take considerable responsibility for this, we see the relevant projects, their necessity, and we initiate these projects and present them to the board well-prepared so they can decide." (P5:91)

Like task forces, project teams assemble the knowledge that had been distributed across the organization. Combining expertise from different departments, project teams are then supposed to handle the issue most efficiently.

"The issue came up, but of course we didn't have an organizational department called 'combined heat and power generation,' and we would not have hired external people for this issue. So we put together a project team that bundled the expertise on the issue and that could represent the interests of the firm." (P13:11)

Now, project teams seem to be very suitable, especially in the field of politics and regulatory management. Whereas classical corporate strategy develops within much more formalized structures and routines, including periodic status-quo reports, political issues are more likely to be dealt with within a project structure. Each legislation amendment, for example, could also be considered to require a project team.

"These strategy arrows, nested with one going here, the other there, and then, every six months everything adding up to the corporate strategy? No, this does not make any sense in the case of politics. We work very much on a project base, each theme is a project, sometimes themes can be grouped, and for each we search for a solution." (P2:173)

After project work has been finished, it is important to make sure that the results are put into practice. This might signify that the results will be integrated into the business along with standard procedures and guidelines (e.g., for interaction with the relevant regulatory authorities). It might also lead to the installation of a specialized corporate center function (e.g., Regulatory Management) or even the creation of a separate business unit (e.g., renewable energies).

"In my opinion, if you are managing a project, it is always important that you also take care of the post-project phase, meaning that you make sure that the things we started within the project will be operationalized in the different business units." (P13:23)

Steering committees (31)

While task forces and project teams conduct the actual work on identified issues, steering committees are literally responsible for steering the work process. Senior managers from the most affected divisions assure consistency of the project with the general direction of the firm, provide guidance if necessary, and approve the necessary resources allocations.

"As manager of this project [emissions trading] I do, of course, have a steering committee with representatives from the different functions - two from E.ON A, including the head of the politics department, a person responsible for general technological issues at E.ON Energie, the head of politics at E.ON Energie, and two representatives of E.ON generation - because power plant operations will by highly affected." (P13:193)

Besides project steering committees, there are a number of other standing committees and management circles. At E.ON, for example, there are five business steering committees which discuss important issues on a superordinate level and coordinate important projects within the five market units. These business steering committees report directly to the board of the group and currently meet about four times a year.

In addition, there are functional management circles on the market unit level, like the one for the transmission grid, or the one for the retail and sales business. They generally meet every two months and provide input on important issues for both strategy formation and ongoing projects.

"We have the management circle for the transmission grid, and the one for retail and sales. For them issues like unbundling or interactions with the regulator are certainly important, and they are discussed on an ongoing basis. So, we do receive constant input." (P11:81)

A little less formalized than steering committees are "jours fixes," which also play a critical role in coordinating current activities and in giving direction. Due to their more informal character, less preparation is needed and thus more meetings are possible, up to once a week. In order to address matters of politics, for example, a "jour fix" on

regulation was established. Bringing together middle managers from different functions, it was used to exchange information, evaluate the status quo on the relevant issues, and discuss further steps.

"We have a 'jour fix' on regulation in which five middle managers from different functions meet once a month: Law, Politics, Regulatory Management, Transmission, and Sales. They discuss all current issues; there is a status quo report on what has been done and what is next." (P18:302)

(3) Coordination (90)

Triggered by the focus on energy businesses, the group also transformed from a financial holding to a management holding. Along with this transformation came a greater emphasis, beyond portfolio management strategies, on the coordination of the different energy businesses.

Since all strategies are clearly related to coordination tasks - across organizational levels (corporate, market unit, business unit), between market units, across related industries (electricity and gas, and also other net-based industries like telecommunications) - we distinguished between four codes making up the sub-category of coordination that will be explained below: (1) coordinating corporate strategy (consistency checks, standard strategy processes, etc.); (2) moderation between market units (aggregating, prioritizing, and compromising between different interests, operative relations between the market units, etc.); (3) consolidation and consistent positioning (common planning bases, consistent regulatory strategy, consistent process guidelines); (4) inter-industry coordination (with a special focus on electricity and gas, but also mentioning related industries). Altogether the sub-category was grounded 90 times.

Coordinating corporate strategy (42)

Among the most important functions of the newly established Corporate Development department at E.ON's headquarters is formulation of the group strategy. A major objective of corporate management has been development of a consistent corporate strategy in place of isolated strategies for the different market units.[108]

"The main reason why this division [Corporate Development] was created was that we wanted to formulate a common strategy for the whole group. I mean, it didn't make

[108] One of Corporate Development's explicit responsibilities was to develop the firm's equity story (together with the Investor Relations department), for which a clear and consistent corporate strategy is essential.

sense to solve the country-specific problems, say in England ... isolated and detached from the core markets in Europe." (P2:31)

For this reason a corporate-wide strategy process was established that included top management strategy retreats, strategy meetings between corporate management and the Market Units, medium-term planning, and formal goal setting and strategy approval through the E.ON board of directors. For the Market Units these changes meant that more planning routines had to be followed and strategic decisions had to be cleared by corporate management more frequently. While strategy was formulated in a combined top-town and bottom-up process, the final decision was/remained at the corporate level.

"We do not make it [corporate strategy] on our own, because for that we have the Market and Business Units. But in principle, on this boat that keeps its head above water with the aid of many people, we [corporate development] are certainly the ones to navigate." (P2:83)

Primary tools to navigate the boat are the resource allocations provided by the corporate management for consistent and value-maximizing strategies. From a corporate perspective, central resource allocations allows for balancing investments and steers them to where they seem most promising with regard to future cash flows, rather than to where the best results were achieved in the past. From the Market Unit perspective, central resource allocations have the advantage of balancing out natural profit fluctuations.

"We compete for resources, and one resource for which we compete is money, since we all deliver our money to Düsseldorf [corporate headquarters], and then it gets redistributed from there. Now, I do not get the money that I earned; in some phases you need more, in others it is someone else's ... This is like in four-man cycling, always someone else has to take the lead. As with the profits, at one moment one pulls the Group, and then it is someone else." (P10:337-339)

Moderation between Market Units (22)

As one could imagine, strategic thinking in the Market Unit is very much dominated by individual needs and interests. This is normal and part of Market Unit management's key responsibilities. However, a pan-market coordination function is required that balances differing positions and that helps reach the optimum for the entire organization.

"Market Units very much follow their self-interest, which is absolutely okay. It is evident that they first optimize their own business. However, this partly includes very one-sided positions, and corresponding lobbying efforts. At this point we need to create a certain equilibrium, of course." (P5:235)

Consequently, in situations of conflicting interests between Market Units, corporate management needs to moderate, evaluate trade-offs, bargain for a suitable balance between opposing positions, e.g., between electricity and gas, and finally set priorities to formulate a common position.

"For us, in such a big Group, the different opinions need to bundled and weighted. The position of E.ON Energie, for example, dominates as for emissions trading, since they are actually more threatened."[109] (P18:160)

While this moderating function tends to focus on the resolution of conflicts, another important function is the sharing of distributed knowledge. This includes the aggregation of knowledge on regulatory trends, and possible analogies derived from the electricity business that can be transferred to the gas business.

"And then everything should be examined at corporate headquarters, since possible tendencies can be identified. For example, in the electricity business - with regard to grid access fees - we [E.ON Ruhrgas] can certainly benefit from the insights since one has to expect that the situation will be comparable for the gas business." (P14:133)

Another factor in coordinating Market Units relates to best practice exchange, benchmarking, and sharing of know-how. Comparing processes across Market Units allows for identification of best practices and encourages their corporation-wide installation. The newly created corporate center function of Market Management assumes this responsibility of coordinating benchmarking processes, identifying performance and synergy potentials, and transferring best practices.

"You can – since they operate in different markets – easily compare the costs for billing in the UK, at Sydkraft [Nordic region], in Germany, or in Hungary. You can adjust them by the level of labor costs and then have a look at the process. Then you will

[109] While E.ON Ruhrgas could benefit from emissions trading due to joint implementation measures in Russia, for example, E.ON Energie could be hit by strict reduction targets. Consequently, the ideal regulatory system for E.ON Ruhrgas is different than the optimum for E.ON Energie. Moderating between the different positions, Corporate Management set the priorities according to E.ON Energie's interests and needs and formulated a corresponding common position.

see,'Aha,' who has the best process in place and whether it makes sense to implement this process in other Market Units." (P8:41)

Finally, there are certain coordination functions related to the operative business and the interfaces between Market Units.

"Interface management, hence, determines the whole question of how Ruhrgas transmits gas to E.ON UK, how does it work, where are the interfaces, how are the markets jointly served, how will we position ourselves in the energy market in the future." (P8:11)

Consolidation and positioning (17)

Especially with regard to positions that are externally communicated, corporate coordination and consolidation activities seem to be very important.[110] A large energy Group like E.ON must strive to speak with one voice; possible conflicts of interest must be resolved internally (see "Moderation between Market Units"). Extensive contacts between the responsible managers at the corporate and Market Unit levels are an important precondition for the formulation of consistent regulatory strategy.

"It does not make much sense – if you take a country-specific topic – if the English position argues for a regulation of energy storage while the position in Central Europe, in Germany, argues that energy storage should not be regulated." (P2:31)

"It definitely makes sense to agree on a common position for electricity and gas." (P18:418)

While the strategic task of consistent positioning is a central responsibility of corporate management when facing regulatory involvement, a standardized interface between the company and the regulatory authorities outside the firm is a key task on the operational level. On the one hand, this calls for common structures to represent the firm. Accordingly, the Ruhrgas representation at the European Union in Brussels was integrated as a joint bureau for the E.ON Group. On the other hand, process guidelines for interactions with external actors on all organizational levels are required, because not all communication can be channeled through corporate center functions.

[110] In contrast to the code "coordinating corporate strategy," "consolidation and positioning" is less creative and represents more of a consolidation of existing positions that shall be streamlined for a consistent external positioning. However, we agree that the two codes are closely related.

"For some processes – especially those that include external communication – guidelines are required. If, for example, the regulator knocks at the doors of the Business Units on site, then there must be clear guidelines, a code of conduct, how you then deal with the regulator in such cases." (P2:214)

Consistent positioning and communication is one thing, consistent planning another. Beyond its relevance for credible negotiations with regulatory authorities, consistent planning also bears some strategic element. If different Market Units use different scenarios for the development of oil prices, for example, the question must be raised, "Why this is so?" In the course of strategic planning this issue must be covered, and common premises and bases of calculation should be established.

"We need to critically review and evaluate [planning scenarios] if we [corporate center], for example, ask for an amortization period of fifty years while E.ON Energy claims, let's say, sixty years for the same plant." (P15:292)

Finally, in order to systematically consolidate corporate positions on the different issues, overviews of current (political) activities seem to be very helpful.

"*We did create a more comprehensive list to get a complete overview, for example, simply to see what is pending in the different associations, not only the issue, but also where the company is active, in which committees, etc., just to get an overview.*" (P18:188)

Cross-industry coordination (9)

While cross-industry coordination might be part of some of the above-mentioned coordination mechanisms, we still want to highlight its critical importance as a means of avoiding conflict, especially with regard to electricity and gas. The evolution of the regulatory environment of the two related energy markets did not proceed in synchronism. Since the opening of the electricity market was realized more quickly, the gas industry was frequently blamed for blocking fair competition.

Despite broad consensus on the convergence of electricity and gas, there are major differences between the two markets. Gas is subject to differences in quality, and it requires physical transportation. For this reason its network infrastructure tends to be more complicated. Additionally, there is already some competition between gas networks (for example, between Wingas and Ruhrgas) because customers have at least some choice of transportation providers (as opposed to electricity where there is only

one grid). The result of these differences is a call by the large gas incumbents for lower degrees of regulation.

Now, despite these differences between electricity and gas, a large energy Group like E.ON needs to consolidate and coordinate its overall position regarding regulation (as indicated above). Keeping in mind the interests and needs of both businesses, as well as the feasibility – in the technical and regulatory sense – of possible solutions is one of the major challenges in this context. An integrated energy Group like E.ON must hence try to lead the discussion on a very content-driven, technical level, in order to promote differences in regulatory standards where they seem necessary.

"The regulatory environment of electricity and gas still differs in many regards. And they need to be distinguished. The issues are different. For this reason we organize like this [separate specialists for electricity and gas within the department of Regulatory Management], and I am sure the regulator will do the same ... You need to understand the technical details to negotiate reasonable regulatory systems." (P2:17)

In addition to the specific situation of electricity and gas, the coordination of contacts with other net-based industries, such as telecommunications, can be valuable for energy firms due to the experiences generated in these industries during phases of market opening. Also, common positions for selected issues might be formulated, and joint activities regarding the political and regulatory actors might be considered. For this reasons it is the task of regulatory management to establish relevant contacts.

"What we do currently build with great intensity is contacts, for example towards telecommunications. They do have the experience, they are five years ahead, they can tell us a lot and we can learn a lot from them. ... And, my personal career development objectives explicitly include relationship building with other net-industries that are regulated, exchange ideas, eventually formulate common positions where it makes sense." (P2:65-67)

(4) Control (46)

Along with coordination, control is a second central ingredient for steering a multi-business firm. Compared to coordination, which emphasizes the commonalities between the different businesses and the sharing of resources, control is more about guiding resource allocations and preventing misallocations. While the corporate center function, in the case of coordination, supports the increased use of common resources, it limits resources in the case of control and ties it to the adherence to content and process requirements. In an institutional way of thinking, coordination could be asso-

ciated with the spread of internal institutions (systems, norms, values), while control assures that the established institutions – or pattern/s of organizing and running the business – are followed.

Grounded 46 times in empirical data, control could essentially be divided into business control, which focuses on the content of strategies and tactics, and process control, which is literally about the controlling of established processes. Additionally, negative selection was included in this sub-category as a form of fundamental resource allocation control.

Business control (20)

While business control had been limited to the financial achievements of the different portfolio companies in times of unrelated diversification, the strategy and market position of the Market Units became more and more important as the Group developed into a focused energy giant. Instead of simply controlling essential financial ratios, business control goes much further nowadays, when strategic considerations are included in standard interactions and negotiation processes between the corporate and Market Unit levels. Corporate management would, hence, discuss the strategy of its Market Units in much greater detail than it used to do.

"That you have a look at financial ratios at the end of the day is of course also relevant, but now we really go very much into the essential core functions of a business. We look very much into the strategy and market positioning of the Market Units: How do you want to position yourselves? What do you plan for the future? How do you want to organize in the future? How can we get better?" (P5:137)

A reason for this shift is, of course, the much greater focus of current activities. Within a widely diversified conglomerate, the corporate headquarter is limited to financial control since strategic understanding of all businesses is not possible, nor is it effective. As a focused energy holding, the headquarter increasingly built energy know-how to strategically manage the different businesses. While this process of knowledge creation on the corporate level is still ongoing, great efforts are made to challenge strategic plans from the Market Unit level.

"Now, we would not calculate our own models; this would be very costly. However, we do want to make up our own mind, and we try to use publications, a [market] study, expert opinions, and so on. In this way we could challenge the internal calculations on the Market Unit level with an external view." (P8:93)

Besides the direct control of strategic decisions, corporate management also deals with the Market Units' proper control strategies, for example, how they plan to conduct Value Chain Risk Management. In this regard the risk management systems are assessed as to how well they manage risks within the Market Units and as to what risks could result for the entire Group.

"As for Value Chain Risk Management we primarily deal with control strategies within the Market Units. How do they manage their different businesses? How do they manage their value chain? How are the risks transferred within the Market Units? Which risks result for the entire Group? And then we derive how we can intervene to control and coordinate." (P8:7-9)

Finally, control of implementation is part of corporate responsibilities with regard to business control. Decisions on structures and processes, derived from corporate or Market Unit projects, need to be implemented, and the corporate level in general assumes ultimate responsibility for the transfer of plans and measures into daily practices.

"There are certainly things that have to be controlled in the months to come when we have to say that we have developed these instruments in the field of [energy] generation and we have created certain structures in the field of trading. And then we need to make sure they are really implemented and optimize our organization." (P13:21)

Process control (23)

Probably the most important process currently controlled by the corporate center is the newly established strategy process. While everybody agrees that the content of strategy should be, to a large extent, determined by the Market Units themselves, process ownership of how these strategies are developed lies at the corporate level. Consequently, Market Unit strategy is influenced by the corporate level through the strategy process. And corporate management can determine strategic issues and can clear or deny the strategic plans of the Market Units. Furthermore, the corporate strategy department is responsible for assuring that a reasonable strategy is developed through a professional process, and that critical issues and possible risks are considered.

"And we [Corporate Development] also control strategy processes for each market unit. There is a major presentation to the board in May. We kick off the process in January and run a series of meetings once a month with the market units. See, these are the issues we have agreed that the board needs to discuss in May. This is the analysis we need you to prepare, and then we check with you periodically." (P6:16)

The corporate center at the headquarters does, however, share the process responsibility with the Corporate Development departments at the Market Unit level, which function themselves as interference between the corporate headquarters and the operative businesses where the strategy actually develops.

"We check. The actual process is led by the strategy units of the market units. We set the parameters, we tell them what are the issues they need to address in general and then leave the analysis within the market units and they decide what sort of message they want to formulate for the board." (P6:25)

The strategy formation process is also closely linked with the planning processes of the Market Units. While this seems logical, it was not the case until recently. Previously, strategy was developed in the Corporate Development department, and the Controlling Department was responsible for operational short- and mid-range planning. No wonder that there were inconsistencies between the strategic intent (as formulated in the corporate strategy) and strategic action (as documented in short- and mid-range planning). A new, more process-driven approach diminished these problems.

As with general corporate strategy, the management of political processes lies at the corporate level, which assures that the different positions are discussed and then guided towards a common point of view.

"You [corporate level] would present it [political issue], and discuss and analyze it with the relevant group of people. And these would then be our strategic tasks, to coordinate, and to control these political processes." (P18:79)

Investment control (3)

Besides controlling the strategy and planning processes, the corporate center also controls the investment process through (1) setting clear investment criteria and (2) tight management of major investment projects.

"We, in the corporate center, will have process ownership for major investment projects, i.e., we evaluate the projects, prepare them for decision, and will then partly accompany their implementation." (P5:11)

In this way all major investments are checked for their strategic fit and controlled by the corporate center. Thus the corporate center has more opportunities to steer investments to markets where the potential benefits are higher or where the risks of failure are lower. For example, retiring from existing markets (negative selection) and moving to markets with a better regulatory environment is part of a preemptive strategy to op-

timize the market portfolio, instead of optimizing activities within a disadvantageous regulatory system.

"On the Market Unit level, there is still a disproportion between national and international markets. And exactly there, E.ON [as a Group] tries to act ... which means buffering risks, not in the form of optimizing operations within a regulated business, but in the form of Group-wide optimization and internationalization." (P11:173)

(5) Competence bundling (48)

The increased demands on corporate value generation and the realization of a corporate parenting advantage (also see next sub-category) went hand in hand with competence bundling and the creation of know-how on the corporate level. While an in-depth understanding of the businesses within the diversified conglomerate was not required on the corporate level (and had not been possible anyway), business sense and expertise know-how was then required to add value to the related electricity and gas business within the Group.

Grounded 48 times in empirical data, the sub-category of competence bundling is right in the middle of all sub-categories as to the number of quotations that could be assigned to the related three codes. Among them, information exchange and understanding was the single most important one, which is not surprising since it can be considered the first precondition for the creation of corporate level know-how. The second most important category was the process of actual knowledge generation. Finally, expert hiring could be identified as a concrete supportive measure of how to accelerate knowledge generation, using external sources.

Information exchange and understanding (28)

Establishing a culture of information sharing and communication was a first step towards mutual understanding of other businesses. The corporate center, hence, asked to be informed of major activities at the Market Unit level, and it promoted the internal exchange of information. On the one hand communication was enhanced in order to assure the transfer of knowledge, on the other hand to avoid the duplication of work.

"...to assure inter-exchange, so that firstly duplication of work does not occur, and secondly that information flows ...." (P5:33)

General communication was a first element of a better understanding. Second, it expedited the flow of more specific information, which was required by the corporate headquarters of their Market Units. Standardized analyses had to be carried out and the

strategy had to be properly documented. These requirements, which had been implemented in the corporate strategy process, fostered transparency, dialog between the different levels, and a generally improved mutual understanding.

"What we got each market unit to do was to give a brief strategic overview to the position of the Market Unit in that market. And that is like using the framework of Porter or the BCG matrix, those kind of tools. That is to say, what is our position in the market, what's the industry attractiveness, what are the key issues that are driving the position where we are at the moment." (P6:39)

Besides accelerated information processes, internal and external sources were also activated to increase business understanding on the corporate level: Internal market reports were prepared by the Market Units, on the one hand; on the other hand, external studies, publications, and expert views, were utilized. All this led to a situation in which corporate headquarters knowledge went beyond financial data and in which corporate management could provide actual support to the Market Units.

"We needed a consistent leading institution, and we wouldn't gain anything if it only knew how to write revenue. Instead, it had to better understand our business; otherwise it could not positively accompany our propositions and decisions." (P10:321)

The focus on information exchange and understanding was supported by organizational measures, such as, for example, an explicit function for international coordination as part of corporate projects, and standing working groups that would also function as platforms for information exchange.

Knowledge generation (19)

The main challenge of creating knowledge on the corporate level is the amount of information that could theoretically be collected and stored. Corporate management, hence, has to be able to identify relevant information to stay up to date on the most important issues without getting lost in details.

"Getting the right information is actually one of the biggest problems; staying up to date, knowing the ropes on all issues, seeing trends and developments. I certainly do not arrogate to be the expert, but you have to bundle everything here [corporate center], at least on the surface." (P11:281)

Despite the possible information overflow, the ultimate goal remains increased information exchange and understanding in order to generate and store knowledge, mostly, though not exclusively, on the corporate level. The know-how base should include

process issues (such as methodologies for conducting market research) and content issues. The latter reflect the need to better understand the energy sector on the corporate level, which will subsequently allow for efficient management of the different, but related, Market Units.

"The first process is clearly to create know-how on the energy business, build understanding and transparency,[address questions regarding] how do the markets work, how do the Market Units manage their businesses, which risks are associated, how to optimize, which interfaces are there between the Market Units." (P8:19)

While most of the above-mentioned refers to market strategies (covered by the Corporate Development and Market Management departments), there has also been an increased need for managing information and knowledge on regulatory issues. As these became more and more important, the creation and management of regulatory know-how developed into a central issue for non-market management. Next to day-to-day interactions with regulatory authorities, project work helps to build a basic knowledge than can be released when needed again and that helps to come up to speed quickly.

"There is a basic knowledge that is permanently available which is created through past projects that have been conducted. Thus regulatory know-how is created, and for the next project we just have more experience." (P10:143)

Expert hiring (1)

Not of the same importance as the two previous codes but still worth mentioning is the code of expert hiring. As a focused way of creating knowledge in an accelerated manner, hiring external experts who have gathered experience on required, but so far underdeveloped skills, is a widespread practice. While it can be related to industry know-how on the one hand (in which case you would hire from your competitors or supply chain associates), it can also be related to functional know how. If the latter, you could hire an investment banker for your M&A department, a management consultant for Corporate Development, a communication specialist for your Public Relations department, or someone who managed regulatory affairs in an industry that went through comparable change. In the last case you would probably hire someone with experiences in the telecom business.

"Miss XX, she worked in the telecom industry and she is a lawyer ... She brings experience from telecom ... and most probably there will be many similarities [with energy], especially since the regulator in Germany will be the former regulator for telecom and mail order." (P2:9)

(6) Corporate parenting (15)

Coordination and control, as well as competence bundling, were presented as important steps for building an expertise that could be used to add corporate value to the different businesses. The sub-category of corporate parenting refers to the actual use of this expertise in order to realize superior value creation through joint ownership (corporate parenting advantage).

The sub-category includes two codes, knowledge leverage and corporate center support functions (in terms of general services provided by any part of the corporate center). It does not include the codes on the structure and processes of the specific corporate center functions of Corporate Development, Market Management, or Regulatory Management (empirically grounded more than 100 times).

Knowledge leverage (9)

As a natural consequence of the oftentimes mentioned focus on energy, the spread and leverage of knowledge and competencies across market and business units developed into a key success factor for corporate management. The above-mentioned functions of information exchange and understanding, communication, and knowledge creation lead to a consolidation of knowledge on the corporate level. After collecting know-how, however, it had to be redistributed in order to provide guidance to the different businesses and enable them to more efficiently manage their businesses.

"Now, after the complete orientation towards a pure energy, gas, and electricity utility, we do have new expectations with regard to understanding operative business, with regard to signals that provide direction, also, let's say, for market strategies and similar things. And for this reason, we build a new competence [on the corporate level]." (P8:15)

Besides direct guidance, corporate management was primarily meant to provide strategic and methodological support, while the content of strategy remained on the Market Unit level.

"Strategy is made in many different parts of the organization, because the strategy department itself should do anything but strategy. It is there to enable those who formulate the strategy to actually create the best possible strategy." (P10:21)

Finally, while the main purpose of knowledge generation is certainly to better manage one's own business, there is also a side effect on the sales part. Especially the knowl-

edge of regulation can be leveraged for customer use and thus enhance customer loyalty, which, in turn, should have a positive effect on sales revenues.

"We [politics and regulatory management departments] certainly also organize events and presentations, together with our Sales division, to provide information, for example, on the issue of emissions trading and its effects for combined heat and power plants. So this means, what do they have to do, and what are the aspects that need to be considered." (P18:162)

Corporate center support functions (6)

Corporate center functions provide an organizational structure for supporting the market and business units in their daily business. There are currently three main support functions located at the corporate headquarters. (1) Corporate Development, which assumes a long-term strategic orientation and is supposed to provide general guidance. (2) Market Management, which has a more mid- and short-term focus on the operative business, with a goal of helping market and business units manage their daily affairs. (3) Regulatory Management, which coordinates and bundles activities and interactions with the regulatory authorities and supports Market Units in their assessment and interpretation of regulatory issues.

"Is this a type of regulation that targets strict market liberalization or do they set emphasis on quality; then I could probably say to the people, 'Relax, they won't drive down the prices to the last penny.' In some markets, on the other hand we had the experience that everything is about price, and that the regulator needs a quick success. So these are the categories in which we are thinking." (P2:147)

With regard to the regulatory support function, the corporate center tried to function as "service moderator" between Regulatory Management and Corporate Development. Assessing and evaluating the regulatory systems in actual or potential markets was supposed to support strategic decisions.

"So we took care of the regulatory perspective and asked what [which companies] are being sold, what are possible and required service offerings for this specific market, what are the prices for those and will they be regulated, how will the regulatory system look in three, five, seven years." (P2:145)

Finally, the political, regulatory support function would also be integrated into the daily business procedures. Sales personnel, for example, had the chance to ask for support from the Regulatory Management or Politics departments, if expertise on a

certain regulatory or political issue was required. Frequently this support was shared with customers (see above on Knowledge leverage).

"[I am] also integrated in daily business, so this means salesmen or the sales division approach me overnight, because they heard from one of their customers, on energy or gas taxes, or any other problem, and ask if I could solve this problem for them." (P17:59)

(7) Communication (30)

A lot has been said about communication, internal communication to be more exact. The sub-category of communication, however, refers to external communication of corporate (political) positions and a representation function towards political and regulatory actors. Ground ed 30 times in empirical data, it is not the densest sub-category, but still a significant one.

External communication (24)

Maintaining a trustworthy position in political discussions is a vital condition in influencing the regulatory environment. For this reason it is necessary to speak with one voice and take a clear position. While interactions take place between regulatory actors and numerous actors across the different levels of the Group, it is important to consolidate the different opinions and communicate consistently with the environment.

"You have to be careful that you stay credible. We have been active on the political scene as E.ON, but also through our Market Units that do a very good job in lobbying the interests of the firm. But you have to bring everything together so that you stay credible and don't disqualify yourself." (P5:229)

Naturally, it is important to provide the regulator with credible information, no matter at what point he approaches the firm. Certainly, the regulatory and politics departments need to be consistent; however, other departments need to know how to react towards regulatory requests, too. And as with other functions, detailed information should be provided by the specialist department, which, in the case of regulation, is the department for Regulatory Management or Politics.

"If a customer asks someone at the purchasing department if he knows about the prices for gas in Essen, he would not answer, but would ask the person from the sales department. And this is the same thing with regulation ... It is important that you create clear interfaces for regulatory interactions within the firm. I mean, it is a huge dis-

aster if he [the regulator] gets different answers on one and the same question." (P15:280)

As for structured, pro-active communication, coordination is a little easier since interactions can be controlled more easily by the corporate center, which does not mean that only the corporate center acts. Responsibilities are well-distributed between central and peripheral positions, which assures that all hierarchical levels at the regulator are targeted.

"Normally, I would do this on the higher level in politics, i.e., with ministers, state secretaries, and the most important members of parliament of the different parties, and presidents of industry associations. My staff or experts from the different Market Units would then interact on the level of the ministries " (P7:45)

Finally, and without overruling the responsibility of the Corporate Communications department, all central, regulatory-related external communication should be looked over by the corporate Regulatory or Politics department. In the case of board members and their external mandates, these departments have a key function in preparing presentations and speeches.

"We do not take on the responsibility of Corporate Communication, but if they write an article we would cross-check it, or we would write it and they would cross-check it. And this is also how we work together on interviews of Mr. Bergmann or any other board member." (P17:41)

Representation (6)

Representation is closely related to external communication, but highlights the symbolic function of officially representing the firm's interests. Instead of having multiple interlocutors, regulatory authorities can rely on one central institution at the company. This focusing of interactions is not only good for consistent communication but also very much preferred by the regulatory bodies themselves.

"*Our [Politics department] responsibilities include the external representation of the Group at the regulatory authority. They will, since this is always the case with public authorities, always try to find some one, whom they can interrogate on as many issues as possible, so they don't have to talk to a hundred people."* (P2:39)

The value of the representation function is further enhanced if competencies are linked to the position, since this makes interactions between the corporation and regulatory authorities more efficient.

"...being a competent interlocutor, one who can really tell something, and can represent a big firm. If he says something, then this is true, and he does not have to ask ninety-three times. So competence and representation is important." (P2:53)

Finally, establishing the relevant relations – most importantly with political and regulatory actors, but also with associations and other stakeholders – is central to the ability to effectively represent the interests of the firm.

"We will use information channels and personal contacts. Channels to the government are already there but we need to build them for the regulatory authority that is about to be installed for electricity and gas. This is important for being able to represent the Group at that level." (P2:41)

Relating the identified codes to the six elements of corporate strategy

The above-mentioned codes and categories very well reflect the set of internal alignments observed in empirical data. Following an inductive research methodology, we consciously refrained from using predetermined categories (for example, the six elements of corporate strategy) because we would have risked losing information covered in the data or receiving biased results due to our inherent expectations on the possible findings. The open approach allowed us to explore empirical data and let theories evolve as they occurred to us during the research process. Only then did we try to make sense out of our findings in the context of this dissertation and relate them to existing research.

Reflecting our codes and categories at the six elements of corporate strategy that have been introduced to structure our analysis of internal alignments, we found that our inductively derived systematic could be matched. Most importantly, we had little problem in assigning the identified 22 codes to the different elements of corporate strategy. Adding three explicit codes for the concepts of corporate strategy, portfolio configuration, and culture, leadership and style, we were able to create a complete coding network suited for further analysis (see Figure 6-6).[111] Since we were aware of the importance of the six elements of corporate strategy, we could consider them during the coding procedure from very early stages of this study.

[111] The concept of corporate strategy refers to all alignments that impact the general strategic positioning of the firm (customer selection, value proposition, branding, etc.). Portfolio re-configuration includes all investment or divestment decisions of the corporation. And, third, culture, leadership and style stand for the soft facts of corporate organization, such as values, norms, and beliefs according to which the firm operates. Additionally, selective coding (see chapter 5.4.2) refined the coding network and increased the density of organizational design and management systems.

According to the general coding terminology, the elements of corporate strategy now represent nodes of the coding network and refer to categories. As Figure 6-6 below shows, all codes have been related to the six elements of corporate strategy, with the highest density resulting for management systems (210 empirical groundings). The second highest code was for coordination, with 176 groundings derived from nine different codes. Organizational design received 143 groundings. The far-reaching alignments in the corporate concept and configuration categories were significantly less frequently mentioned but still received 81 and 38 groundings, respectively. Finally, leadership and style was hardly mentioned (only 6 empirical groundings).

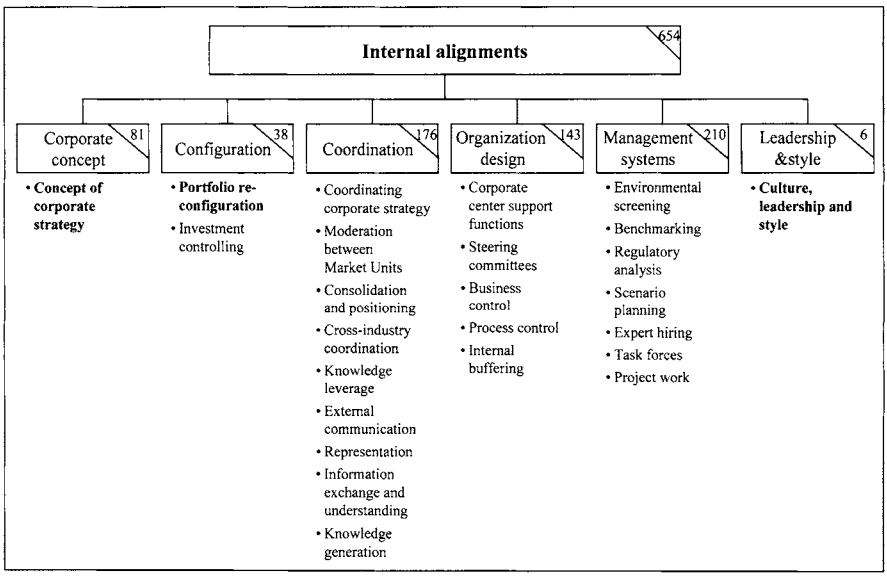


Figure 6-6: Relating the identified codes to the six elements of corporate strategy

6.2.2 Comparisons across emissions trading and market opening

The comparison between market opening and emissions trading turned out to be very powerful since effects and corporate responses differed significantly. In this chapter we will focus on three issues. First, we describe the most prominent internal alignments for market opening and emissions trading. Then, we elaborate on the sequence of alignments (alignment paths). Finally, we refer to general characteristics of market opening and emissions trading that influenced the type of internal alignments. This last step was important to get a deeper understanding of the underlying, more general reasons for differences in internal alignments.

(1) Internal alignments of corporate strategy

Since most interviews included parts of both emissions trading and market opening, a detailed coding analysis was complicated and required a co-occurrence analysis as described in the methods chapter (please refer to chapter 5.4.2). In this way we could support our logical argumentation not only through quotations from the interviews but also through density measures for the different codes and categories (elements of corporate strategy).

Overall, market opening was more prominent during the interviews than emissions trading, although our questions dedicated equal interest to both issues. Market opening could be grounded 1.92 times more often than emissions trading (429 times, compared to 224 times). One reason for this dominance is the fact that emissions trading is an important subject for electricity generation and thus for E.ON Energie, but it is less relevant for the gas business (E.ON Ruhrgas). As a consequence, greater effort was dedicated to market opening on the level of the group (E.ON AG), too. If only internal alignments are considered, this dominance of market opening is slightly reduced to a factor of 1.61, i.e., 242 alignment activities related to market opening, compared to 150 related to emissions trading. Compared to an overall factor of 1.92, we take this as an indication that internal alignments were relatively more important for emissions trading than for market opening. We find support for this hypothesis when comparing internal alignments and external responses for market opening an emissions trading. For emissions trading internal alignments appeared 2.03 times more frequently than external responses (150 times vs. 74 times), for market opening the relation is 1.29 (2.42 vs. 187).

The following Figure 6-7 presents a comparison between emissions trading and market opening using the absolute and relative density measures for the different elements of corporate strategy. The most significant differences with regard to the importance of internal alignments can be found at (1) corporate concept, (2) portfolio configuration, (3) organizational design, and (4) management systems.

	Emissions trading		Market opening	
Element of corporate strategy	**Density (total)**	**Density (in %)**	**Density (total)**	**Density (in %)**
Corporate concept	12	8%	29	12%
Portfolio configuration	8	5%	25	10%
Coordination	30	20%	48	20%
Organizational design	29	19%	56	23%
Management systems	68	45%	81	33%
Culture and values	3	2%	3	1%
Total	**150**	**100%**	**242**	**100%**

Figure 6-7: Co-occurrence analysis along the six elements of corporate strategy

First, market opening had a stronger effect on the corporate concept that includes the strategic intent of the firm. Significantly more alignment activities within this element of corporate strategy – in total 29 vs. 12, or, in relative terms, 12% vs. 8% – suggest that market opening had a greater effect on changes in the concept of corporate strategy. This result also implies that developments in the regulatory environment of market opening affected the operative core of the firm to a relatively greater extent and led to discussions on the strategic direction of the firm. In contrast, regulatory issues of emissions trading could be absorbed more frequently through buffering mechanisms that prevented changes in the operative core.

Second, portfolio configuration turned out to be affected more by market opening than by emissions trading. Empirical data showed that the state of market regulation, ownership structure, and the level of competition (all affiliated with market opening) were important determinants of portfolio activities. Either, E.ON had to or voluntarily decided to stay out of markets (mostly in Germany), or entry decisions in markets were supported by the state of market opening. Consequently, portfolio related activities can be considered a reaction to regulatory shifts within the market environment. Less so with regard to emissions trading, where impacts on possible acquisitions and their attractiveness were considered, but much less prominently.

Third, alignments of the organizational design were slightly more frequent in the case of market opening than in the case of emissions trading. Market opening was treated within organizational structures much more often than emissions trading, which relied more on project or task force work. Especially after the decision of the European Union to require independent regulatory authorities in each member state, E.ON forced the creation of suitable corporate functions. This is how the corporate center function

of Regulatory Management was created at the headquarters in Düsseldorf, and how a similar department was created at E.ON Ruhrgas (Regulatory Management as part of the Corporate Development department). Emissions trading, on the other hand, had fewer effects on organizational design.

Finally, for emissions trading alignment of management systems played a relatively larger role. Faced with major shifts in the regulatory environment, formalized, information-based processes were reinforced and changed in order to manage the turbulences in the environment. Important emphasis was placed on task force and project work (both being part of management systems) that represented core elements of established planning routines and a systematic way to deal with upcoming problems within the environment. In the case of emissions trading, 29 out of the 68 empirical groundings related to project groups and task forces (for market opening "only" 30 out of 81). Furthermore, standardized procedures and management systems were introduced to measure, forecast, and report emissions to the regulator. Despite this fact, environmental screening and scenario planning (both part of management systems) were of critical importance in the case of market opening and the two accumulated more than 50% of all empirical groundings for management systems (45 out of 81).

In sum, market opening seemed to have far-reaching consequences for essential elements of corporate strategy, namely the corporate concept and portfolio configuration. This finding was strongly confirmed through press research. In the 53 articles covering emissions trading, internal alignments or externally directed responses were only mentioned 18 times; additionally, external responses dominated. As for market opening, internal alignments alone appeared 27 times in 19 articles. Above all, the concept of corporate strategy changed.

The first alignments – at least as perceived in the public discussion – were dominated by classical tools of market strategy. Large energy utilities, driven by marketing experts,[112] invested heavily in brand building campaigns. Celebrities were used to emotionalize energy (e.g., at RWE with the help of soccer coach Christoph Daum). EnBW subsidiary Yello tried to convince consumers that it had finally found the color of electricity, which is supposed to be yellow. E.ON developed an extensive ad campaign for product differentiation, using celebrities like Arnold Schwarzenegger in order to promote "E.ON mix power," suggesting that every consumer could select his own per-

[112] The managing director of a Cologne based marketing agency, for example, suggests in *Focus* on September 27, 1999 that "only the one who manages to give life and emotion to the anonymous product electricity, will win the race."

sonal energy mix, with up to 100% of it built on renewable energy sources. With advertising budgets in the triple-digit millions of Euros, utilities tried to emotionalize their product, focus on customer service orientation, and convince customers of their superior value propositions. Product differentiation strategies were undertaken to better target different customer groups.

While we consider the above-mentioned strategies to be part of alignments within the concept of corporate strategy, portfolio configuration was influenced, too. In preparation for market opening, industry consolidation went ahead with two large merger projects that started in the late 1990s (RWE and VEW, Veba and Viag) and several smaller acquisitions. Economies of scale were considered to be an important competitive advantage in the commodity businesses of electricity and gas, while the risk of getting an acquisition target was reduced at the same time.

In addition to fundamental changes in the concept of corporate strategy and in portfolio configuration, organization design was impacted as well. In order to demonstrate concern about customers, large incumbents started by establishing a sales function that was supposed to market differentiated service offerings to household and industry customers. At the same time cost reduction programs were started to streamline structures and processes that would support efficiency and thus develop a better price position.

Finally, parts of management systems changed. For example, sales and customer relationship programs were introduced in order to increase customer retention, which became more and more critical at a time when market power seemed to shift from the supply towards the demand side.[113]

While all the above-mentioned strategies represent thoroughly positive effects of market opening, other strategies were much more ambiguous and have been widely criticized. They focused on resister strategies – such as profit skimming, price dumping, and cross subvention. First, incumbents were skimming profits on many occasions. Municipal utilities were, for example, benefiting from competition and could receive large price reductions on energy sourcing but did not pass them on to their customers.[114] After a period of decreasing prices, large incumbents quickly increased prices when the dangers of competition seemed to be overcome. They unanimously announced price increases, which suggests a coordinated and systematic undertaking.[115]

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[113] See, for example, *Spiegel*, October 2, 2000.

[114] See, for example, *Focus*, September 9, 1999.

[115] See, for example, *Spiegel*, September 6, 2004.

Price increases were also suspected of being based solely on the possibility of skimming profits before the regulator became active, as one industry insider suggested when tagging incumbent behavior a "*rip off*" (*Spiegel*, August 9, 2004).

Contrariwise, incumbents also engaged in price dumping to drive new entrants out of the market. Accepting decreasing profits for some time was considered a successful strategy, or, as a manager at RWE put it: "... *in the long run the strategy of bleeding and demoralizing will be successful*" (*Spiegel*, October 2 2000). Having a huge capital and cash base, incumbents could afford to drive down prices so that it was no longer possible for new entrants to compete. Since the political arena did not react, many newcomers were driven out of the market.

Finally, incumbents used cross subsidies to artificially increase prices for transmission and distribution. In this way, access fees for third parties were driven up so far that the price advantages of alternative energy sources were eaten up by grid fees that amounted to a multiple of the generation prices.

(2) Alignment paths

While results so far showed which alignment activities received the highest attention, we also added a temporal dimension to our analysis to depict the dynamic process of aligning strategies, structures, and processes. Common to both issues are the very early phases of their life cycles. In general, ongoing environmental screening activities detect shifts in the regulatory environment and identify specific issues that call for further observation. Depending on the perceived emergency, they can then be dealt with within existing structures and management circles (e.g., the Politics department assigns staff to the issue), or they are sent to a special task force or even a project team.[116] In any case, ongoing analyses try to evaluate their potential impacts on the firm and elaborate on the firm's strategic options. Scenario planning is just one strategy, albeit an important one, for dealing with the issue at that point. If the issue is not selected out, solutions are developed and implemented that can result in the creation of a separate business unit, the installation of specialized corporate center functions, or

[116] A reminder that one and the same issue can first be handled in current structures, then be sent to a task force, and finally be treated within a project team. The cycle time can vary significantly and if the perceived importance of the issue is high enough, a project team might be installed straight-away. There can also be backward loops, meaning that an issue moves from current structures to a task force, is sent back, and is then treated within a project team. At any point in the life cycle, it is the task of the management in charge to decide on the most effective organization of work.

reintegration into daily business accompanied by procedural guidelines of how to deal with the issue in the long run.

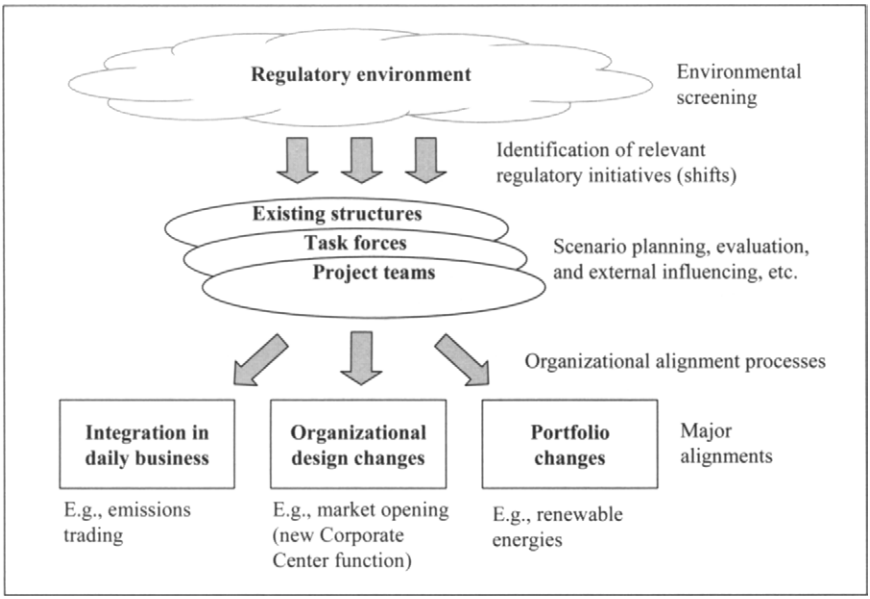


Figure 6-8: General work process of dealing with regulatory initiatives

As one might expect, alignment paths differed between emissions trading and market opening. At the very beginning, both issues were taken care of within the existing structures and systems, but they were later sent to more dedicated task forces and project teams. Project work on emissions trading most importantly led to process guidelines for the daily business (organizational design) and to new management systems, for example for the measuring and reporting of emissions to the regulator. As for market opening, nearly all elements of corporate strategy were affected, and in the end organizational design alignments were made (for example, corporate center functions for regulatory management).[117]

[117] Please remember that the diagram simplifies reality. We do not argue that the alignment process was strictly linear. In contrast, we are aware that activities were overlapping and backward cycles did occur. However, the main logic of transformation could be depicted as shown in Figure 6-9.

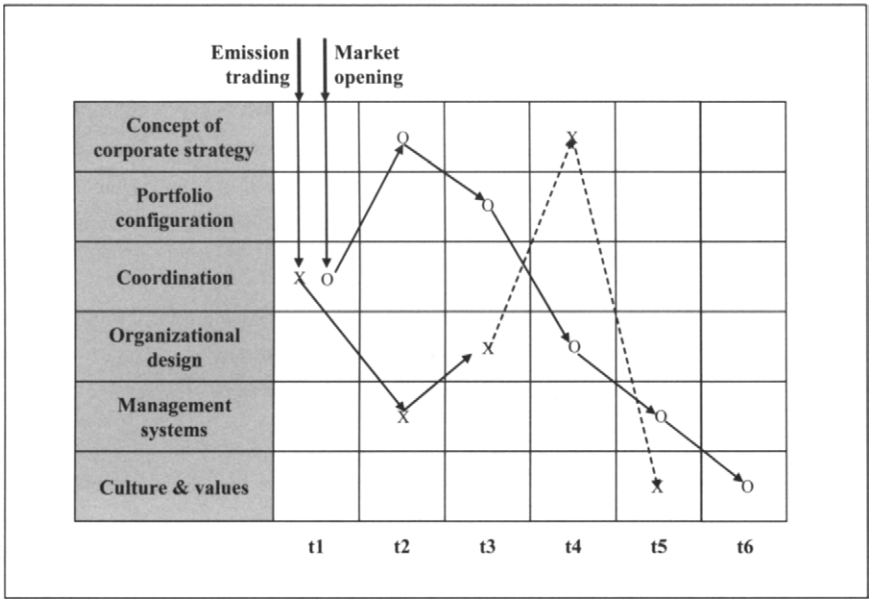


Figure 6-9: Alignment paths of emissions trading and market opening

Emissions trading appeared on the agenda of E.ON as a concrete issue at the beginning of 2002.[118] Before that, responsibilities for emission reductions and combined heat and power generation had been assigned to different parts of the organization. Politics departments on the other hand, surveyed the legal developments on the national and international level. Finally, at the beginning of 2003 a project team was installed whose first task was to consolidate existing know-how on the issue and to coordinate further knowledge generation (coordination). During operation, primary tasks of the project team included influencing political actors to shape the regulatory environment and preparing the organization for the coming emission certificate-trading scheme. The project was led by a fulltime senior manager at E.ON Energie. About fifteen other members from different parts of the organization offered the necessary expertise and worked on the project on a part-time base. The entire project team would meet once every three months and was guided by a steering committee consisting of board members from the power generation units, corporate and Market Unit level directors for Politics and Technological Issues of Principle.

[118] See interview transcripts P13:13.

By January 1, 2005, the project work was transferred to daily operating business. By that date, management systems had been introduced to, for example, measure emissions and report them to the regulator.

"You have to define responsibilities; you require tools to calculate certain measures, amounts of fuel, and amounts of generated electricity. You need to be able to make projections. You need to properly document everything according to judicial standards." (P13:257)

Besides reporting and documentation systems, market-oriented planning systems were also required. These could enable the firm to generate a report at any time of the year showing the emission balance and helping it initiate counter measures in case the balance would not fit its emission rights.

"Permanent forecasts calculate how many emissions have already been produced, measure this, and deduce options for action. If I realize that I have produced that much electricity using that much fuel, year end forecasts will show me that I would need much more emission rights than have been allocated by the scrimpy state. Then I have to decide how I am going to get them." (P13:259-261)

Slight changes had also been made to the organization in the sense of new formal processes that were established to conduct the main interactions with the regulatory bodies. For this reason, standardized process guidelines had been developed and implemented.

"We had to establish processes that enable us ... to report emissions to the German Emissions trading Agency in a judicially sound, forensic manner." (P13:255)

While changes in coordination (to a limited extent), and especially in management systems (for measuring, reporting, documenting, and planning), and to some extent in organizational design (formal processes) are at the core of organizational alignments, limited alignments are made in terms of the concept of corporate strategy, mainly related to the environmental and R&D strategy. Beyond simple adherence to regulations for emissions trading, state incentives and public opinion exercise a certain pressure on the energy mix of utilities. Investments and increased efforts to explore new technologies can be considered one possible long-term effect of the emission certificate-trading scheme. Finally, corporate culture and values need to match up. And while increased environmental concerns among employees might support the use of renewable ener-

gies, the opposite can be true as well, as could be seen at a demonstration of E.ON's workers' unions against strict energy laws endangering jobs at the firm.[119]

Market opening was on the agenda of E.ON and its predecessor organizations since the early 1990s. At first, a task force evaluated the impact of the issue on the firm and looked at possible influencing strategies in order to shape the future regulatory system.

"Regulation started in 1991, I believe. And people would come together in task forces and more or less looked at what they [governments] were doing and how this could possibly be influenced." (P15:51)

At Ruhrgas a function for regulatory management was created in 1998,[120] when it became clear (after EU Directive 98/30/EC and the German Industry Law Revision Act) that market opening was becoming a matter of fact and hence a major issue for energy utilities. An according function that reported directly to the board of directors of E.ON AG was only created at the corporate level in 2004.

As for the sequence of alignments, we hold that coordination was affected first, since everything started with the consolidation of interests and the definition of a common position of the firm that could be communicated externally. Furthermore, expertise was shared across the firm; knowledge was created and leveraged where possible. Very soon, however, the concept of corporate strategy was affected. And, in the end, the starting point of the focus and growth strategy that transferred E.ON (Veba and Viag, respectively) from a diversified conglomerate to a focused energy giant was initiated through developments in the regulatory environment, namely market opening. Growth opportunities until then could not be pursued in the energy sector, and profits were invested in non-related industries. With market opening the situation changed and the most profitable energy sector could be developed.[121]

The changes in strategic direction quickly transferred into adjustments of the portfolio configuration. Non-energy businesses were divested step by step, and energy assets were added at the same time. In 1998 the merger between Veba and Viag was put on track, and starting in the year 2000 major investments in foreign markets were targeted

[119] We do not say that environmental concerns are not part of E.ON culture; however, they bear a price. And if jobs are at risk, other priorities might be set.

[120] See interview transcript P2:105.

[121] Remember that in 1999, two-thirds of the profits derived from the energy business that accounted for only about 20% of total sales. For more information see chapter 4.2.

(Powergen, LG&E, Sydkraft, etc.). With the acquisition of Ruhrgas, E.ON further expanded its position as an integrated energy utility combining electricity and gas.

In a next step, alignments in organizational design took part. These related to changes in organizational structures and can consequently be considered to be stronger than the process alignments realized in the case of emissions trading. Basically, a sales function was established that was not required beforehand when there was no competition about customers. With the establishment of open competition and energy brands, E.ON had to market electricity, retain existing customers and possibly gain new ones. As already indicated above, corporate center functions were created to coordinate interactions with regulatory authorities and to create a central interface for the regulator. At the corporate headquarters in Düsseldorf a "Regulatory Management" department of six people had been installed that combined expertise from technical, commercial, and legal fields. This department, which has responsibility for both externally influencing the creation of regulatory standards and preparing the organization for future requirements, serves a buffering function between the regulator and the firm.

Changes in the management systems accompanied the other alignment activities, leading to more sophisticated scenario planning techniques that integrated both market and non-market components (see also on scenario planning in chapter 6.2.1). As for human resource systems, external expert hiring developed into a more important issue. Experts from other net-based industries that that had previously been deregulated were especially welcome since their expertise in dealing with regulatory issues could be transferred and hence could help E.ON in its transformation.

As for culture and values, a more sales-and customer-oriented culture was required. At the same time increased requirements for efficiency demanded new solutions and a general openness to change. And finally, the greater emphasis put on corporate coordination and control changed the relation between headquarters and Market Units, and hence a tradeoff had to be made between central guidance and decentralized decisions and independence.

In sum, changes of strategies, structures, and processes went further in the case of market opening, as compared to emissions trading. While the latter mainly included changes in management systems and organizational design (formal processes), the former changed – most importantly – the concept of corporate strategy and portfolio configuration, and then of organizational design (formal structures). For an interpretation of these results please refer to chapter 6.2.5.

Excursus: Triangulation with results from research phase I

The following Figure 6-10 presents a dynamic view of resource allocations related to portfolio configuration and organizational design, as well as the introduction of new concepts of corporate strategy. While an interpretation of the graph was difficult during phase I, we may now use it to confirm the findings of research on alignment paths following regulatory involvement that has been explained above. While some doubts remain regarding where alignment starts, we may still argue that the following sequence is realized in aligning corporate strategy and structure. First, a new concept of corporate strategy is introduced; then, resource allocations focus on portfolio activities (indicated by an increasing share of all resource allocations); and finally, resource allocations shift to organizational design.[122] This sequence supports our suggestion on alignment paths for market opening (coordination – concept of corporate strategy – portfolio configuration – management systems – organizational design – leadership and style).

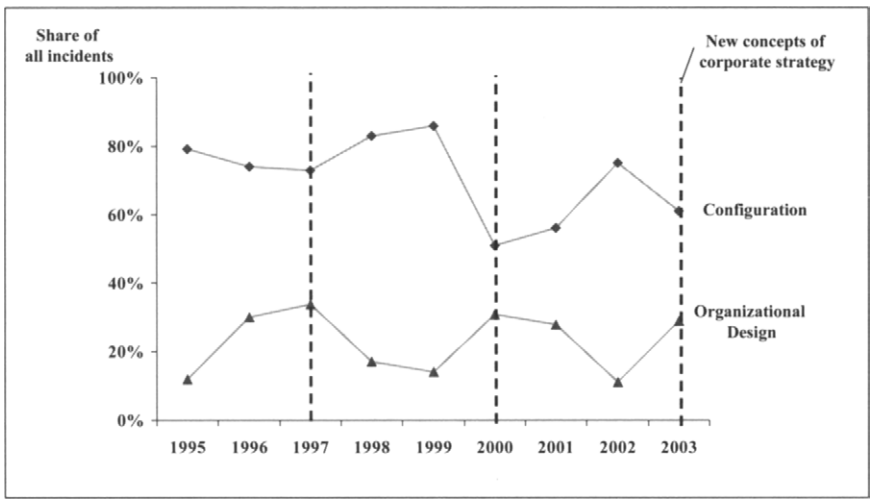


Figure 6-10: Shifting focus of resource allocations over time

(3) General initiative characteristics influencing internal alignments

In order to drive theory generation on a more general level we were particularly interested in exploring the different characteristics of market opening and emissions trad-

[122] One resource allocation might affect several elements of corporate strategy, and for this reason, the sum of resource allocations affecting portfolio design and organizational design might exceed 100%.

ing. Press research helped us to identify three factors that are supposed to influence the activity level of corporate responses or in other words, the intensity of both internal alignments and externally directed responses: (1) public pressure on the incumbent, (2) existence of a powerful, political interceder, (3) maturity or concreteness of a regulatory initiative.

First of all, press research confirmed that energy incumbents were much less involved in the discussion on emissions trading than on market opening. This was indicated by the fact that there were only 18 corporate responses (internal alignments and externally directed responses) in the case of emissions trading (within 53 articles), compared to 52 responses in the case of market opening (within only 19 articles). Also, governments were by far the most frequently mentioned principal actors for emissions trading within the analyzed articles (44 times), as the following Figure 6-11 shows. As for market opening, incumbent utilities appeared relatively much more frequently as central/main actors.

Main actors	Emissions trading	Market opening
Governments	44	16
Research	18	--
International institutions	16	6
Incumbent utilities	15	14
Industry firms	13	4

Figure 6-11: Main actors in the case of emissions trading and market opening

Next to political actors, research – somewhat unexpectedly – played a key role in shaping the discussion on emissions trading. Until the end of 2000 the scientific community contributed significantly to the discussion on emissions trading. Most of the critical statements targeted the general principles and cause-effect relations of global warming and emissions trading. As a consequence, critique targeted the political establishment in the first place rather than large utilities or industrial firms.

International institutions, specifically the European Union, also acted as drivers for the installation of a trading scheme for emission rights. Unlike national governments that were bound to economic restrictions and coalition agreements, European institutions tended to be much more resistant to influencing strategies of large energy utilities.

Incumbent utilities and industry firms ranked only fourth and fifth.[123] They were both fighting for a generous distribution of emission rights and jointly argued that the industry location in Germany was further threatened by the economic effects of the emission certificate-trading scheme.[124]

In the case of market opening, governmental actors were still the most frequently mentioned in the analyzed articles (16 times). However, incumbent utilities were almost as important (mentioned 14 times). New market entrants, negligible in the case of emissions trading (and hence not depicted in Figure 6-11 above), who challenged the incumbents, were also very active (mentioned 11 times); less so industry firms (4 times). Research did not participate in the discussion, and international institutions were of minor importance (6 times).

Public pressure on the incumbent. As already mentioned, we evaluated all articles according to their tone regarding the behavior of incumbent utilities. Negative judgments of incumbent behavior were then assumed to be associated with increased levels of public pressure on the incumbent. As Figure 6-12 shows, the attitude towards the incumbent was neutral in the case of emissions trading, whereas governments were frequently blamed for ineffective or inconsistent regulations. Contrary to this, incumbent utilities were negatively evaluated in almost 50% of all articles, with only two positive rating out of 19.[125]

Atmosphere towards the incumbent	Emissions trading	Market opening
Positive	1	2
Neutral	52	9
Negative	--	8
Total	**53**	**19**

Figure 6-12: Attitude towards the incumbent

[123] The dominance of political actors is further confirmed by a word count analysis in the 53 articles on emission trading. The combined counts for the large utilities E.ON, RWE, Vattenfall, EnBW and Ruhrgas reached 40, while Trittin (minister for the environment) was counted 126 time, Müller and Clement (ministers for the economy) reached 118 counts, and even Chancellor Schröder was mentioned 44 times.

[124] Those were supposed to lead to additional costs of more than 1 billion Euros per year, 50 million Euros just for administering the system, and job losses of up to 56,000 in the energy intense industry alone. Appeared in *Focus* on March 30, 2002.

[125] The positive statements both date from the second half of the 1990s when expectations on the positive effects of market opening were high, so incumbents increased their efforts to satisfy customers and officially embraced market opening.

In sum, incumbent utilities were under significant public pressure in the case of market opening, while they were not pressured in the case of emissions trading.

Existence of a powerful interceder. The main difference between emissions trading and market opening in this regard is the fact that incumbent utilities had a powerful political interceder in the case of emissions trading, while none existed in the case of market opening.

Being a cornerstone of the policy of the ruling Green Party, and in particular of the Minister of the Environment, Jürgen Trittin, emissions trading received high attention. Arguments were advanced to promote the introduction of strict reduction targets and regulation mechanisms. As the Figure 6-13 below indicates, the Ministry of the Environment as an institution or its minister, Jürgen Trittin, was most frequently mentioned (166 times in the 53 articles).[126] Generally opposed to the Ministry of the Environment was the position of the Ministry of the Economy and its responsible minister, Wolfgang Clement, who feared negative effects on German industry and called for generous granting of free allowances to utilities and industry firms. Consequently, the one was acting as advocate of incumbent utilities' interests while the other pressured them and took the opposite position of advocating the environment. Overall, the Ministry of the Economy was almost as prominent as the Ministry of the Environment (mentioned 148 times). Even the Federal Chancellor appeared 90 times within the articles, and was required to mediate between the two opposing positions, but he too tended to be open to the industry's and incumbent utilities' interest.

These ambiguities do not exist in the case of market opening, which is largely dominated by the Ministry of the Economy (mentioned 57 times). Driven by pressure from the group of companies in the energy intense industry, the Ministry of the Economy was generally fighting to get energy prices down. With this goal it was pushing market opening, free choice of suppliers, and fair access to the energy grid. Even though the relationship between this ministry and incumbent utilities has traditionally been very good, the ministry put increased pressure on incumbents to comply with introduced regulatory standards. No other political interceder could be identified.

[126] This was the result of a word count analysis using the exact terms of "Trittin" and "Umweltministerium" (Ministry of the Environment). Accordingly, we analyzed the counts for the Ministry of the Economy and the Federal Chancellor.

Actors	Emissions trading	Market opening
Ministry of the Economy	166	57
Ministry of the Environment	148	4
Federal Chancellor	90	13

Figure 6-13: Political interceders for emissions trading and market opening

Maturity of a regulatory initiative. Press research showed that incumbent utilities only became active once the regulatory initiative passed a certain level of maturity. The actual realization and design of the emission certificate-trading scheme, for example, was vague until the beginning of 2003 when it become clear that an EU Directive would be formulated to start emissions trading in 2005. As a consequence, until then it was difficult for energy incumbents to specifically target issues and promote their positions. Only from 2003 on did they become more active. The discussion had moved to the national level and concrete decisions on the national allocation plan had to be made. At this point the incumbents engaged in serious arguments on the economic effects and effectiveness of the emission certificate-trading scheme. Market opening matured earlier and, hence, corporate responses in general emerged earlier, even though tactics changed over time. In a first phase, between 1997 and 1999, incumbents seemed to embrace market opening more openly and responded with market strategies such as brand building and customer orientation. In a second phase, between 2000 and 2002, incumbents were considered to follow blockade, deferment, and threatening tactics, especially to bully customers who were willing to change suppliers. And, finally, from the end of 2002 incumbents more openly pursued negotiation strategies that were still resistant to change but more balanced in terms of targeting some sort of equilibrium of interests.

6.2.3 Comparisons across E.ON Energie and Ruhrgas

In comparing internal alignment activities at E.ON Energie and E.ON Ruhrgas, both representing the two Market Units located in Germany that also work with high degrees of operational independence, we intended to add another context-specific variable, increase variance, and to sharpen our analysis by comparing our findings across the two sub-cases.

As already adumbrated above, emissions trading – not surprisingly – received much more attention at E.ON Energie. Since only 4.3 empirical groundings per interview could be assigned in the case of emissions trading for E.ON Ruhrgas, compared to 29

quotations for E.ON Energie, the following comparison between the two market units relates to market opening only. At E.ON Energie, alignments of the different elements of corporate strategy could be grounded 77 times in empirical data (25.7 per interview), at E.ON Ruhrgas 88 times (22 per interview).

	E.ON Energie		E.ON Ruhrgas	
Element of corporate strategy	**Density (total)**	**Density (in %)**	**Density (total)**	**Density (in %)**
Corporate concept	6	8%	11	13%
Portfolio configuration	15	19%	4	5%
Coordination	9	12%	15	17%
Organizational design	17	22%	21	24%
Management systems	29	38%	37	42%
Culture and values	1	1%	0	0%
Total	**77**	**100%**	**88**	**100%**

Figure 6-14: Comparison of internal alignments at E.ON Energie and Ruhrgas

As can be seen in the Figure 6-14 above, there is a clear difference in the importance of activities related to portfolio configuration at E.ON Energie (19% vs. 5%). On the other hand and somewhat related to the relevance of portfolio configuration, nearly all other elements dominated at E.ON Ruhrgas. Before referring to portfolio configuration in greater detail, we will first review the other elements.

Most important are changes in management systems and organizational design at Ruhrgas. However, this only indirectly relates to market opening. First of all, it is a result of the acquisition by E.ON in the year 2003 (which has in fact been directly triggered by market opening). Until then, Ruhrgas had been very much an operative enterprise with lean corporate structures. With its integration into the energy Group these structures and systems had to be installed, however. Consequently, a Corporate Development department had been created early in 2004, and at the same time planning and reporting routines were established. Finally, a standardized strategy process had been implemented linking the corporate level (E.ON AG) with the Market Unit level (E.ON Ruhrgas).

Through the combination of electricity and gas businesses, coordination also became more important. Political positions had to be coordinated and consolidated with a coherent strategy that could be used for external communication. Representation func-

tions were partly transferred from Ruhrgas to the Group level.[127] The company was also subsequently deprived of some of its independence in defining the strategic direction of the firm. The concept of corporate strategy hence had to consider synergies between electricity and gas that had to be used in the market positioning of the Group.

E.ON Energie also had to make some of the adjustments just mentioned, but not to the same extent. Since E.ON Energie itself had already installed corporate center functions for the steering of the different electricity businesses, fewer adjustments had to be realized.[128] Among them, E.ON, for example, had to make strategic planning more consistent, linking top-down strategic decisions with bottom-up budget planning processes. Integrating the two into one coherent strategy formulation and implementation process was one of the process changes established at E.ON Energie. Along the same line, the strategy process was then coordinated by the Group's corporate development function, and corporate strategy at E.ON Energie had to function as interface between the corporate and business unit levels. Coordination issues between electricity and gas were similar at E.ON, but were not new to the firm, since gas businesses already belonged to the portfolio of the firm (for example, Contigas).

Significant differences between E.ON Ruhrgas and E.ON Energie relate to portfolio configuration activities. Negligible for Ruhrgas, they held important stakes in internal alignment activities at E.ON Energie where opportunities of market opening and aggressively investing in foreign markets were a central part of corporate strategy. I.e., market opening was considered more as an opportunity than as a threat. It guided investments to where profitable growth of the electricity business seemed most possible. On the other hand, investments were reduced or delayed where the regulatory system was not considered to allow sufficient returns.

This difference in reaction pattern – E.ON Ruhrgas focusing on organizational design and management systems and E.ON Energie focusing more on portfolio reconfigurations – seemed to be a central difference between the two companies. We suggest that Ruhrgas took a more protective position for its current business and tried to shape organizational structures and systems in order to buffer negative effects of market opening. While E.ON Energie engaged in this type of response strategy, too, it seemed to pursue the strategic opportunities of market opening more extensively at the same

[127] For example, the politics bureau at the European Union in Brussels.

[128] While Ruhrgas functioned more like an operational lead organization, E.ON Energie was more of a management holding that assumed coordination tasks, with the content of strategy and planning being conducted in the different business units / daughter companies.

time. Protection and buffering was hence balanced by expansion and seizing of growth opportunities.

6.2.4 Institutional mechanisms at work

Having shown how E.ON reacted to changes in the regulatory environment through aligning strategies, structures, and processes, we want to highlight institutional mechanisms guiding these activities in this chapter. Related to the second research question of internal alignments following regulatory involvement, we will elaborate on how external institutions functioned as guidelines for internal alignments at E.ON. Hence, we are interested in the effects of institutional mechanisms (regulative, normative, and cognitive); their creation will be discussed in chapter 6.3.

The starting point of institutional pressure on energy incumbents were normative institutions (Scott, 1995), which were formed on the international level at the European Union.[129] In the case of both market opening and emissions trading, international directives represented the principle source of institutionalization (Zucker, 1987) in the form of a normative basis for national governments to establish according regulatory systems. These normative institutions also defined the starting point of interaction for all the other actors in the field, and they created a pressure to react internally and externally (Oliver, 1991). In the case of energy incumbents, these normative institutions were contrary to the basic beliefs and values within the organization. This dissonance resulted in uncertainty and instability of the institutional field, which had to be resolved (Beckert, 1999). Either corporations had to change themselves or they had to change the institutional environment (Shaffer, 1995).

More precisely, the normative institutions on the international level were transferred into regulative institutions (laws and by-laws) on the national level, and these represented very direct and absolute coercive pressure for energy incumbents.[130] Based on these pressures and even in anticipation of their effectiveness, incumbents had to real-

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[129] Directives 96/92EC and 98/30EC for market opening. Directives 93/389/EWG and 2003/87/EC, as well as the Kyoto protocol of 1997 for emission trading. We consider these institutions to be normative in character since national governments were urged to transfer them into regulative institutions (laws and by-laws). The international community formulated expectations towards the governments, but those had to decide for themselves if they wanted to adjust their legislation. Some nations, such as the USA, however, did nor react as expected and refrained from according laws and by-laws. Consequently, in those countries regulative institutions were mission, and the reduction of greenhouse gases remained a normative institution.

[130] In the case of market opening these included the Novel Energy Industry Law of July 25, 2005; in the case of emission trading, most important was the Law on Trading Greenhouse Gas Emission Allowances (TEHG) of March 1, 2004.

ize certain alignments. For example, they had to separate their transmission and distribution activities from the rest of their businesses (unbundling). In this case, their choices were very limited, but they had to comply with the requirements of the regulative institution. Apart from unbundling, coercive pressure to divest certain businesses in order to get approval for mergers and acquisition activities, forced large incumbents like E.ON to reduce their energy portfolio, which was likely to negatively affect the competitiveness and value of the firm (Wright and Ferris, 1997).

Normative and regulative institutions were also complemented and backed by cognitive institutions, such as freedom of choice, which stands as a widespread, commonly accepted value of market economies. While incumbents sometimes tried to dismiss or challenge the accepted rules and values, for example by aggressively obstructing customers' attempts to change suppliers, at least partial conformity to institutional expectations was required. Sometimes, nonconformity was disguised behind a façade of acquiescence (Powell, 1985).

As indicated in the previous chapters, E.ON reacted differently in the case of emissions trading and in the case of market opening. Regarding the former, changes in organizational design and management systems dominated. As for the latter, institutional pressures more thoroughly affected the concept of corporate strategy and portfolio configuration.

Normative and regulative pressures related to emissions trading were first assessed within a specialized project group that finally developed general process guidelines for the interactions with regulatory authorities. These guidelines fulfilled two major functions. First, they helped to create efficient interfaces between the corporation and the regulatory authorities; and as such they were part of the firm's concealment or compliance strategies (Oliver, 1991). Second, they also represented buffering strategies that were meant to protect the operational core of the organization and disguise possible non-conformity.

Changes in management systems were primarily driven by compliance behavior in anticipation of future regulatory standards. To this end, E.ON established a measuring, calculating, and reporting system that would withstand the requirements of the regulatory authorities.

While the changes in organizational design and management systems manifest a somewhat stable anchor of external institutions within the firm, they are not backed by

shared values and norms on emissions trading. Cognitive institutions about the benefits of an emission certificate-trading scheme are still missing.

Additionally, the very limited integration of emissions trading into the concept of corporate strategy provides further proof that the issue is not yet an integral and coherent part of the firm's strategy. Coercive mechanisms led to the installation of required functions and processes; however, the regulative institutions are not accompanied by suitable normative or cognitive institutions that are shared by important constituents outside and inside the firm. The missing coherence between regulative, normative, and cognitive institutions ultimately represents a constant source of institutional instability.

With regard to market opening, E.ON's focus and growth strategy represented a strategy already observed in other industries after market liberalization (Smith and Grimm, 1987). Faced with shifts in the institutional environment, the company aligned its concept of corporate strategy and portfolio configuration, which was mainly related to growth opportunities within the energy business inside and outside the country (Kashlak and Joshi, 1994). As for their home market, however, resistance to change was high. This asymmetric behavior of former monopolies (Bonardi, 2004) led to hybrid strategies, structures, and processes. Overall, pursuing growth opportunities and hence supporting market opening dominated resister behavior and protection of home markets, at least in the case of E.ON Energie - where market opening was more closely associated with a strategic opportunity than with a threat.

In addition to shifts in the regulatory environment that created growth opportunities for energy incumbents, normative institutions also supported the focus and growth strategy of E.ON. Divesting non-core assets and focusing activities followed capital market pressures to reduce the degree of diversification, which was marked by inferior performance estimates and a conglomerate discount to market valuation (Müller-Stewens, 2003c). At the same time, regulative and normative institutions called for profitable growth and consequently supported the acquisition of further energy assets in national and international markets ("big is beautiful").

Normative institutions, in general, played a relevant role in the transformation of the organization. Another example was the perceived need to invest in brand building, which guided all major energy utilities to engage in expensive marketing campaigns that would allow them to emotionally connect with their customers.[131] At the same

[131] Emotionalizing your product and connecting with your customers were considered to be the single most important success factors within the energy business. As such they developed into a normative institution that was

time, E.ON tried to use institutional strategies to promote its integrated approach to the energy business (along the value chain and across electricity and gas) as a strategic asset and superior business model.[132]

Alignments of the concept of corporate strategy and portfolio configuration were, furthermore, accompanied by changes in organizational design and management systems. First of all, a sales function had been created that was supposed to enhance customer loyalty and the acquisition of new customers. Regulation in this regard led to a refocus on the customer (Davies and Walters, 2004). Also, a corporate center function for regulatory affairs was established and became an integral part of management (Dickie, 1984). As mentioned above, its primary goal was to establish a central interface between the organization and the regulator, and to buffer the operative core and limit regulatory influence on the firm.

Finally, strategic planning for regulated firms proved to be different (Mahon and Murray, 1981). Instead of focusing on customer, competitor, and technology trends, regulatory trends developed into major determinants of corporate strategizing. Strategic planning routines, e.g., scenario planning, systematically included assessments of the institutional environment (future states of the regulative order).

6.2.5 Theoretical rooting and propositions

Chapter 6.2 presented the results of the research question regarding how external, regulatory actors impact strategy formation. After presenting the findings of our inductive analysis of interview transcripts that could be summarized under the 7C's of internal alignments,[133] we elaborated on how and in what sequence the six elements of corporate strategy changed following regulatory involvement. Comparing our findings across two different regulatory initiatives (market opening and emissions trading) and across two different sub-units of analysis (E.ON Energie and E.ON Ruhrgas) allowed us to formulate context-specific propositions. Identifying key characteristics of the specific context (regulatory initiative and sub-unit of analysis) that were responsibly for the variance in internal alignments of corporate strategy finally enabled us to gen-

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influenced to a large extent by marketing agencies and consulting firms who also saw the opportunity to promote their own causes. See, for example, *Focus*, September 27, 1999.

[132] As the focusing of business activities became an institution, and diversification turned into an "anti-institution," the integrated model should be positioned as an institution.

[133] (1) Context screening, (2) Context setting, (3) Coordination, (4) Control, (5) Competence bundling, (6) Corporate parenting, and (7) Communication.

eralize our findings and develop propositions on the type of alignments that could be expected under certain contextual conditions.

In this chapter, we will root our findings in existing literature and contribute to theory generation through the formulation of propositions. To be able to do so, we will first elaborate on the more abstract characteristics of the context for which corporate responses were observed. The resulting determinants can then be used as predictors for internal alignments and hence may function as independent variables for our context-specific, generalizable theoretical propositions.[134] At this point we build on, critique, and extend the work of Oliver (1991) and Hillman et al. (2004). The theoretical background for the section on internal alignments is based on literature on the role of external actors in strategy formation (see chapter 2.1.4). It also addresses issues of strategy and structure (Chandler, 1962; Miles and Snow, 1978) and of alignment or fit (Venkatraman and Camillus, 1984; Miller, 1992).

(1) Predictors for internal alignments

Oliver's (1991) typology of strategic responses to institutional processes provides us with an initial access to the question of which characteristics of regulatory initiatives – that represent institutional processes – might help us to predict internal alignments at the six elements of corporate strategy. However, as the following Figure 6-15 shows, the predictive power of Oliver's (1991) ten characteristics is limited due to the mixed results.[135] While efficiency and consistency considerations suggest greater resistance in the case of market opening, multiplicity, dependence, and diffusion argue for greater resistance in the case of emissions trading. Based on Oliver's work, we suggest that the negative effects on economic efficiency and the smaller degree of consistency between institutional and corporate goals outweigh the other factors and hence call for greater resistance towards market opening.[136] On the other hand, we agree that weighing the different predictors is very difficult and speculative, and therefore consider Oliver's (1991) typology only partly suited for the purpose of this study.

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[134] We furthermore suggest that the predictors for internal alignments and externally directed responses (discussed in chapter 6.3) are identical.

[135] Ratings have been made in cooperation with a central informant at the case company and confirmed by a general assessment based on the fundamental logic of the energy industry. For more information on the ten predictors please refer to chapter 2.3.3 or, more specifically, to Oliver (1991:160).

[136] No evidence for such a relation was found in this study. To the contrary, results suggest more resistance for emission trading.

Dimension / predictive factor	Emissions trading (ET)	Market opening (MO)	Expected strategic response	
			ET	MO
Cause				
(1) Legitimacy	high	high	conform	conform
(2) Efficiency	moderate	low	mixed	resist
Constituents				
(3) Multiplicity	moderate	low	mixed	conform
(4) Dependence	moderate	high	mixed	conform
Content				
(5) Consistency	moderate	low	mixed	resist
(6) Constraint	moderate	moderate	mixed	mixed
Control				
(7) Coercion	moderate	moderate	mixed	mixed
(8) Diffusion	low	moderate	resist	mixed
Context				
(9) Uncertainty	moderate	moderate	mixed	mixed
(10) Interconnectedness	high	high	conform	conform

Figure 6-15: Predictors of strategic responses towards institutional pressures
Source: Oliver (1991)

Following Oliver (1991), more recent work on the determinants of corporate political activity (Hillman et al., 2004) provides us with a simple model for structuring possible antecedents of internal alignments (and externally directed responses). However, the two primary antecedents, issue salience and issue competition, also show contradictory results for market opening and emissions trading. Issue salience – the importance of a political issue for the company – is higher for market opening and hence suggests greater motivation for companies to become politically active on this issue. On the other hand, issue competition – competition in the political market between opposing interests and positions – is higher for emissions trading and hence suggests greater political activity on this issue. Since issue salience is the "*number one factor that motivates it [the company] to become politically active*" (Hillman et al., 2004:842), we suggest that corporate action in the case of market opening will be greater. However, the present ambiguities limit the predictive power of the proposed model, too.

While we support the general value of Oliver's (1991) typology and Hillman et al.'s (2004) model to generally anticipate corporate behavior in the face of regulatory involvement, we suggest that they imply two major weaknesses (in addition to the fact that they produce mixed results and would consequently require a weighting of each

dimension): (1) network effects are neglected, and (2) a dynamic, process- oriented perspective is missing. In their discussion of antecedents of corporate political activities Hillman and her colleagues acknowledge these weaknesses, and they point to the *"mechanisms that link firms"* (Hillman et al., 2004:851) and timing as important directions for future research.

During the research process of this study and, specifically, the analysis of the 72 press articles, we found four complementary antecedents that might be better predictors of internal alignments (and externally directed responses). These are: (1) existence of a powerful interceder, (2) public pressure on the corporation, and (3) maturity of a regulatory initiative. The analysis of interview transcripts added a fourth variable: (4) perceived opportunity structure of a regulatory initiative. While the first three are related to the specific discussion dynamics and the intensity of internal alignments (or externally directed responses), the last introduces a cognitive component and refers to the direction of alignments or responses (compliance vs. resistance).

According to social network theory, *"an actor might want to remain peripheral to avoid mobilizing opposition"* (Stevenson and Greenberg, 2000:656), especially if he feels that his interests are already represented by other actors. However, it would be especially difficult for the large energy incumbents to maintain an unobtrusive position necessary for effectively advocating their interests. In the case of emissions trading incumbent utilities were in the comfortable situation that there were political interceders (most importantly the Ministry of the Economy) who used their power to promote the interests of the incumbents and who acted as a buffer against larger changes in the regulatory environment. Instead of directly intervening in the discussion on emissions trading, incumbent utilities used two-step leverage strategies (Gargiulo, 1993); i.e., they built a strong relationship with the Ministry of the Economy, which had great power to influence regulation. In a slightly different context, Keim (1981) refers to this phenomena as "free riding," which means that interventions are carried out by other actors but the benefits are available to the focal organization as well.

The political landscape and especially the public pressure exercised on incumbent utilities also influenced corporate behavior. In general, issue awareness and the public attention donated to a regulatory initiative influence corporate behavior (McKay, 2001). More specifically, Keim and Zeithaml (1986) found that voter opinion influences not only the behavior of political actors but also of corporations. If broad consensus on regulatory initiatives exists, as in the case of market opening, corporations are likely to use less resistant strategies than if regulatory initiatives are contested by

the public. Consequently, public pressure should be positively related to corporate compliance with regulatory initiatives.

The maturity of an initiative adds a useful dynamic component to the set of possible predictors of internal alignments or externally directed responses to regulatory initiatives. This suggestion is confirmed by past research that pointed to the importance of timing in determining appropriate corporate response strategies (McKay, 2001). Existing literature also argues that strategies vary across the different stages of the issue life cycle (Hillman and Hitt, 1999). The results of our research confirm this and show that the longer an issue was evolving, and the closer concrete regulations and laws were, the more active and aggressive were the energy incumbents' responses. Also, as long as incumbents felt that the issue was evolving in the "right" direction, they did not react. Hence, these discussion dynamics were also important determinants of corporate responses towards regulatory involvement. So far, they have not been sufficiently considered by research.

Comparing our results regarding E.ON Energie and E.ON Ruhrgas indicated that the perceived opportunity structure of a regulatory initiative was an important determinant of internal alignments and externally directed responses. More relevant than objective measures on the degree of opportunities or threats associated with a regulatory initiative is the subjective perception by the firm.[137] Barr (1998) argues that the interpretation that management develops about environmental events is key to the type of strategic response it makes. Past research also points to environmental uncertainty perception (Elenkov, 1997) or perceived threat (Shaffer, 1995) as independent variables for studies on corporate behavior in the face of uncertainty in general or regulatory pressure in particular. For this dissertation project, the perceived opportunity structure turned out to be the most powerful determinant of internal alignments or externally directed responses.

(2) Context-specific types of internal alignments at the six elements of corporate strategy

While changes in coordination, organizational design, and management systems received high overall importance (all told, more than three-quarters of all empirical

[137] For one and the same regulatory initiative, the two Market Units of E.ON responded differently. E.ON Energie more actively tried to seize the upcoming growth opportunities while E.ON Ruhrgas tended to buffer the organization from environmental threats. We suggest that one reason for these differences is the fact that E.ON Energie perceived market opening more as an opportunity, while concerns dominated at E.ON Ruhrgas (which saw market opening as a threat to the organization).

groundings), notable differences existed between emissions trading and market opening. In the case of emissions trading, internal alignments remained relatively superficial and consisted most importantly of adjustments in organizational design and management systems, while the concept of corporate strategy and portfolio configuration remained largely unchanged. Overall resistance was higher, and buffering activities that tried to protect the operational core dominated. As for market opening, internal alignments led to more fundamental changes. Most notably, these included alignments in the concept of corporate strategy and portfolio configuration, which were accompanied by according adjustments in organizational design and management systems. Overall resistance was moderated by a vital interest in a sustainable and balanced institutional order. The active pursuit of market opportunities received greater attention. In the case of E.ON Ruhrgas, resistance appeared to be stronger, which implied a greater focus on protective alignments in organizational design and management systems, while core elements of corporate strategy – like portfolio configuration – remained unchanged.

In sum, the intensity of corporate responses or internal alignments, and the level of compliance to regulatory pressures were greater for market opening. Considering that market opening is characterized by a lack of a powerful interceder, greater public pressure, slightly higher maturity, and greater perceived opportunities, this finding is in line with the arguments on possible predictors for internal alignments advanced above.[138] At the same time it contradicts the hypothetical suggestions made based on issue salience (Hillman et al., 2004), or negative economic effects and consistency between corporate and institutional objectives (Oliver, 1991).[139]

For this reason we suggest using the four predictors introduced above, which leads us to the following propositions. On the one hand, they refer to the intensity of internal alignments (propositions 2a to 2d). On the other hand, they relate the intensity of internal alignments to concrete adjustments of the elements of corporate strategy (propositions 3a and 3b). Please remember that the general context for which these propositions are formulated is a situation in which regulatory initiatives transform regulations from means of protecting incumbent organizations to means of promoting change.

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[138] The fact that internal alignments were less intense and were more dominated by protective tendencies at E.ON Ruhrgas, where market opening was perceived less as an opportunity, adds further support to our suggestion that the perceived opportunity structure is a very suitable predictor of corporate behavior.

[139] Corporate responses should be more intense and more resistant in the case of market opening since greater issue salience was supposed to outweigh lower issue competition. And the negative effects on economic efficiency and consistency were supposed to dominate arguments of multiplicity, dependence, and diffusion.

Proposition 2a: The stronger powerful interceders who act in favor of the firm's interests are, the less intense are the realized internal alignments.

Proposition 2b: The higher the public pressure on the corporation is, the more intense are the realized internal alignments.

Proposition 2c: The more mature a regulatory initiative is, the more intense are the realized internal alignments.

Proposition 2d: The greater the perceived opportunity of a regulatory initiative is, the more intense are the realized internal alignments.

Proposition 3a: The more intense the realized internal alignments are, the more significant are adjustments in the concept of corporate strategy and in portfolio configuration.

Proposition 3b: The less intense the realized internal alignments are, the more significant are adjustments in organizational design and management systems.

While predictions were mixed regarding market opening and emissions trading,[140] we suggest that the propositions above are less contradictory. Powerful interceders may be used to reduce external pressure on the firm (Gargiulo, 1993; Stevenson and Greenberg, 2000) and hence permit greater levels of status quo retention, which goes hand-in-hand with less intense internal alignments. Public attention (McKay, 2001), voter opinion (Keim and Zeithaml, 1986), and public expectations (Ring and Perry, 1985) all affected generic strategies of the firm and, hence, are likely to impact the intensity of internal alignments as well. Timing received attention in prior research (Hillman and Hitt, 1999; McKay, 2001), and indirectly referred to the maturity of an issue. Finally, the cognitive component of perception was emphasized in several studies (Shaffer, 1995; Barr, 1998).

Common to most research on the impact of regulation on corporate strategy and the related question of how strategies, structures, and process are aligned, is the focus on generic strategies rather than on concrete effects on one of the six elements of corporate strategy. Or, regulation or deregulation is not further specified. For example, Baird and Thomas (1985) found that increased levels of state regulation had a negative effect on risk taking (which we would consider to be part of the concept of corporate strat-

[140] Since market opening has a larger effect on the operative core of the firm, one could also expect that resistance is stronger than in the case of market opening, since more of the firm's stakes are at risk.

egy). However, they do not further specify the type of regulation. We, in contrast, argue that it is critical to distinguish whether regulatory involvement signifies an opportunity or a threat.

The above propositions further suggest that partial alignment is possible, which would mean that dissonance within the organization (internal fit) and with its environment (external fit) is acceptable under certain conditions. While Miller (1992) suggests that internal fit and external fit contradict each other and management focus needs to shift its focus from time to time, our research suggests that integrated fit[141] does not always have to be achieved.[142] Aligning organizational design and management systems might be an option if fundamental changes in corporate strategy are not in the interest of the firm and are not required by external pressures. Both are the locus of corporate efforts to "*seal off [the] technical cores from the uncertainties and contingencies posed by the external environment*" (Cook et al., 1983:196).[143] Far-reaching, internal alignments are yet reflected in adjustments at the concepts of corporate strategy and portfolio configuration. Even though they also imply changes in organizational design and management systems, they require more than operational responses to increased environmental hostility, such as additional environmental screening and analysis (Miller and Friesen, 1983).

(3) Context-specific alignment paths

Following the question how the six elements of corporate strategy were affected, we also elaborated on the sequence in which change occurred. The respective alignment paths of the two regulatory initiatives differed. In the case of emissions trading, coordination activities were followed by changes in management systems (for measuring, reporting, documenting, and planning) and organizational design (formal processes), which were at the core of organizational alignments. Only then minor adjustments to the concept of corporate strategy were made; and these were mainly changes in environmental or R&D strategy that reflected the growing importance of environmentally friendly generation technologies. Leadership and style were not affected to a great extent either, since environmental concerns belonged to the set of corporate values but the emission certificate-trading scheme was not perceived as the most efficient means

[141] Integrated fit includes both internal and external fit. For more information please refer to chapter 2.1.5.

[142] As the example of emission trading showed, the concept of corporate strategy and portfolio configuration might remain unchanged.

[143] Cook et al. (1983) refer to the work of Thompson (1967), who introduced the terms "technical core" and "seal off" in the 1960s.

to realize the objectives of environmental protection. As for market opening, internal alignments were not only more intense, but also followed a different sequence. After coordination activities, adjustments to the concept of corporate strategy were realized rather quickly.[144] The changes in strategic direction quickly transferred into heavy portfolio reconfiguration activities, including major divestments and acquisitions. In a next step, alignments in organizational structures occurred (e.g., installation of a sales function or corporate center functions such as regulatory management). Finally, changes in management systems accompanied the other alignments and included, for example, more sophisticated scenario planning techniques. As for leadership and style, a more sales- and customer-oriented culture, greater emphasis on efficiency, and increased corporate parenting advantages were required and initiated.

In sum, internal alignments in the case of market opening were driven by corporate strategy and portfolio configuration, while organizational design and management systems dominated in the case of emissions trading. At the same time, the function of organizational design and system issues differed in the two cases. For market opening, they formed a suitable internal context for the implementation and support of the new strategic direction. For emissions trading, their purpose was to protect and cement the existing concept of corporate strategy and limit eventual alignments of corporate concept and portfolio configuration.

Generalizing our findings on alignment paths in the case of market opening and emissions trading, we suggest that the perceived opportunity structure is the best-suited predictor for the sequence of internal alignments. Our analysis of press articles, which did not allow for detailed insights into the sequence of internal alignments, did show that the presence of a powerful interceder, public pressure, and the maturity of an initiative all helped to determine which elements of corporate strategy were aligned. However, we could not find evidence that confirmed their value as predictors for dynamic alignment paths.[145] Consequently, we are not able to formulate reliable propositions regarding these factors. The perceived opportunity structure, however, was veri-

[144] The starting point of the focus and growth strategy that transferred E.ON from a diversified conglomerate to a focused energy group was initiated through the regulatory initiative of market opening. E.ON quickly reacted to the new regulatory environment, changed its focus of operation, and targeted focused growth of the profitable energy business.

[145] Based on rational thinking, it is difficult to explain why public pressure should induce a certain sequence of internal alignments. We hold it likely that pressure can lead to adjustments in the concept of corporate strategy first, since it first impacts organizational design in terms of an initial protective reaction. Accordingly, we argue with regard to the existence of a powerful interceder and the maturity of a regulatory initiative. The latter is further complicated by the inherent dynamic nature of the factor, which complicates statements on dynamic alignment sequences.

fied through the comparison of the two regulatory initiatives that are either perceived as an opportunity (market opening) or as a threat (emissions trading). Furthermore, valuable insights could be generated through the comparison of alignments at E.ON Energie and E.ON Ruhrgas. In the first case, market opening was more directly perceived as an opportunity and the concept of corporate strategy and portfolio configuration were the first elements to be aligned. In the case of E.ON Ruhrgas, these two central elements of corporate strategy were changed more reluctantly; corporate resistance and buffering played a more important role.

Based on this reasoning we suggest the following propositions:

Proposition 4a: If regulatory initiatives are perceived as opportunities, the core internal alignment path follows a sequence of Concept of corporate strategy – Portfolio configuration – Organizational design – Management systems.

Proposition 4b: If regulatory initiatives are perceived as threats, the core internal alignment path follows a sequence of Management systems – Organizational design – Concept of corporate strategy.

These propositions link with one of the oldest discussions of strategic management, on the relation between strategy and structure. Chandler (1962), most prominently, argues that structure follows strategy, which is confirmed by proposition 4a. Once again, we suggest that absolute statements are difficult but that the specific context – most importantly the perceived opportunity structure, but also the level of external, public pressure[146] – plays a pivotal role in determining the sequence of internal alignments. In the case of market opening, characterized by high opportunities associated with the regulatory initiative and by significant public pressure on energy incumbents, our research confirms Chandler's (1962) proposition. In the case of emissions trading, on the other hand, that is characterized by low opportunities and lower levels of public pressure, structure does not seem to follow strategy.

As examples of past deregulation processes have shown, strategic changes (concept of corporate strategy) frequently precede structural changes (organizational design and management systems). Morgan (1981a; 1981b), for example, found that cost cutting and new market development (which we consider to be part of the concept of corporate strategy) were corporations' first responses to deregulation. This dissertation

[146] The perceived opportunity structure remains our principal predictor for internal alignment sequences. However, we suggest that public pressure moderates the relationship and strengthens its effects.

found similar responses for the case of market opening in the energy industry. Bacharach et al. (1996) confirmed these findings on a more general level. They argued that, first, the logic of action in the airline industry changed from a quality-based to a price-based logic; then, the resulting dissonance and frictions within the organization were resolved through further alignments in structures, processes, and styles. We suggest that the strategy-structure paradigm is true for the specific context of perceived opportunity and public pressure. In such a case, organizations feel urged to seize opportunities and, hence, quickly align the concept of corporate strategy. Following a classical formulation and implementation routine (Andrews, 1987), organizational structure follows and represents a tool for implementing strategy.

As the example of emissions trading has shown, different alignment paths are also possible in a different context. The primary response towards a regulatory initiative that is perceived as a threat is more likely to concern organizational structures, processes, or/and systems. The research of Cook et al. (1983) has shown that changes in organizational design (e.g., specialized corporate center functions) or management systems (planning or staffing systems) precede changes at the strategic core of the firm (e.g., product and service offerings).[147] We suggest that this type of responses is to be expected if regulatory initiatives are perceived as a threat and organizational alignments are meant to protect the existing concept of corporate strategy. By setting an internal context that manages the interfaces with regulatory actors and their expectations, the organization canalizes corporate behavior. This might limit autonomous behavior to some extent, but, overall, it maintains autonomy for the technical core of the firm. Subsequent changes in the concept of corporate strategy are the result of incremental alignment processes that are facilitated through the established organizational context (organizational design and management systems).

(4) Neo-institutional interpretation

Institutional and corporate transformations in the energy industry are still on their way. However, it seems that market opening is already closer to a new institutional order that is consistent with the corporation. We suggest there are two principal reasons for this. First, regulative institutions are flanked by widely shared normative institutions. Second, institutional pressures from the different stakeholder groups are mutually more compatible.

[147] Cook et al. (1983) distinguish between the managerial and the technical level. Hereby, specialist functions, planning departments and systems, or staffing routines belong to the managerial level. The technical level includes issues related to the product portfolio or to different service levels.

In review of the institutional mechanisms and their effects on corporate strategy formation in the case of market opening, we hold that regulative institutions (or their anticipation) acted as initial triggers for change. The purely coercive pressure exerted by laws and by-laws, however, was flanked by public pressure that formulated normative expectations for energy incumbents. There was a broad consensus on the benefits of market opening, free choice of suppliers, and competition that encouraged institutional and corporate transformation. Further strengthened by the corporate perception that market opening represented an opportunity for the firm, external institutions were transferred to the concept of corporate strategy and to the general value and belief system (customer orientation, efficiency-based logic, competition, etc.). Consequently, external and internal institutions – the latter being reflected in corporate culture and values – converged, and the institutional order gained greater stability.[148]

As for emissions trading, organizational and institutional transformation remained more superficial. Here, too, laws or by-laws (regulative institutions) formed the initial triggers for change. However, the multiplicity of the institutional environment and ambiguous evaluations of the planned emission-certificate trading scheme hindered the formation of confirmative normative institutions. For, other than regulatory stakeholders, emissions trading did not carry institutional benefits. Regulatory and shareholder expectations, for example, were not compatible. As a result, internal alignments did not lead to substantial changes in the concept of corporate strategy or the organization's culture and values. Instead, only rather superficial adjustments were made to organizational design and management systems. These adjustments reflected regulatory expectations, but they did not go far enough to instill the new institutional order with sustainable stability.

In sum, we may formulate the following propositions:

Proposition 5a: If external institutions are transferred to the concept of corporate strategy and reflected by the corporation's culture and values, they are consistent with the internal institutions of the firm.

Proposition 5b: The more consistency exists between internal and external institutions, the more stable is the institutional environment.

[148] The reactions towards market opening were dominated by the opening of growth opportunities in foreign markets (especially in the case of E.ON Energie). At the same time, protective measures in the home market were activated that contradicted the described logic. These asymmetric behaviors of former monopolies were confirmed by Bonardi (2004).

Proposition 5c: If normative institutions and institutional pressures from other stakeholders complement regulative institutions, consistency between internal and external institutions and hence institutional stability is increased.

Work on the role of internal institutions in strategic management is limited so far (Wood, 2003). Most research – including this study – focuses on effects of external institutions on the firm and on how the firm manages those influences (Ingram, 2002). However, when asking how the elements of corporate strategy are aligned, we extend our thinking to internal institutions that are reflected most prominently in the concept of corporate strategy and in the firm's culture and values. This leads us to the suggestion that a stable institutional environment is most likely if external institutions are reflected by the technical core of the firm and, most importantly, by the concept of corporate strategy. We further suggest that, based on a logic of coherence, stability is enhanced through the consistency of internal and external institutions.

Furthermore, relating to proposition 5c, we suggest that regulative institutions alone are not sufficient to establish a sustainable institutional order. Instead, as previous research has shown, normative institutions in the form of social obligations are a central pillar of the institutional environment (March and Olsen, 1989). If those normative institutions complement and support the regulative institutions, institutional stability is increased. Shared values, standards, and activities by different stakeholder groups that supplement the purely regulative institutions imposed by state actors further cement institutional changes and are a central ingredient for sustainable institutions (Klement, 2001). I.e., an institutional order that considers the needs and expectations of different stakeholder groups (state, shareholders, etc.) is expected to be most sustainable.

6.3 Externally directed responses toward regulatory involvement

Following chapter 6.2, which presented the results on internal alignments following regulatory involvement, this chapter elaborates on the corporation's externally directed responses that represent the corporation's efforts to influence the institutional environment and its actors. The overall objective of this chapter is to develop a typology of externally directed responses and to derive context-specific propositions regarding the different types of responses that can be characterized by different levels of resistance. Comparing results across regulatory initiatives, sub-units of analysis, functional and managerial backgrounds helped us in doing so.

Chapter 6.3.1 presents the inductively derived typology or coding structure (codes, sub-categories, and categories) for externally directed response strategies and defines

resister- and consensus-based strategies. Then, we compare our results across the two regulatory initiatives of emissions trading and market opening (chapter 6.3.2) and across the two sub-units of analysis, E.ON Energie and E.ON Ruhrgas (chapter 6.3.3). While these two comparisons were already part of our analysis, we now also elaborate on the different responses according to management levels (corporate or market unit) and functional backgrounds (market or non-market) (chapter 6.3.4). Finally, we interpret our findings in the light of neo-institutional theory (chapter 6.3.5), root our findings in existing theory, and develop context-specific, generalizable theoretical propositions (chapter 6.3.6).

As described in the previous chapter, we followed two methodological approaches. First, and guiding our research, we focused on the analysis of interview transcripts that has been supported by Atlas/ti software. We structured the enormous amount of data by linking direct quotations to more general codes that were subsequently aggregated to higher-level categories. While the research process remained a creative endeavor, we once again used density measures of the different codes and categories to guide our analyses and obtain more objective evidence. Second, we used systematic press research to add an external perspective and to triangulate our findings. Core elements of our analysis included coding structures and density measures, word counts, and direct quotations.

6.3.1 General results on externally directed responses

The core category of externally directed responses was grounded in empirical data 341 times. Altogether, we identified 20 codes, which we grouped into three categories representing the 3 P's of external response strategies: (I) prevention, including all anticipatory, proactive, and preventive activities, (II) participation, which is further divided into four sub-categories (defer, inform, negotiate, manipulate), (III) partnering, which highlights collective activities as important components of externally directed response strategies.

Figure 6-16 below shows the coding network generated for external responses. Similar to internal alignments, codes have been structured and assigned to categories and sub-categories. Furthermore, density measures (see numbers in Figure 6-16) helped to evaluate the importance of the different categories and codes. Participation received the highest rating of the three categories (191 times). However, prevention and partnering received more empirical groundings than each of the four sub-categories associated with participation.

Again, we want to highlight that while the density measures helped us to objectify our research and validate the general findings of qualitative research, we do not intend to use them for any sort of statistical evidence.

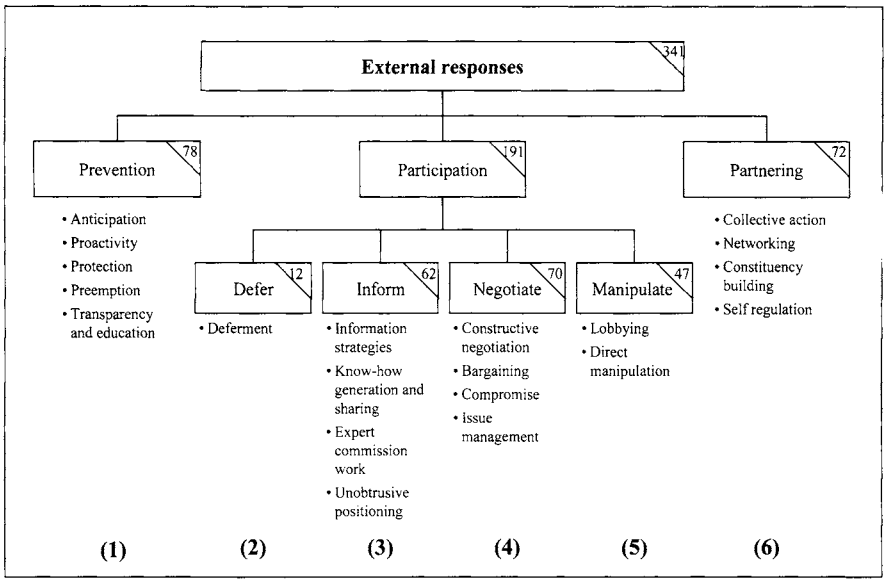


Figure 6-16: Coding network on external responses

Before explaining the different categories and codes in detail, we would like to emphasize that one of their principal characteristics is their general approach to regulatory influences. They either represent strategies that are rather open and aim at constructive negotiation with regulatory and other stakeholder, even if opposition to the particular regulatory initiative exists. Or they stand for much more protective strategies that resemble destructive resister-behavior towards regulatory initiatives. Participative information and negotiation strategies, as well as partnering, belong to the first group. Deferment and manipulation and, to a limited extent also prevention, are part of the resistance-based second group.

We will come back to these distinctions during our analysis, but first we will present the codes and categories of externally directed responses over the next pages.

(1) Prevention (78)[149]

Prevention includes proactive activities that are undertaken in order to anticipate regulatory changes. This category groups several codes that all relate to activities launched at early stages of the regulatory issue life cycle that aim at influencing the course of issue development and shaping further discussions and negotiations according to the corporation's interest. It also acknowledges the high importance of early action. Next to anticipation and proactivity, the category consists of three more, closely related activities. First, preemption, which means that corporations try to make the first move, formulate their position, and hence gain a timing advantage on the regulatory initiative to come. Second, protection as a way to buffer effects of regulatory initiatives. And finally, transparency and education as a way to open the corporation for the regulatory actors to prove cooperative behavior at an early stage of regulatory initiatives.

Anticipation (36)

"Principally, it is all about anticipating developments or foreseeing where the developments lead to. So that you can cover all issue that will later on be occupied by the regulator, cover those issues and prepare the company for the changes that will probably only turn up on the agenda a year later." (P2:49)

The challenge consequently is to anticipate changes before they arrive to give the company a lead over the issue development. Especially at a large energy utility like E.ON, that has always been a politically reflective company, regulatory initiatives had sometimes been taken serious before they were even known as such. And the company started at an early stage to investigate on possible scenarios of the future. The question then was not how does regulation look nowadays, but how will it look like in three, five or seven years.

"We do currently have a national allocation plan with certain rules on the table and the question for the decision if we want to reinvestment in a steam turbine or in a power plant in Poland is not about regulation of today, but how it will look like in the future." (P13:99)

Clearly, anticipating the changes of the regulatory system requires close interactions with political decision makers. Connecting with political institutions and unveiling development trends is one important function of corporate management. Beyond this,

[149] In brackets you will always find the number of times a certain category or code was grounded in empirical data.

broad research programs help to detect political tendencies that can in a later stage be discussed with the relevant decision makers. Understanding the regulatory actors and the issues that drive them is consequently a first step in shaping the issue's development.

"Market strategy is all about understanding what the regulator wants and delivering what he wants, and developing this long term relation with him." (P6:69)

Based on an understanding of the regulator and on an anticipation of change dynamics, internal discussions can be led as to how the firm should react. In sum, anticipation is about knowing the political actors and their interest and about determining the possible effects on the corporation

"We know the [European] Commission thinks about certain things ... and then there are studies, for example on emissions trading, that elaborate on the effects on the gas industry, how far does the issue concern us at all, how shall we position ourselves and what can we do in case we will be affected by emissions trading." (P18:35)

Proactivity (18)

"This was always the clear message of anybody with experience in regulation: Really pay attention that you don't get stuck in a reactive position!" (P2:55)

Closely related to anticipation, proactivity is a general characteristic of political strategies that has been highlighted by many of our interlocutors. Unanimously, proactive strategies were preferred to reactive strategies since the latter only allowed for minor adjustments that had to be made mostly under time pressure. Proactive strategies, on the other hand, allowed to better guide the direction of discussions on regulatory initiatives.

"Be proactive, get your nose in the wind and don't wait for the regulator. Because you are in a bad situation if you always run after the regulator and try to fix the things he just made." (P2:49)

Although commonly understood as superior strategy, it could not always be followed due to resource restrictions or due to uncertainties on relevant issues of the future. If manpower didn't allow and if current issues were too pressing, the corporation had to pursue a more reactive strategy. Ad-hoc strategies were also required if issues appeared on the agenda without long periods of general discussion.

"At present we are more reactive than creative. Yet, we realize where the political discussion is heading, but we are not [always] capable of strategically direct our efforts, to develop scenarios on the political landscape within five years ... we just do not have the manpower." (P17:49)

Finally, one executive compared the proactivity required to deliver superior customer value with proactivity in regulatory affairs. In both cases anticipating future customer or regulator demands and proactively seeking responses is preferable to just react on demands that have been articulated explicitly be the customer (or regulator).

"The role of the strategist is not so much to just sit oh wow that's what he wants, he's telling us to do. It's to be more imaginative and say look if we do it in this form, what's that worth, do customers value this? In a sense the regulator acts as the super customer." (P6:71)

Preemption (11)

While anticipation and proactivity were more about understanding regulatory actors, their needs and interests, about deducting the possible effects on the corporation, and about preparing the field for future involvement, preemption is one step further about the definition of corporate positions and response strategies. Preemption most basically means that issues are covered and worked on before any regulatory actor took care of them. This gives the company a time and content advantage over the governmental agency.

"Take for example control electricity ... these are all issues that are either already covered by the regulator or that will be covered by him. You know that at the outset, and then there are two options: either you wait and see until he makes the first move, or you go ahead and say I will prepare this, I will try to work the field that he will till afterwards" (P2:55)

Briefly, you ask yourself what are the issues and what is our position and then you communicate it to the relevant stakeholders and the public. In this way, you can form an opinion that might be better suited to fit your own interests and that the regulator has to attack himself when he enters the discussion. Next to formulating a company specific position, E.ON also regularly worked on joint position paper with industry associations to detach it to some extent from their particular interests.

Focused efforts had also been undertaken with regard to amendments to existing laws. Before official legislative processes had been started, the company tried to provide

position papers in order to preempt regulatory moves and to influence a process that hadn't even been started yet.

"For example, we provided suggestions on the critique of the old law on renewable energies in order to influence the legislation process at an early stage. We provided so-called 'problem papers'[150] written by E.ON on the market development of renewable energies and added suggestions for improvements before the legislation process had been started, so relatively early, to accompany it afterwards." (P7:93)

Protection (11)

Compared to preemption which primarily consists of an early positioning of the corporation in the regulatory discussion, protection is more directly targeted at securing the stakes of the firm and at buffering external risks.

In order to advocate the firm's position, corporate management tries to keep out regulation from as many parts of the business as possible. In the case of security of supply, for example, the responsibility could be largely kept with energy utilities keeping out regulatory authorities and limiting their role to providing support mechanisms. Using a cooperative strategy, the political actors could be convinced that the issue is best taken care of at the utilities themselves and that the public targets would still be achieved.

"We generally do have a common position that we share across all issues, for example at security of supply, and we argue that this issue is primarily the responsibility of the corporations and that politics should support or flank it." (P18:146)

Since in most cases strict opposition is not possible, E.ON generally tried to focus on key issued that had to be shaped to the interest of the firm. Once achieved, the specific issue had to be retained and the focus shifted to the next important issue.

"This by-law will come in one way or another, so there is no fundamental opposition. We concentrate on certain issues, and then you achieve amendments at one issue, you try to retain the achievement and you move on." (P18:372)

Critical aspects in protecting the core of the firm are technical argumentations based on feasibility considerations. Once the discussion shifts towards the realization of certain regulation ideas, detailed evaluations need to prove that certain regulatory scheme

[150] The process would be called "Problempapierbestellung" in German.

can actually be implemented. At this point corporations can actually protect their business using legitimate technical arguments.

"There have to be suggestions that actually work, and this is the advantage of regulation. You can actually form [the regulatory system] a lot; I don't think it [regulation] is a threat." (P10:219)

Protection of the operative core of the firm might also mean over-delivering on one issue to protect another, possibly more important one. In the case of unbundling, for example, it was clear that the transportation business had to be opened up for regulatory supervision, however, the way activities were unbundled had to make sure that the other business were protected from regulatory influence.

"If you do an unbundling of accounts that does not really separate the allocation groups, then you will have trouble in doing so because you need to allot so many things. And if you don't change your organization you risk that your whole business will be open for regulation. If you don't want this to happen you need to find other ways." (P15:103)

Finally, while incumbent utilities generally are against regulation since it limits their profit potential to some extent, a regulatory system provides protection for their profits at the same time.

"And if we drop below a certain level of return, the regulator will bring it back up again. So there is kind of range around which you play this game." (P6:67)

Transparency and education (2)

Anticipation and proactivity was about understanding the regulatory actors and their interest, transparency and education works the other way round, i.e. you also need to help external actors understand your business. Transparently showing how you do your business and calculations can prove that you tariffs are not the result of random management decisions but follow a strict logic. Through understanding and education you will take fears away from regulatory actors, customers and the public that you are trying take advantage of them and that your value proposition is fair. Then, they are much more likely to be on your side. Furthermore, it helps you to show a general openness for constructive negotiation based on rational arguments. And lifting general discussions on this rational level can be a decisive factor for successfully promoting your position.

"You got to show that first of all, you need to build that power plant, and this is expensive, costs millions, and you want to be reimbursed for this investment ... So you depend on clearly communicating and making transparent why your decisions are the way they are." (P10:305-307)

Helping external actors understand your business and educating them about the specific drivers of your business will also support your image in public which is critical for successful negotiations. Doing so, incumbent utilities try to point at the many facets of their business beyond pricing and at the uniqueness of their business like the entire energy infrastructure that hand to be built and maintained. Since energy and energy prices are widely discussed in public, activities need to include external actors as divers as the farmers association and the heavy industry consumers.

"It starts with the farmers association and ends at the industry association ... this is regular lobbying activity which tries to promote your business and helps other people to understand your business; because we are not exchangeable." (P10:303)

(2) Participation – Defer (12)

At the beginning of regulatory initiatives, there is frequently a discussion between politics, the European Union and industry on the sense and need of the planned regulation. If avoiding regulation is not an option any more, deferring its start might be an alternative. Looking at the gas industry in particular, blockade and deferment had been a dominating strategy. The electricity industry on the other hand pursued a more constructive strategy of finding a compromise between the different interests. The decision that has to be made is whether you want to put your energy in opposing regulatory tendencies or in participating in the creation of the regulatory system which is a much more proactive approach.

"The gas industry has always been incredibly stubborn, was fighting fiercely about any concession, if not blocking anything. And now, you can argue which strategy is better. Do you try to stop the flood and then struggle to keep you boat up if can't change anything anymore. Or do you try to make a sort of formal transition [from deferment and blockade towards active participation and creation]." (P2:123)

It seems that deferment is a risky strategy if pursued in the long run, because you get in a very much reactive position sooner or later and because your image suffers with all the negative effects associated with this. Yet, at some points of the issue life cycle, deferment can be a legitimate strategy; and it is definitely part of the game between political and corporate actors. Starting on the European level, coalitions form that

build up a negotiation position and that use deferment tactics that are sometimes hidden behind apparently rational arguments. In this sense deferment is part of the negotiation strategy.

"I think it is fascinating if you look at the French who introduced the single buyer. The single buyer was an artificial construct of the French, and it was a tactical masterstroke to introduce it into the discussion, because it deferred the process, because discussions on the issue went on and on, and then when it finally got accepted and when implementation was about to start, the French said no." (P17:154)

When it comes to the transfer of EU Directives into national law, general legislative procedures allow industry and energy firms (and their respective associations) to prepare for the discussion and to formulate arguments to further slow down the implementation of regulatory schemes. Next to general deferment tactics, in depth analyses of regulatory drafts provide opportunities to ask for revision due to inconsistencies, mistakes or misleading formulations.

"The ministerial draft on regulation just had evident mistakes in it; and there were wrong formulations that avoided that the law could actually be implemented. We didn't know what it meant, nobody knew. So it had to be reworked." (P11:237)

(3) Participation – Inform (62)

The central role of information had already been highlighted several times and this sub-chapter explicitly deals with information based strategy. In general, information as part of external responses to regulatory influences fulfills several functions. It provides transparency on the incumbent utility's business, it creates knowledge to be shared between political and corporate actors, and it is – or should be – the basis of any discussion or negotiation on regulatory standards. This sub-category on information consists of four codes that will be explained below: general information strategies, know-how generation and sharing, expert commission work, and unobtrusive positioning.

Information strategies (40)

Information strategies cover both aspects of inbound information and aspects of outbound information. While the first deal with managing the different channels of information the latter are about communicating corporate positions to the external environment. For the code of information strategies outbound information clearly dominated inbound information.

Concerning inbound information three channels were explicitly mentioned by our interlocutors: First, personal connections and channels to the political actors, including governments. Second, selected contacts to journalists who are very well informed and posses detailed background information. And finally, industry sources and even competitors. As for this group of incumbent utilities, information is exchanged and common positions are formulated based on shared interests on regulation.

"And yes, we do share our opinion and talk a lot, despite opposing market interests. Evidently, we are not in the production or sales department, but in regulation. And in this field we certainly do have common interests." (P2:63)

Now, regarding outbound information, the explanation of the corporation's or industry's position is generally an early step in the interactions with political actors before negotiations start. The ability to have an information based discussion on regulatory initiatives is an essential precondition for efficient regulatory management. Fighting existing images and prejudices can be very difficult.

"The pricing discussion at present is extremely difficult. Of course, we argue fact-based, or we try to discuss in an appropriate way, but this does not help and might be completely irrelevant if 'Bild'[151] already created the public opinion. The whole issue just runs over you." (P18:222)

Having said this, it becomes clear that rationalizing the discussion and lifting it on an information based level is a difficult, but still primary concern of corporate management. Most basically, energy incumbents try to picture energy policy as part of a rational economic and industrial policy instead of being part of environmental policy. Arguments are advance that show the trade off between opposing targets and opposing interests of different stakeholder groups of the organization. A balance between those targets and interests should then be found on a rational, and not emotional or political basis.

"You got to have arguments why you say this or that makes sense or not, and this is also required. And we do have a responsibility not only for our shareholders, but also for our employees, and for the customers to make sure security of supply is guaranteed and that the electricity arrives at the single household." (P10:217)

[151] *Bild* is the largest daily newspaper of the yellow press in Germany with more than 10 million readers per day.

Next to rationalizing the discussion E.ON engaged in explaining, clarifying and justifying their positions. In some cases information had to be provided so that external actors and the public understood the facts of an issue, in other cases prejudices had to be clarified and additional information had to be furnished to produce a more balanced and holistic picture of a certain issue. The example of electricity prices had already been given above and shows that energy incumbents get blamed for a situation they are only partly responsible for. So based on this misperception information dossiers were prepared to clearly show the reasons for the price developments in the past. This included the clarification that the share of taxes and burdens increased significantly over the past five years while the margin for generation, distribution or sales decreased.

Large gas companies like E.ON Ruhrgas have also been criticized for their long term contracts with their customers which inhibited them from changing their suppliers and functioned as de facto market entry barriers for new players. While this is true to some extent, there is also the fact that gas utilities need to sign long-term contracts themselves with exploration companies in foreign countries like Russia to guarantee gas supply in the future. Those long-term contracts are furthermore used to secure the high investments in exploration and transportation infrastructure.

Finally, an example on fair rents for energy utilities: Utilities have oftentimes been criticized for their extraordinary profits. While one might follow this line of argumentation there is also another side of the coin. In contrast to other net-based industries, like telecom, E.ON did not build their electricity grid with tax money, but through investments from their shareholders. Consequently, E.ON has to provide returns that compensate for the risk taken by their shareholders.

"You have to consider that we have never been [financially] supported by the state ... but that all financing came from our shareholders. And there was risk associated with these investments and consequently there ought to be returns that can be generated in any free enterprise. And by the way, anybody has the chance to do this [invest in energy business], even though entry barriers are high." (P14:109)

To support clarification or justification statements comparisons may help. Those might add more objective arguments and further rationalize the discussion. This will make it at least more difficult for the political actors to defend their position, even though the political will might still dominate rational argumentation.

"You can provide scientific reports, what we do; you can use comparative markets and show ... why certain concepts have already been implemented in other countries like the USA. It helps, but if politics once decided to go their way and if political will dominates rational thinking, then you can not do many things." (P14:225)

Combining inbound and outbound information, E.ON also tried an approach of proactively seeking information exchange and feedback with their customers. Showing openness for discussion and integrating thoughts and interests from their customers this strategy was supposed to gain a better mutual understanding and open up ways for compromises.

"It started with the new grid access or tariff model that we currently have. We said let us do something progressive, we will hold a meeting for our customers where we present our ideas and discuss them. And where we also say, give us your opinion, to get some feedback from them." (P15:185)

Know-how generation and sharing (5)

Another facet of participation-inform strategies is know-how generation and sharing. If you are able to provide relevant know-how to your counterparts on the political scene and manage to position yourself as knowledgeable expert, your contact with political actors will be much easier. Not having the necessary expertise from the beginning they somewhat depend on the incumbent utilities' knowledge and their willingness to share it. If you can deliver, they highly value input in the form of understandable information material.

"If you provide them with good input, short, firm, well structured and presented, and if you take your time to explain certain issues to them, then you will receive an according kick-back and then your relation with them will be relatively easy." (P18:216)

For your sustainable relation with political actors and your acceptance as valued contact person you always need to be able to have something to offer. If you can, your chances of getting your positions and interests realized increase.

"In the political field, if you are not a competent contact person or if your company has nothing to offer, you will not be recognized as contact person. However, if you have know-how and if you can offer something, then you are well accepted as interlocutor and your chances to enforce your position really increase if you can play this game in a suited manner." (P17:19)

On the other hand you should avoid hiding information, since staff at the regulator will sooner or later anyway find out. You should also not underestimate your political counterparts, they will work to understand your business and then it is better for you to help them in doing so (because of the above mentioned reasons).

"You have to transfer and share information. Then, you should not think that the regulator is stupid. He leads many personal interviews and he will know his way around very quickly. They get young people from university and those learn very fast. They are up to speed really quickly." (P2:238)

Expert commission work (3)

Structured ways to participate in interactions with the regulatory and political actors are expert commissions. Providing your knowledge and at the same time sharing your ideas with political actors will build a mutually beneficial relationship. The regulator gets your expertise and you gain influence over the legislative processes.

"Next week we will see our regulator and we will participate in that expert commission at the parliament and they want somebody with a good reputation like Ruhrgas. It actually counts a lot that you provide them with your advice and that you are there for there numerous questions." (P2:139)

There are also standing monitoring groups, for example on the issue of nuclear power, where high level representatives from government and corporations meet to find solutions to critical issues. And then, there are lower-level working groups that actually do the work, prepare the meetings and implement the decisions.

"This process was accompanied as regards content [by the politics department], it was prepared by the so-called 'sherpa-group'[152]*. Those were the porters for the people who at the end made the decisions."* (P13:149)

Unobtrusive positioning (14)

"[When politics and the public say] so this is just something else where you want to protect your sinecures, then this is the end of our ability to influence anything" (P14:223)

[152] Thinking of the native porters ('Sherpa') used for carrying all the equipment and food at expeditions in the Himalaya.

Clearly, despite all effort to advance rational arguments and to lead information based discussions it is sometimes very hard for incumbent utilities to maintain credibility and stay in a position where their arguments count. Frequently, any information is discredited by suggesting that it is biased by the pure self-interest of the firm that wants to protect their benefices and profits. It gets even more difficult if you are a large and dominant market player.

"As a player with a relatively high market share you do, of course, have problems to make yourself heard, because you will be suspected of simply trying to protect your dominant market position and monopoly rents and of fearing that his exorbitant profits will fade away." (P14:107)

Nevertheless, you have to try to make your political position heard and to overcome general prejudices. Honestly considering the impact of your action on the whole economy and seeing the interests of all relevant stakeholders will help you to establish an unobtrusive position that enables you to redirect the discussion on a rational level and to promote your position. In the long run you really need to look out for a balance of interests since it would not make sense to exclusively focus on your own needs.

"You have to convince many, many decision makers of a rational approach. An approach that respects the objectively best solution for all stakeholders, and not just our own company. An approach where we say that this makes sense for this reason or another, and did you [political actor] think of all that or did you perhaps focus on a one-sided perspective?" (P14:177)

(4) Participation – Negotiate (70)

Negotiation is another step further in a company's efforts to shape the regulatory system according to their interests. During our research four categories turned out to make up the sub-category of participation-negotiate. First, constructive negotiation which includes basic tactics of exchanging opinions and constructively seeking common solution. Second, bargaining, which stands for offering concessions on one issue while receiving benefits on another. Third, compromise strategies that result out of mutually approaching the other's position. And finally, issue management that try to guide the development of an issue according to one's own interests.

Constructive negotiation (31)

Having shown the importance of information and rationality for the discussions on regulatory initiatives, constructive negotiation is just another facet of openly interact-

ing with political and other external actors. Especially in times of regulatory transition, a high level of interaction with political actors is required. This is the time when new schemes develop and when the creation potential is largest for industry incumbents.

"In my opinion, we will have a very interactive process for two or three years, and then there will be the decision processes at RegTP [Regulator for Telecommunication and Postal Services who will also take the responsibility for energy regulation]. After this time efforts will decrease significantly." (P7:185)

The creation of new regulatory institutions is a process on a very detailed level, i.e. many issues are covered along the discussion. Despite numerous distractions from the many involved actors, corporate actors need to stay focused, informed on the details, and aware of the major decisions to take.

"In the creative phase, it gets more and more focused and you need to go through this detailed process. Otherwise you will only be able to decide on the big points and you will only discuss on when the market in the EU should be opened, 2007, 2004, or 2009. The most critical question of how network access will be realized, however, would already been decided long time ago." (P17:125)

The overall negotiation process includes a large group of political and corporate actors with partly diverse interests. During the creation phase positions are exchanged, coalitions form and solutions are developed. In the case of constructive negotiation this should mainly happen on an information-based level, with mutual respect and understanding of the other's position.[153] Constructive feedback loops on the practicability of a planned regulatory scheme should help to improve the final quality of the regulatory system.

So the German industry met with the state secretaries from BMWA [ministry for the economy and labor] and BMU [ministry for the environment] ... industry had been represented by the four large energy utilities and the other sectors through their associations. I think there were 14 representatives, mainly board members and presidents of the industry association to lead the discussions with the state secretaries." (P13:147)

[153] Of course, this is an ideal situation; in reality political considerations and self-interest frequently dominated and hence the discussion could not be considered a constructive negotiation, but more of a bargaining or manipulation process.

Processes of constructive negotiation, however, did not only take part between corporate and political actors, but also between corporate management and suppliers or customers. E.ON's aim was to prevent negative effects on their business (for example, though supplier trying to directly serve the final customer) and to discuss possible cooperative strategies that would result in the creation of a mutual competitive advantage. On the other hand customers for transportation services were treated as part of the market for E.ON (they could also be considered as competitors). Organizing joint meetings, discussing critical issues and just being open for their feedback was thought to provide a platform for constructive negotiation that could possibly prevent state regulation.

"You have a shipper forum in regular intervals ... where the transport firms [incumbent energy utilities in this case] invite all their customers to discuss certain issues. It is, let's say some sort of customer complaint or suggestion box." (P15:187)

Bargaining (18)

Bargaining is about negotiating with institutional stakeholders and trying to achieve concessions on one issue while stepping back on the demands for another issue. During the political processes there is a constant struggle on issues which are at the limit not even related to the original issue under discussion. Bargaining situations can then be found along the whole process which is one reason for the time consuming nature of institutional creation.

"And then there is the political process and this is something like a bazaar where you can bring your different demands and then it might happen, that there are other elements that originally that have nothing to do with [the actual issue]." (P15:123)

Since regulatory pressure and uncertainty on acceptable levels of return rates for past and future investments in the electricity grid were threatening energy incumbents they retarded investments in the electricity infrastructure and tried to bargain with these future investments. Arguing that if sufficient rents could not be achieved, the technical infrastructure would have to suffer and the service level could not be maintained.

"If the interest rates are not right we will just not invest [in the energy infrastructure]. And thereby the probability of a black-out will increase, not now, but over a few years the possibility that our plants will have a black-out will increase, they get older and this is a relatively simple mechanism." (P11:233)

While most efforts from the political side target measures to allow non-discriminatory grid access and fair competition, energy incumbents tried to evoke security of supply as counter-argument. I contrast to many market entrants E.ON positioned itself as long-term quality oriented while the new players would focus on short-term advantages and profits. The fundamental question was hence raised on a higher level if the future energy system would focus on pricing only, or on quality and security of supply.

"The new players ... have a different way of thinking than we do. We focus on long-term security of supply and stability of our contracts while the pure energy trader does not care a lot if has something to offer to his customer in five years, because he is interested in short-term performance and he wants to make money, of course." (P14:95)

Next to investments and security of supply another argument was put forward by incumbent utilities. If investment conditions were no longer interesting in Germany, there would also be the option to import electricity. This bargaining position includes three arguments against strict market opening and limitations of profit opportunities for the incumbent utilities. First, the investment argument is advanced once more, however not so much with regard to the negative effects on the energy infrastructure but with regard to the offshore investments that could otherwise benefit the industry location Germany. Second, this argument also includes negative consequences on the job market (if energy generation shifts to neighboring countries). And finally, even from an environmental perspective the argument bears a threat of sourcing energy from (less safe) nuclear power plants in Eastern Europe or France.

"Sometimes [politics] forgets that there is also the option to not have power plants within our [national] grid, but to import electricity form a country that is not always reliable and stable." (P18:144)

This type of argumentation shows that bargaining is not limited to aspects of the focal issue under discussion but that bargaining might also include completely different issues. The efforts of E.ON to offer a great amount of apprenticeships, for example, could also be considered a bargaining issue to balance strict business regulation.

Compromise (12)

Wile bargaining could be considered one form of compromise we use a more narrow definition. To our understanding compromise strategies are ways of finding a common solution for an ambiguous issue, instead of solving the problem through a sheer "give and take" mentality as in the case of bargaining. At the end of the negotiation process compromise strategies should lead to solutions everybody can live with.

When it becomes clear that you can not enforce all your interests, you need to find compromises. The way of finding those compromises is an iterative, multi-level process that includes compromises within the firm, within the industry association and for the economy as a whole. The latter is mainly achieved between the political actors, the relevant industry association and some large and dominant players like E.ON.

"Our premise is always to support as many of our interests as possible and to achieve the best during the [negotiation] process. But then you need to find a compromise from time to time and sometimes you need to swallow that toad." (P18:244)

Before even entering the official discussion with the political actors, single players frequently seek to broaden their argument by agreeing on a common position within their industry association. Due to the heterogeneity and the divergent interest of the different members of the association, this is sometimes a difficult undertaking that requires compromises. The result might then be that thanks to the agreement reached among industry participants and associations state regulation is not required (this used to be the case for the electricity business). In most cases, however, compromises on the industry level are just an intermediate result based on the least common denominator of an issue that will later on be solved on the political level of the entire economy.

"In general it is possible, but it is not that easy because the membership structure is heterogeneous; there are municipal utilities, regional utilities and interregional utilities. And with continued liberalization it will certainly get more difficult to get all the interest under one roof. It is possible for most of the issue but you have to find a compromise." (P18:174)

Even within one and the same firm a common position is not always easy to find. The different business units and functions might have partly differing interests and priorities and yet compromises are required, for example if a concrete regulatory proposition needs to be decided. Politics department regularly take the role of facilitating between corporate (strategic) management and external stakeholders. Being positioned at the interface between the firm and the political actors their judgment and moderation is required to keep a negotiation process going, to balance internal and external interests, to convince opposing parties and to achieve a commonly acceptable solution.

"We [politics department] are somewhat the interface half external and half internal [to the firm]. On the one hand, we need to represent our position in the external environment which is not always easy. And at the same time we need to find a compromise, if we realize, for example, that in politics we can not advance on this issue. So then, of

course, we need to get this message to our people and say, look this is the situation, we have to find some compromise on this issue and how could this compromise look like?" (P18:336)

Issue management (9)

Issue management could be described by staying in the driver seat regarding the evolution of regulatory initiatives. Certainly part of a proactive, participative negotiation strategy issue management it contains most basically a company's efforts to guide the development of regulatory initiatives in the direction best suited for their interests. One can further distinguish between an observation task that follows and influences the appearance of issues on the general political agenda and the guidance of the evolution of the different issues on the agenda.

As for the first function, corporate management needs to fulfill a gate keeping role that permanently observes the political discussion and the issues to develop. This way management should be informed when regulatory initiatives are most likely to officially appear on the agenda. The firm will also be prepared and can come up to speed quickly since the most important issues can be analyzed on time.

Another aspect of agenda management concerns an ongoing gatekeeper function which prevents that issues or aspects of a certain issue are not established unnoticed and manifest themselves as common institution without having been properly negotiated.

"You also need to pay attention that a regulation does not enter [unnoticed] through the backdoor and then directly develops into binding law that renders existing implementations obsolete." (P18:152)

The other aspect of issue management concerns the actual guidance of the development of an issue on the political agenda. This includes primarily the close surveillance of all tendencies in the course of an issue's evolution and also the in-depth detail work associated with any formal legislation process. Staying on the height of discussion at any moment and driving the processes are critical issue in that regard.

"You have to be very close to the process, if you miss out four weeks, you will just be too far away, and it will be very difficult to enter the discussion process again ... The main levers are in the detailed work. The regulatory guideline starts with a broad dossier and is then changed step by step until the whole guideline is changed. It gets a new face and is narrowed down to critical issues more and more." (P17:119-121)

(5) Participation – Manipulate (47)

Compared to the other participation strategies, manipulation is the most offensive strategy in terms of resister behavior and efforts to influence the direction of future regulatory systems according to the interests of the firm. The objective of the firm is to actively change the content of regulation and to exert power over the discussion process and its participants. Not always openly lead, manipulation strategies can still be considered to posses comparably high levels of influencing potential. For the description of the subcategory participation-manipulate we distinguish the two codes lobbying and direct manipulation.

Lobbying (14)

Lobbying is the constant job of connecting and building a relationship with political and other relevant external stakeholders. In Western societies lobbying is in general an integral part of any political process. Single companies or actor groups have their interest represented through internal and external lobbyist. However, simply pushing one's own interests is generally not enough. As already mentioned above the ability to provide valuable information and input for fact-based discussions is critical. Political actors somehow depend on your input and if you are able to deliver you can establish yourself as significant contact person. If you provide them with information you can also expect to get feedback on that and receive information on political tendencies yourself. Certainly it helps to select political actors whose positions are expected to be close to your owns'.

"You would then maintain contacts to single members of parliament whom you expect to have similar opinions on the energy market. And so, you would have regular informal exchange of ideas to directly influence those opinions and also to get a feedback from them on what is currently happening within the political discussion." (P7:105)

Now, lobbying is more or less an integral part of any executive's job in the energy business. Through his day-to-day job, whenever he sees a public authority, meets a municipal customer or speaks in public, he influences political processes. Besides the power of his arguments and the information provided, soft factors also influence his potential to actually achieve his goals. Being able to establish a personal relation is hence an important soft skill regards of interactions with political actors.

"They [political actors] would not expect that you permanently invite them to the best restaurant in Brussels ... it is actually pretty easy and it results from daily work and

then you need to connect on the personal level. If you sort of dislike the person from the beginning, it can get a bit more difficult, of course." (P18:218)

Evidently, lobbying is a political activity. However, you need to connect it with strategic and technical arguments, not only to get the contents and know-how for you political discussion and understand what you are doing lobbying for. Also, you should coordinate market and non-market components within your considerations on your political and market strategy. Like this economic analysis on a certain issue are supposed to be evaluated as to their effect on both the market and on the political strategy.

"So, of course, we analyzed what it meant for us if we close down the nuclear power plant at Stade, what level of emissions we will then have, how big the disadvantage is. And that we considered for our political and corporate [market] positioning, and we also included it in our lobbying." (P13:141)

Direct manipulation (33)

Manipulation strategies ought to be considered a legitimate form of corporate responses towards regulatory pressure if regulation is opposed to the firm's interests and needs. Rooted in the responsibility of management for the investments of their shareholders, corporate executives must seek to protect the interests of the firm. And this includes using manipulation strategies.[154] Energy utilities have always been politically active players that were used to play a dominant role in the definition of industry rules and standards. To do this *"influencing politics, government, parliament, factions, and associations"* (P7:29) to *"influence political processes until they turn into laws"* (P7:175) is part of the *"strategic position of point within the body of laws"* (P7:59) and leads to an *"ongoing manipulation of the energy economic context"* (P7:85).

Next to influencing the creation of the regulatory system, corporate politics departments also supervise and control the actual functioning of the established laws and bylaws. While the process of influencing gets more and more difficult due to a larger number of political actors involved on the different levels (including the EU), the regulatory context still remains a combined space of opportunities and threats. Some interlocutors at E.ON further more argued that the political context was easier to manage than the technical context and managing regulation is no more difficult than managing competition.

[154] Manipulation is frequently associated with a negative image, however, if corporate activities stay with moral and legally accepted boundaries, it should be considered a normal response to regulatory pressures that represent a threat to the competitiveness of the firm.

"To this respect I would say that there are possibilities to influence the strategies of your competitors, and to the same extent you can try to influence the strategy of a regulator." (P14:195)

In order to manipulate regulatory systems the corporation can used a strategy combining an inside-out approach with an outside-in approach. The first starts at the focal organization and requests the firm's strategy, competencies and goals, and tries to deduce a coherent political strategy based on a thorough assessment of the firm.

"You start at the bottom and ask yourself what do we want, what can we do technically with our plants, what are the effects of certain regulatory practices on the firm in the long-run, what is our voice in this concert of all the associations, commissions, and the whole economy and how can we enforce our interests. To make this logical chain is what you've got to do." (P13:231)

The outside-in approach goes the other way round. You would start with the regulator and ask about his preferences and interests, and you would than deduce your political strategy based on an assessment of the regulator.

"If I look at the whole process, I would start with the regulator, what does he do, who is he, how is he, what are his ambitions, did he already make experiences in other fields ... how does he act there, how does he proceed, what are his concepts ... when and how will he start to operate and what are our options to influence him." (P15:163)

Combining those two approaches and treating the regulator once as a competitor and once as a customer opens up a systematic approach to deal with and to manipulate regulation. The assessment of your and the regulator's position should allow you to formulate a balanced strategy that enforces your interest, but in a decent way. As our interlocutors pointed out strict opposition is mostly negative, in general you should opt for an apparently more constructive opposition, and pursue a "Yes-But" strategy.

"Strict opposition quickly drives you in the corner, so you can't stay in the discussing on the detailed problems in an appropriate way. So we said we will now pursue a 'Yes-But' strategy: yes to security of supply, yes, an important issue for the EU, but, and then we would bring all our amendments, where we massively went into the directive and were able to make our point and convince the European parliament, the BMWA [Ministry of the Economy and Labor], and the other member states, so that our position could win in the end." (P17:136)

(6) Partnering (77)

The relevance of collective action as opposed to stand-alone activities has already been highlighted at several parts of this dissertation. Due to its great importance emphasized during our interviews, a distinct sub-category has been assign to codes relating to collective strategies or partnering. First, the code of collective action most basically describes common efforts across several firms in order to influence institutional creation. Second, networking has been used for activities that aimed at creating and maintaining a mostly external network. Third, constituency building relates to the activation of third party support for a corporation's interests. And finally, self-regulation describes the efforts of industry players to organize regulation on their own in order to prevent state regulation.

Collective action (33)

To enhance the firm's interests collective action is an important alternative to company specific activities. Based on the fact that common action in general is perceived as less biased and driven by less self interest increases the chances that an unobtrusive position might be created which in turn increases the chances for success. At the same time, the consolidation of particular interests of several firms gives the advanced arguments a greater power that has to be taken more serious by political and other actors.

"There are different ways, first ... you go as a company and say I want to bring E.ON in the pole position, or at least I try to. The second option is you go via industry associations who play a major role in Germany ... And the third path, but this one is of course less official because a certain resentment is associated with it, is E.ON would formulate a common position together with." (P2:59)

Next to stand-alone activities especially coordinated undertakings through industry associations receive a key role in corporate influencing activities. In the case of emissions trading associations across different industries (utilities, large industry consumers, etc.) were standing united against regulatory pressures. With regard of market opening, however, those associations pursued different interests which made the situation more difficult for energy incumbents. But even within one industry sector the formulation of a common position was generally a difficult undertaking due to the fragmented nature of the energy industry and the diverse interests of the several hundred market players.

"The ones have high capacity grids that operate on a national level, others have just a small grid, and again others just started to operate new grids, which means their am-

ortization period just started. Someone like us has already invested many years ago, and in principle is through with his amortizations ... so there are diverse positions of interest with regard to grid access fees and this makes representation with one voice very difficult." (P14:93)

Certainly, the position a company like E.ON would support through there individual influencing activities has to match the position advanced by the according industry association. For this reason the company had to face tough negotiations within the industry associations but in the end agree on a common position.

"Oh this is not like happily baking a cake together and looking into your eyes and say, hey great let's do it like this. But you would heavily discuss and in the end agree on a common position that would then be communicated to the BMWA [ministry for the economy and labor]" (P15:141)

Now, regarding collective action other than through industry associations, market competitors may play a role on certain issues. Regarding regulatory affairs you may consider exchanging your opinions and if you can find a common position try to advocate it based on a common strategy. Although different interests will not fade, you might be able to add another component to your individual strategy.

"I think we do have our contacts and we do operate in a similar direction, since at least with RWE we would generally pull together, and certainly in the same direction." (P5:457)

Networking (6)

Networking starts on the internal level of the firm. Building relations with experts from the different fields – in our case related to regulatory issues – identifying suited experts and assigning according responsibilities internal to the firm bears significant advantages for managing regulation.

External networking includes the building of personal networks with political decision makers and their staff. In the regard it is not only important to establish contacts with high level political actors but also to included the operative level of the bureaucratic system since many decisions are prepared and evidently implemented at that level. Corporate politics departments are supposed to function as central nodes in the corporation's network with political actors, building relations and providing contacts on certain issues when required.

"They [politics department] should not act that much, but indeed hold the contacts, make the contacts, and provide us [corporate development and market management] with the opportunity to position our contacts within politics." (P5:389)

Next to the formal contacts between corporate and political actors, informal networks are established over time, mostly by people active in the political business for a long time. Those informal circles meet on a regular base and provide a platform for information exchange and discussion. Organized by corporate actors politicians are invited on selected occasions, generally the circle is limited to a group of senior corporate managers.

"Then there are confidential circles in which few people who know each other for a long time exchange political opinions ... politicians are invited but the corporate and association side coordinates everything ... Old guys with a lot of experience who have informal information channels that are very important. It is not quantifiable, but an important part of the business, for early warning and for a network of trustworthy contact persons." (P7:115-119)

Constituency building (18)

Constituency building refers to indirect influencing strategies that aim at finding support for the corporation's causes at independent third parties. Again, the advantage of such strategy is to reduce suspects of individual interests and to base the firm's position on a broader base. Consequently, related arguments receive more power and produce a certain urgency to react for the political actors.

While the probably most effective way to influence political decision maker is to create an according public pressure there are indirect strategies we would like to mention first. Basically all actors who share common interest can be included in a larger coalition for a political cause. This includes market competitors or customers for transportation services who are generally more distant to the focal organization and who maintain a more competitive position. Shareholders, on the other hand, are certainly concerned about the interests of the firm but might not be regarded as objective constituent. In the case of E.ON the missing of large single shareholder further inhibits that this shareholder could pressure the political decision makers, for example through pointing to possible job losses in case the shareholder himself was a large industry firm in the country. Capital market analysts might be considered to be better suited to articulate general concern about market regulation.

"E.ON is very much a public share, i.e. there is no dominant single shareholder who could say that if this or that happens I will shut down my plants in Germany and I will have to lay off people ... I don't see this strategy. The only thing I could image is capital market analysts functioning as constituents for our interests." (P5:521)

The general public is probably one of the most important constituents for the negotiations with political decision makers. Always having an eye on public opinion and possible votes for the next election they will orient their activities according to the suggested support by the public. While this sometimes makes fact-based discussion more difficult it also includes opportunities for corporate action.

"In the end the public is only interested in electricity and gas prices, since this is actually all the customer sees. So the discussion is led on the level of pricing, and if prices don't fall in a sustainable way through some sort of regulation, the public will not have a positive association with regulation." (P5:501)

As a matter of fact, politics depends on the cooperation of energy utilities as much as vice versa. To gain credits in public opinion positive results (lower energy prices) need to be provided and this is much easier in cooperation with the energy firms.[155] For the latter, this opens up the opportunity to help political actors achieve parts of their goals while getting concessions on other issues.[156]

"But equally there are ways you can look to develop a more productive relationship with the regulator in which he gets outcomes which are valued by the public and we are able to earn a return on providing those public goods." (P6:77)

Self-regulation (9)

"If we could have avoided state regulation we should have done so." (P7:232)

Self-regulation in general is the preferred option to state regulation for the dominant market players. Furthermore, the fundamental opposition towards state interventions into the economy is shared by the large majority of industry players. In order to prevent state regulation, industry firms and their associations consequently try to find solutions on their own. As long as governments have the feeling that their targets are

[155] The example of the Netherlands has shown that strict confrontation with industry firms led to a regulator that had lost any political support and was no longer acceptable.

[156] The public cares about prices and not about regulation, market opening or competition. Consequently, if prices go down, the public, and hence politics, will be happy and insist less fiercely on strict market regulation or an entire opening of the market for competition.

reached, they do not oppose to self-regulation neither. In the case of combined heat and power generation industry managed to establish a system of voluntary commitments and politics renounced to introduce state regulated quota. As for market opening, self-regulation was also a first approach for enhanced competition in Germany that also managed to achieve desired results (at least in the opinion of our interlocutors) but was then forced into state regulation due to political from the European Union.

"The model of private self-regulation was working well and we realized the highest price decreases in the beginning of 1998 ... in parts we are still significantly below the level of 1998 ... but then Brussels enforced their standpoint and wanted to have a standard internal market with publicly controlled energy grids by regulatory authorities." (P7:228-236)

This was when self-regulation was no longer possible and state regulation replaced the agreements between energy utilities, large industry consumers and new market players. To the discontent of incumbent utilities a regulatory authority was meant to control non-discriminatory grid access and fair competition.

"So we had to accept the new regulations, not without pouring some tears, and we will see how it will work. We are not convinced that the regulatory authority will also bring greater transparency and greater cost savings." (P7:236)

6.3.2 Comparisons across emissions trading and market opening

In chapter 6.2.2 we pointed out some differences between market opening and emissions trading, e.g., the more profound impact of market opening on the concept of corporate strategy and portfolio configuration. We also pointed to the specific characteristics of emissions trading and market opening that influence corporate responses (powerful interceder, public pressure, and initiative maturity). These characteristics carry over to the analysis of externally directed responses and are supposed to function accordingly as predictors of corporate responses. This chapter presents the context-specific findings related to market opening and emissions trading, compares them, and helps to generate generalizable theories.

Besides grounding our findings in quotes retrieved from the interview transcripts, we ran analyses similar to those we used in the case of internal alignments. Based on advanced Atlas/ti query techniques, we compared responses to market opening with re-

sponses to emissions trading, and we did a series of in-depth co-occurrence analyses[157] of the six sub-categories of external responses with the two regulatory initiatives.

As indicated in chapter 6.2.2, market opening received 429 empirical groundings during our interviews as compared to 224 groundings of emissions trading. This dominance of market opening (factor of 1.92) was further strengthened with regard to external response activities. Altogether, 187 responses related to market opening, while only 74 related to emissions trading (factor of 2.53). This seems interesting since, with regard to internal alignments, the dominance was reduced to a factor of 1.61 (see chapter 6.2.2). We take this fact as an indication that E.ON responded to emissions trading more in terms of aligning internal structures and processes, while market opening evoked more externally directed responses.

As shown in Figure 6-17 below, participation strategies dominated corporate responses for both emissions trading and market opening. Prevention and partnering are still very important. With regard to the specific participation strategy, deferment and manipulation are characterized by a stronger resistance towards regulatory pressures, while information and negotiation consist of more cooperative, consensus-oriented strategies. Also, prevention is a more resistance-based strategy than partnering.[158] The differences between emissions trading and market opening are highlighted by the figure below in which the resistance-based strategies are shaded in gray. These strategies shall be discussed in the following paragraphs.

[157] "Co-occurrence" indicates that codes belonging to a sub-category of external responses were used in the same quotation as the code of market opening (emission trading, respectively). For more details, see chapter 5.4.2.

[158] As indicated at the beginning of chapter 6.3.1, information, negotiation, and partnering represent the more constructive, negotiation-based strategies, while the other three strategies can be characterized by stronger corporate resistance towards regulatory initiatives.

Sub-category	Emissions trading		Market opening	
	Density (total)	Density (in %)	Density (total)	Density (in %)
(1) Prevention	17	23%	30	16%
(2) Participation - Defer	5	7%	10	5%
(3) Participation - Inform	11	15%	34	18%
(4) Participation - Negotiate	14	19%	43	23%
(5) Participation - Manipulate	15	20%	23	12%
(6) Partnering	12	16%	47	25%
Total	**74**	**100%**	**187**	**100%**

Figure 6-17: Co-occurrence analysis along the six sub-categories of external responses

The first and most striking finding is that corporate responses towards emissions trading seem to be much more resistance-oriented than the responses towards market opening. Prevention, deferment, and manipulation strategies rate relatively stronger for emissions trading, with one out of two external responses (exactly 50%) related to these types of resister behavior. In the case of market opening, only one out of three responses fall into these categories. Contrariwise, information, negotiation, and partnering dominate with a share of 66% of all external responses.

We suggest that there are two major arguments that can explain these differences. First, one might argue that the demand for a more sustainable solution to the critical issue of market opening calls for a more balanced and thorough approach. Considering the fact that market opening changes the rules of the game in the energy industry, all actors have a strong interest in the new regulations providing a reliable and sound basis for future planning. Trial and error might be acceptable for an issue like emissions trading, but market opening leaves no room for gambling and making later adjustments to improper, premature solutions. Second, the competitive landscape (referring to numerous interests and demands opposed to the incumbent utilities) does not allow for "easy" solutions or window dressing that disguises non-conformity behind a façade of acquiescence. With many eyes on incumbent behavior – which represents a control function of external actors – and with different actor groups having many interests at stake, corporate external responses need to be more open, more informative, and more oriented towards cooperation and consensus.

The biggest relative differences between emissions trading and market opening relate to the three sub-categories of prevention, manipulation and partnering. With regard to

prevention, proactive behavior or "staying in the driver seat" was supposed to be an important success factor for both regulatory initiatives. In the case of market opening, the early implementation of unbundling requirements was an example of a preemptive move by E.ON Ruhrgas.[159] As for emissions trading, anticipation ruled as, for example, when discussions on the national allocation plan of 2012 emerged in the year 2004.[160] Gaining a timing advantage over political interference was made easier because of the internal disputes on the political level between the Ministry of the Environment and the Ministry of the Economy. While we emphasize that proactivity and, hence, prevention were supported for both regulatory initiatives, the difference in relative importance (23% of all externally directed response strategies for emissions trading vs. 16% for market opening) might relate to more protective tendencies in the case of emissions trading.

As for manipulation, relatively stronger reactions occurred in the case of emissions trading (20% of all external responses vs. only 12% for market opening). As suggested above, this might go back to the higher demand for sustainability and stability in the case of market opening, as well as the greater control function of external actors with opposing interests. A mentality of *"getting your position planted in the political discussion"* (P13:229) was stronger for emissions trading than for market opening, which focused instead on a "*Yes-But strategy*"[161] (P17:136).

Deferment, the second resister-type response, was by far the least important strategy for both emissions trading and market opening. However, triangulating our findings with results from press research showed that deferment or blockade tactics were an important part of energy incumbents' responses towards market opening that represented exactly 25% of all corporate responses. Deferment tactics included bullying customers who wanted to change their supplier, threatening them with electricity cuts, raising bureaucratic barriers (e.g., requesting documents from the house owner), asking for "changing fees," and denying grid access to third party energy providers.[162] Unlike these micro level tactics that targeted the individual customer and were more

[159] Please refer to P15:97-99 for empirical grounding.

[160] Please refer to P13:99 for empirical grounding.

[161] Instead of strict opposition, a "Yes-But strategy" stood for an approach of generally agreeing to the need for regulatory initiatives while at the same time opposing certain parts of the political suggestions.

[162] See, for example, *Spiegel*, October 2, 2000.

visible to the public, macro level strategies tried to delay the establishment of market regulation standards.[163]

Partnering, finally, shows the largest relative difference between emissions trading and market opening. Of all externally directed responses, 25% were related to collective partnering strategies in the case of market opening, making this sub-category the most important one of the six defined in our study. As for emissions trading, partnering only ranked fourth behind prevention, manipulation and negotiation. This result might be surprising since emissions trading is characterized by a large consensus among most actors, especially between industrial consumers, energy incumbents, and the Ministry of the Economy. This should make collective strategies an evident approach for formulating common goals and defining a unanimous position.

"The big fear was that we, as the entire economy, were the target of fierce attacks [by politics], and then you all sit in the same boat and you primarily fight for the interests of the whole economy." (P13:157)

The situation of market opening, on the other hand, was characterized by strict opposition to energy incumbents and their activities that were suspected of simply protecting monopoly rents. Coalitions remained important, yet difficult to establish due to opposing interests of incumbent utilities and the large majority of other market players, especially industry consumers and energy retailers.[164] Perhaps it was just out of this difficulty in establishing coalitions and winning third parties for the interests of the firm that a lot of effort was put into partnering activities. While the case of emissions trading seemed to be self-evident and incumbent utilities oftentimes did not even have to speak up for their interests (since other actors did this in the name of the whole economy), market opening required networking, collective action, and constituency building. At the same time, energy incumbents tried to provide concessions to industrial consumers and energy retailers in a collective effort to establish a system of self-regulation.

All of the above presents a static picture of the relative importance of the different externally directed responses. While we still consider this to be the major result of our study, the analysis of press articles over the last ten years further allowed us to add a

[163] In addition to the fact that an external perspective might generally be more critical of incumbent behavior, we suggest another reason for the relative dominance of deferment tactics: they were visible to the public and could be described very vividly using personal experiences of individuals who changed their energy supplier. Furthermore, critique focused more extensively on local utilities than on large incumbents like E.ON on RWE.

[164] For empirical grounding see, for example, P17:190.

dynamic component. Press research showed that three distinct phases could be identified for market opening. As the following Figure 6-18 shows, corporate responses were initially dominated by a rather open approach that welcomed the new opportunities of liberalized energy markets and that focused on branding and customer orientation (1997-1999). In the following years (2000 to mid 2002), the level of resistance increased dramatically and energy incumbents (especially on the local level) engaged in deferment and open resistance strategies that included bullying and threatening customers who were willing to change suppliers. Finally, encouraged by political interference, energy incumbents moderated their resistance and increasingly started to engage in constructive negotiation strategies (mid 2002-2005).

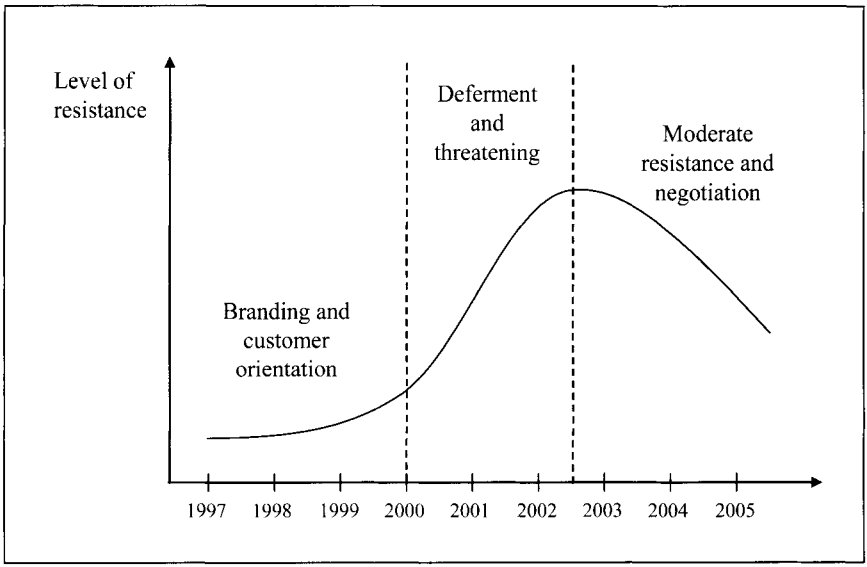


Figure 6-18: Phases of externally directed responses towards market opening

During the first period, from 1997 to the end of 1999, the general sentiment towards market opening was rather positive, and its opportunities were generally recognized. Market inefficiencies were considered to be big enough to justify expectations of significant price cuts. Even incumbent utilities seemed to welcome market opening[165] and positioned their own energy brands (for example, Yello from EnBW and Avanza from RWE) to win new customers. Branding and customer orientation were at the core of incumbent strategies.

[165] See for example *Focus*, January 5, 1998 and September 27, 1999.

By the year 2000, however, initial experiences with actual practices of market opening soon led to frustrations about the possible effects. In this second phase – lasting until mid 2002 – incumbent utilities, most importantly on the local level, were heavily criticized for their open resistance. Faced with customers who wanted to change electricity providers, they tended to use severe bullying and threatening tactics.[166] In August 2001 even the Minister for the Economy, known for being very incumbent-friendly, strictly condemned incumbent behavior.[167]

Finally, the last period from mid 2002 until mid 2005 was characterized by the following: more subtle, but still distinct, resistance from incumbents; heavy criticism from industry firms and consumer groups; negotiations between national governments and the European Commission to realize effective market opening and the installation of national regulators.[168] Incumbent utilities engaged in a whole set of market- and non-market-based strategies to respond to the growing competitive pressure, and they shifted their efforts away from open resistance to a more balanced, constructive, and negotiation-based approach. Also, their interference was more indirect – through access conditions to the electricity grid, or service fees charged to third party energy providers (e.g., for metering) – instead of their directly impeding customers' free choice of suppliers.

In general, the different phases of externally directed responses are similar to the reaction pattern described by Hensmans (2003). Challenged by new market entrants, incumbents first try to absorb challenging patterns within their own logic and pretend that existing patterns are well suited to serve novel expectations or requirements (in our case, the call of market opening). In this phase, open resistance is low. In a second phase, opposing positions are polarized and the concerned constituents more openly fight each other. The incumbent naturally takes on the resister position. In the further course of issue development the strict boundaries partly blur, and both opponents try to approach each other and reach a stable solution.

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[166] A lively description is given in *Focus*, October 25, 1999.

[167] See for example *Focus*, August 6, 2001.

[168] The German government was calling for reciprocity in market opening in order to avoid further inequality between national energy markets. The government argued that while Germany had completely opened its electricity market, France, for example, did not fulfill even the minimum requirements for partial market opening set by the respective EU Directives.

6.3.3 Comparisons across E.ON Energie and Ruhrgas

As we did in our analysis of internal alignments in chapter 6.2.3, we again compared external response strategies of E.ON Energie and E.ON Ruhrgas, which is also a comparison of electricity and gas. Not surprisingly, market opening received a much higher attention at Ruhrgas, where emissions trading was nothing but a side issue that did not carry strong interests.[169] For this reason we focus on the differences related to externally directed responses towards market opening, which is similar to our procedure in the case of internal alignments. As the following Figure 6-19 indicates, differences between E.ON Energie and Ruhrgas were most apparent for the participation strategies of information, negotiation, and manipulation.

	E.ON Energie		E.ON Ruhrgas	
Sub-category	**Density (total)**	**Density (in %)**	**Density (total)**	**Density (in %)**
(1) Prevention	3	14%	19	16%
(2) Participation - Defer	2	10%	3	3%
(3) Participation - Inform	3	14%	27	23%
(4) Participation - Negotiate	8	38%	28	24%
(5) Participation - Manipulate	1	5%	16	13%
(6) Partnering	4	19%	26	22%
Total	**21**	**100%**	**119**	**100%**

Figure 6-19: Comparison of external responses at E.ON Energie and Ruhrgas

The dominating response strategy at E.ON Energie clearly consisted of negotiation, with 38% of all nominations. While negotiation strategies turned out to be important for Ruhrgas, too, they were not that predominant (24% of all responses). This could be accounted for, in part, by technical arguments (e.g., the required physical transportation or different qualities of gases); but, in addition, the general resistance to market opening was greater at Ruhrgas and within the entire gas industry. Analogous to internal alignments, protective measures and buffering[170] received greater attention. Conse-

[169] Emission trading was mentioned 5.8 times per interview on average by interlocutors from Ruhrgas. Market opening, on the other hand, was discussed 29.8 times per interview on average.

[170] Buffering refers to activities that aim at protecting the operational core of the firm and maintaining its autonomy (Thompson, 1967, Meyer and Scott, 1983). It is one of the concepts used in neo-institutional theory to describe corporate responses toward institutional pressures. (Please refer to chapter 2.3.)

quently, manipulation strategies received comparably higher ratings for Ruhrgas (13% of all external responses) as compared to E.ON Energie (5%).[171]

"If you have a look at electricity and gas, there is a completely different approach to these issues. The gas industry made itself very unpopular because we have been world champions in blocking everything. Within the electricity industry the discussion was very technical and very early – with agreement between the different industry associations ("Verbändevereinbarung") – we had a model, which everybody could agree on in principle. And with gas we are still discussing, up until now, what an acceptable model could look like." (P2:121)

So compromises could be reached much more quickly in the case of the electricity industry. While gas utilities, Ruhrgas more specifically, understood the importance of information-based strategies (23% of all responses related to information), it seemed to use the information less as a basis for constructive negotiation and more for activities that would enhance its self-interest; at least if compared to the strategy in the electricity industry and E.ON Energie in particular.

6.3.4 Comparison across management levels and functional backgrounds

While comparisons across management levels and functional backgrounds were not appropriate for internal alignments, as indicated in chapter 5.4.2, they enhanced our understanding and added new insights in the case of externally directed responses.[172] As with the analysis on the two regulatory initiatives and the two sub-units of analysis, we employed relative density measures to derive propositions relating to the specific types of responses from the corporate and market unit level, respectively. In the same way, we elaborated on the differences in responses from market functions (e.g., corporate strategy) and non-market functions (e.g., regulatory management).

As the following Figure 6-20 shows, the corporate level relied more heavily on resister strategies than the market unit level. While 49% of all externally directed responses from the Group level (E.ON AG) related to prevention, deferment, and manipulation,

[171] We have to admit that results are not as clear as in the previous chapter where we compared emission trading with market opening. Altogether resister-like strategies (prevention, deferment, manipulation) accounted for 32% of all externally directed responses at E.ON Ruhrgas, and they were only slightly lower (29%) at market opening.

[172] Internal alignments, for example at the concept of corporate strategy, do not differ across management levels; i.e., they are identical for the corporate and market unit levels. The same is true for different functional backgrounds. In the case of externally directed responses, however, the corporate level might purposefully employ different strategies and tactics than the market unit level (e.g. "good guy, bad guy"). Externally directed responses might also differ according to the functional backgrounds (market functions or non-market functions).

only 34% of responses from the market unit level referred to these types of resister-based strategies.

Sub-category	E.ON Market Units		E.ON AG	
	Density (total)	Density (in %)	Density (total)	Density (in %)
(1) Prevention	33	18%	14	19%
(2) Participation - Defer	5	3%	10	13%
(3) Participation - Inform	39	21%	6	8%
(4) Participation - Negotiate	44	24%	13	17%
(5) Participation - Manipulate	25	13%	13	17%
(6) Partnering	40	22%	19	25%
Total	**186**	**100%**	**75**	**100%**

Figure 6-20: Comparison of external responses of market units and corporate level

Most apparent are the differences in the relative importance attributed to deferment and manipulation, on the one hand, and information and negotiation, on the other hand. In this regard, the corporate level put relatively more emphasis on the first two, rather destructive resister strategies (13% deferment and 17% manipulation, compared to 16% and 3% from the market unit level). In contrast, market units had a stronger preference for the last two - cooperative information and negotiation strategies - which accounted for 45% of all externally directed responses (21% information, 24% negotiation), compared to only 25% from the corporate level (8% information, 17% negotiation).

In order to explain these results we suggest that the reasons might go back to the character and role of corporate center functions and to the more abstract and strategic level of corporate positions. First, corporate headquarters tend to formulate exigent targets that have to be fulfilled by the market units later on. Demanding high levels of performance – as sports coaches do – corporate center functions might try to stretch efforts on the market unit level in order to guard the interests of the corporation as well as possible. Second, the more abstract and strategic level of corporate positions might obscure actual problems associated with a desired solution. Only interactions with external actors, which occur more frequently on the market unit level, will unveil these problems. And third, since market and operational managements depend on a good relationship with political actors for daily business, they might rely more heavily on a balance of interests and, hence, on information and negotiation strategies.

On the basis of these analyses, we finally distinguished empirical groundings according to the functional background of our interlocutors (market vs. non-market).[173] Non-market functions dominated strongly with 80% of all empirical groundings. While the emphasis on non-market functions was reduced in the case of market opening to 74%, it still became clear that externally directed response strategies were primarily driven by Politics or Regulatory Affairs departments. The fact that Corporate Development, Corporate Strategy, and Market Management departments played a slightly more important role for market opening should not be surprising, since the issue is supposed to be of greater strategic relevance for the firm.

More interestingly, the type of externally directed response strategy promoted by interlocutors from a market function background differed from responses from non-market interlocutors, as the following Figure 6-21. Market-functions seemed to emphasize information, negotiation and partnering strategies, which accounted for a significant above average contribution of 76% of all externally directed responses. These constructive strategies still dominated in the case of non-market functions; yet their importance clearly decreased, and only 58% of responses referred to them.

	Market functions		Non-market functions	
Sub-category	**Density (total)**	**Density (in %)**	**Density (total)**	**Density (in %)**
(1) Prevention	8	16%	39	19%
(2) Participation - Defer	2	4%	13	6%
(3) Participation - Inform	13	25%	32	15%
(4) Participation - Negotiate	11	22%	46	22%
(5) Participation - Manipulate	2	4%	36	17%
(6) Partnering	15	29%	44	21%
Total	**51**	**100%**	**210**	**100%**

Figure 6-21: Comparison of external responses across functional backgrounds

The largest differences existed in manipulation strategies, which were least important for market functions (only 4% of all externally directed responses) but were among the more important strategies for non-market functions (17%). On the other hand, information (25% vs. 15%, respectively) and partnering (29% vs. 21%, respectively) were significantly more important for market functions.

[173] As explained in chapter 5.4.1, market functions refer to interlocutors from the corporate development, corporate strategy, and market management departments. Non-market functions include politics and regulatory affairs departments.

The fact that non-market functions turned out to put relatively more emphasis on resister- based strategies than market functions might not appear intuitive. However, we suggest several explanations: First, non-market functions might feel more internal pressure to manage the regulatory actors, since this is what they are expected to do. The quality of their work is judged on how well they represent the interests of the firm in the face of regulatory actors. Hence, they might reinforce heavy influencing and manipulation strategies. Second, the classical ways of shaping political processes through lobbying, manipulation, and deferment tactics related more to the traditional non-market functions charged with external political relations than to strategy departments. And, finally, it might be a question of different roles within the regulation game. Non-market functions who are operating on the front line with regulatory actors and who are confronted with numerous major and minor expectations might have to focus on tough negotiations. Market functions, on the other hand, might generously agree on general lines of regulation, knowing that these might still be changed in the course of further negotiations (generally led by non-market functions).

6.3.5 Institutional mechanisms at work

While chapter 6.2.4 elaborated on the effects of institutional mechanisms on corporate strategy and structure, we will discuss their creation in this chapter. For reasons explained in chapter 2.2.5, we utilize a neo-institutional perspective to enhance our understanding of the strategy formation process. In this chapter, we briefly introduce neo-institutional theories used for interpreting our findings. We then present the actual strategies employed by E.ON in terms of regulative, normative, and cognitive strategies. Finally, we review our institutional findings according to their potential for advancing strategy research. We would like to mention that the advancement of neo-institutional itself might be a by-product of this research that will be discussed briefly at the end of the chapter and also in chapter 8.2, but is not of central importance for this study.

Political actors, as main drivers of institutional processes, have traditionally attracted researchers' interests; however, incumbent utilities and other external actors (mainly, industry consumers and new entrants) also engage in the creation and transformation of institutional orders (Zucker, 1987). In this study, we considered the two regulatory initiatives that have been launched by political actors as triggers for institutional and corporate transformation. Our research interests were driven by the question of how corporate actors used externally directed strategies in order to respond to the regulatory initiatives and participate in the creation of the institutional environment.

As suggested by previous research, we found evidence that corporations *"actively participate[d] in the social construction of their environments"* (Lawrence, 1999:161) and, like other non-state organizations, acted as institutional entrepreneurs (DiMaggio, 1988). We were able to identify 51 quotations within our interview transcripts that explicitly related to corporate participation in institutional processes. Regulative institutions dominated with a share of 60% (31 out of 51). Normative institutions were explicitly addressed 16 times (32%), while only four empirical groundings referred to cognitive institutions (8%).

Overall, non-market actors from political and regulatory departments clearly dominated institutional interactions with external, primarily political, actors. In line with our general findings that highlighted the dominance of non-market functions for externally directed responses, we found that 77% of all institutional processes with corporate involvement originated from non-market actors. Examining the different roles of corporate actors in more detail, however, revealed that this dominance was limited to regulative institutions. As for normative institutions, 62% of all corporate interventions referred to market functions.

We suggest that this divergence can be explained through the different roles and responsibilities of market and non-market actors. Non-market or political functions officially represent the interests of the firm during legislative processes that lead to the creation of laws and by-laws (regulative institutions). Corporate market actors, on the other hand, generally focus on economic considerations and factors like security and quality of supply that may, at the same time, be advanced in order to generate normative institutions.[174]

Finally, cognitive institutions evolve through the permanent presence of regulative and normative institutions (Hoffman, 1997). As such, existing cognitive institutions can be targeted by corporate involvement. The creation of new cognitive institutions, however, is a time consuming and complex process. Although cognitive institutions were only mentioned four times in our interviews, we emphasize their importance for the development and organization of the institutional environment, its rules, norms, and standards (Klement, 2001).

[174] Although we associate regulative institutions with corporate non-market actors (politics, regulatory management) and normative institutions with corporate market actors (corporate development, corporate strategy, market management) we are aware that normative institutions are consciously employed by non-market actors in order to argue for their political position. In this way normative institutions can provide a different perspective for influencing the political processes in the creation of regulative institutions.

The following

Figure 6-22 provides an overview of the institutional processes initiated or accompanied by corporate actors and also highlights their functional background (market or non-market). Distinguishing between the three types of institutions – regulative, normative, and cognitive (Scott, 1995) – we will discuss the different strategies of corporate involvement. These include participating in and influencing ongoing legislative processes in the case of regulative institutions, creating balancing normative institutions, and challenging existing cognitive institutions. All of these will be explained in more detail below.

Institution	Empirical grounding	Main corporate actors	Strategic direction of corporate involvement
Regulative	31 times	Non-market	Participate and influence ongoing legislative processes
Normative	16 times	Market	Create balancing normative institutions: • Security and quality of supply • Economic profitability constraints • Cost of environmental protection • Job market • National championing
Cognitive	4 times	---	Attack existing cognitive institutions: • Liberalization and competition as super value • Abnormal monopoly rents • Ecological myths of renewable energies

Figure 6-22: Overview of institutional processes and corporate involvement

Regulative institutions

Changes in policy are one of the most important external factors for initiating institutional changes (Fligstein, 1990). In our case, the starting point for changes in the institutional environment was set by political actors, most importantly the European Union, the Ministry of the Economy, and the Ministry of the Environment. For the national political actors, the EU Directives functioned as a normative base and collective pressure for the creation of regulative institutions (laws and by-laws). Specifically, the national governments were urged to install appropriate regulatory systems for both emissions trading and market opening.

From the perspective of an incumbent utility such as E.ON, these changes created uncertainty that held both opportunities and threats. Hence, the company developed a deliberate institutional strategy (Lawrence, 1999) in order to consciously impact the future institutional structure. While most of the opportunities were created abroad, the threats mainly derived from the start of competition in formerly protected home markets. The European Union called for equal market opening in all member countries; however, the actual opportunities arising from new market opportunities depended largely on the actual regulatory systems established by the national governments. Since foreign regulatory systems and, hence, opportunities could not usually be directly influenced, incumbents' political efforts focused on the protection of their home markets and on general interactions with the European Commission. However, a special situation occurred, to a degree, in the course of privatizations of Eastern European state-owned utilities. When privatizing their energy firms, governments sometimes welcomed the advice of large energy incumbents such as E.ON that had significant experience with market liberalization. In such a case, the energy incumbent could directly influence the future regulatory system of a foreign country and suggest favorable, but still credible, solutions.[175]

In general, E.ON tried to influence the institutional processes on the European level through personal contacts, lobbying, and expert commission work. Due to the diversity and complexity of the negotiation landscape in Brussels, impact on the creation of (normative) institutions was limited. Yet, the possibility of influencing institutional processes at that early stage may have reduced the pressure on the incumbents, since they were confronted with normative institutions instead of regulative institutions and their coercive pressure in the form of laws and by-laws.

During legislative processes on the national level, E.ON engaged primarily in strategies that resemble Oliver's (1991) balancing, bargaining, challenging, co-opting, and influencing strategies. In a first step, E.ON tried to avoid state-regulation and regulative institutions for both emissions trading[176] and market opening. In a joint industry effort, a system of self-regulation should be established. Previous research has recognized self-regulation as a possible option to state-regulation (Gupta and Lad, 1983); however, it soon became clear that a state-controlled regulatory system would have to

[175] This aspect of privatization and regulation has received only very limited attention of research, but might be interesting for future investigations. For research on privatization in emerging economies see, for example, Ramamurti (2000).

[176] Before the emission-trading scheme was established, industry and energy firms tried to avoid state regulation by voluntary commitments to fixed reductions in greenhouse gas emissions.

be installed. Consequently, E.ON focused on influencing the legislative procedures that led to the creation of regulative institutions. As a large and powerful energy utility that possessed critical control of information on important (technical) issues, E.ON could be considered an institutional leader (Lawrence, 1999) with actual opportunities to manipulate the environment (Suchman, 1995).

In the terminology of Manuel Hensmans (2003), E.ON acted as an incumbent player that was trying to maintain the existing institutional in order to protect its power base. In doing so, the company used its systemic power base and a mobilization of a bias strategy. In contrast to Hensmans' work, where pressure resulted from new entrants aspiring to power, now it was political actors who challenged the status quo. Faced with institutional pressure, the incumbents first tried to use a logic of difference, trying to show that the goals of the political actors could be best reached within the existing order, meaning that state interference was not required. I.e., industry itself could take care of reducing greenhouse gas emissions and guaranteeing fair competition for new market players.

While incumbent behavior was certainly driven by a powerful interest in protecting the status-quo, the desire for uncertainty reduction and the need to create stability (Beckert, 1999) also encouraged constructive compromises with political and other actors. The uncertainty about future regulatory systems was a significant concern of corporate management, and energy incumbents were becoming more and more willing to accept concessions in order to bring stability to the institutional order.

Normative institutions

While regulative institutions might exercise the strongest pressure on corporations in the short-term, normative (and cognitive) institutions are key for the long-term retention of institutional rules, norms, and standards. Generally, regulative institutions will only survive if backed by normative and cognitive institutions. Since cognitive institutions result from existing regulative and normative institutions (Hoffman, 1999), and since regulative institutions are primarily driven by political actors, corporations encourage the creation of normative institutions that might support their causes.

The dominating normative institution in the case of market opening was the realization of a fair price level. Hereby, fair was mostly employed synonymous to decreasing and low. Despite other values, the single most important argument for discussions on the

future institutional order was the price of electricity and gas.[177] Most efforts by political actors or industrial firms related to measures to decrease energy costs and, consequently, to demand increased efficiency from the incumbent energy utilities. Although this normative institution could not be attacked by energy incumbents, they managed to create balancing institutions that could be used to support their lines of argument.

As indicated in

Figure 6-22 on page 263 energy incumbents focused on five normative institutions that were meant to balance coercive pressures by regulative institutions. First and most important in the case of market opening, different aspects of security and quality of supply were advanced. The direction of regulative institutions was to limit grid access fees and hence interest rates on investments made in the electricity and gas infrastructure. Incumbent utilities argued that this would have negative effects on the technical infrastructure and its reliability. In this way security and quality of supply was made a trade-off decision for price, and the discussion led consideration of which value should dominate and to what extent. Although the general value of security and quality could be established, price remained the dominant driver of future institutional orders. One reason for this may have been the lack of bad experiences with energy shortages and black-outs. As long as quality and security of supply were taken for granted, it was hard to position them as high value goods.

Second, economic profitability constraints were positioned by large energy incumbents. Being private companies, the incumbents had to, above all, earn sufficient rents for their shareholders (Sundaram and Inkpen, 2004). The evaluation of the firm on the capital market further more depended on its ability to generate value. These arguments were used primarily to support the discussion on the allowed rents on investments in the transmission and distribution network.[178] Since the shareholders carried the risks of the investments, they had a justified right to gain extra returns, and these had to be significantly above the risk-free return rate. At present, it is hard to predict at which level actual compensation for grid investments will stay; however, the value of shareholder

[177] Word count analysis of the selected articles on variations of the search terms "energy price," "electricity price," "gas price," and "costs," produced 107 hits, far more than any other issue. Investments and job market, for example, were only addressed 15 times.

[178] "We won't sink our money into the ground for four percent," as stated by an E.ON board member during the 2004 Annual Conference of the energy industry in Berlin.

rights on returns seems to receive a shared understanding among industrial, political, and public actors.[179]

Third, the cost of environmental protection was brought into the discussion on emissions trading. While everybody would agree on the value of environmental protection, it is not a priceless good. Nor is it superior to all other public goods (for example, security of jobs). Nevertheless, these facets of environmental protection had been somewhat neglected in public discussion. Now, however, both arguments were advanced by incumbent utilities in order to balance the calls for strict regulatory practices on the control of greenhouse gas emissions.

Fourth, the effects on the job market were raised and employment was positioned as an equal, if not superior, value. While the logic of the argument was ambiguous in the case of market opening (since it could also be used by opponent industry firms), it stood up very well in the case of emissions trading. Especially in times of significant unemployment and a problematic job market, this turned out to be a powerful argument for incumbent utilities.

Finally, the industry location, Germany, and especially the creation of national champions were positioned in public discussion, particularly in the case of emissions trading but also for market opening. In addition to the direct effects of restrictive regulative institutions, indirect effects through shifts in energy sourcing were also put forward. If, for example, investment conditions in Germany were no longer attractive, energy incumbents then had the opportunity to stop investing in new generation capacity and to buy (nuclear) electricity in neighboring countries, such as France. Furthermore, national energy companies could become targets of foreign acquisitions. The fear of such external interventions and the public disapproval they would incur is well rooted in German culture and can hence be exploited by the large energy incumbents.

Cognitive institutions

The creation of new cognitive institutions is of central importance for the depth and sustainability of institutional changes (Klement, 2001). Stability of an institutional order can only be expected if regulative, normative, and cognitive institutions work in the same direction; otherwise socio-cultural tensions will arise (Hoffman, 1997). Therefore, we suggest that the regulative institutions initiated by political actors are

[179] Since management may actually decide on an appropriate rate of return (within a given corridor), we opted to call profitability constraints normative, instead of regulative. However, we are aware that shareholder law provides a regulative character to this institution.

starting points for institutional change, but we also emphasize that the most important facets of sustainable institutional change are probably the cognitive institutions.[180]

The requisite consistency is still missing in the concrete cases of both emissions trading and market opening. The reasons for this differ. While the reduction of greenhouse gas emissions, for example, is already rooted in laws and by-laws (regulative institutions), consistent cognitive institutions are missing. The general value of environmental protection is more and more rooted in shared cognitive institutions that are integrated into corporate values and norms. As shown by Hoffman (1997), environmental protection has evolved from a perceived burden associated with cost into an important parameter of strategic management during the last decades. In most Western countries a clean environment is one of the most important public goods, and it rates very high in public opinion. Clean air is an especially important aspect of the environment and receives high public attention, for example through discussions on acid rain and the quality of the ozone layer. As a result, the reduction of emission gases is a little contested goal for all parts of society, including the corporate world.

However, while there seems to be consensus on the objective to reduce greenhouse gas emissions, the mechanisms regarding how to achieve these reductions are heavily contested. Only if the emission-trading scheme proves to be an effective and fair mechanism for reducing greenhouse gases, cognitive institutions may develop that support the current regulative institutions. And only then, the established regulatory order will provide the required stability. To date, however, the institutional order relies on regulatory action. A substitution of process ownership by private and corporate action is still required (Klement, 2001) in order to induce desired isomorphic behavior among industrial firms and energy utilities with regard to emissions trading.

As for market opening, the general objective is much more contested, especially by incumbent utilities when it comes to the opening of their home markets. Since other actors, however, share the value of open markets and free competition, the utilities are in a somewhat isolated situation. Since the regulative institutions are backed by cognitive institutions, incumbent utilities might find it difficult to change the institutional order to fit their interests. Existing cognitive institutions are in even greater opposition to them, and for this reason incumbent utilities like E.ON tried to challenge these insti-

[180] If, for example, environmental protection would not have developed into a cognitive institution, regulative institutions could still have changed corporate behavior through coercive pressure in the short run. In the long run, however, these changes would most probably have been reversed, since economy-wide shared values and beliefs and, hence, public support would have been missing.

tutions as far as possible. While the incumbents did not expect to dissolve them, they did try to weaken the cognitive institutions by questioning their logic and thus gain a better and more balanced negotiation position for the creation of the new institutional environment.

One of the strongest and most fundamental cognitive institutions in any market economy is the value attributed to liberalization and competition. Although partly contested by social ideas, state intervention and the protection of certain industry sectors is still considered inferior to the free play of market mechanisms and the rule of supply and demand. Competition in this regard is supposed to guarantee efficient market functioning and superior value delivery to the customer. Competition is also associated with lower price levels, whereas a lack of competition is expected to work for the benefit of the monopolistic suppliers. While there certainly is evidence of the positive effects of liberalization and competition on efficient market functioning, the causal linkages are no longer put into question. This means that liberalization and competition have developed into values unto themselves, instead of being means to achieve the objective of efficient market functioning. Challenging the cognitive institutions of liberalization and competition in a way that questions the most efficient ways to organize net-based markets like the energy industry was, consequently, one element in the institutional strategy of large energy incumbents like E.ON. By shifting the focus of discussions from liberalization and competition towards efficient market functioning, incumbent utilities improved their negotiation position.

Related to the general belief that liberalization and competition are good for the economy is the reciprocal belief that any monopoly earns abnormal rents for their business. I.e., due to the lack of competition, monopolistic suppliers abuse their situation on the backs of their customers. Incumbent utilities like E.ON responded in two ways to this argument. First, they pointed out that, as in any other public company and any other business associated with risk, a return had to be achieved that was significantly above the risk-free return rate. Furthermore, shareholder value generation was one of the most important corporate objectives, if not the single most important one (Sundaram and Inkpen, 2004). Rationalizing the discussion on monopoly rents hence led to a more specific discussion on a fair level of returns. Second, incumbents like E.ON pointed to the efficiency improvements that had already been made since market opening had started, improvements that represent a desired response to regulatory involvement (Reinhardt, 2000). Corporate efforts to reduce costs, realize synergies, and improve their operations had already been undertaken and passed on to the customers. At

the same time, tax burdens had increased, so that prices could not always be kept at expected levels.

Finally, incumbent utilities in part challenged the ecological myth of renewable energies. For example, most people would associate wind energy with positive effects for the environment, without understanding the ecological reasoning. The incumbent utilities questioned this cognitive institution by pointing out that wind energy is not a reliable source of energy and can not guarantee that the electricity will be available when need. For this reason regulation energy (mostly traditional energy sources such as, for example, coal-fired plants) needed to be installed to assure security of supply.[181] From this point of view, the positive image of wind energy receives at least some scratches. Furthermore, although it was controversial, technological questions were also raised regarding wind energy, even in the long run. Consequently, the heavy subventions for wind energy might be discredited as being neither economically nor ecologically effective.

Neo-institutional implications of strategy research

We suggest that neo-institutional principles can be applied to strategic processes, and that neo-institutional theory is well-suited to explaining corporate strategies. Offering a novel perspective on strategy formation that allows for a suitable consideration and integration of external actors, neo-institutional theory effectively structures the different strategies that are available to and employed by corporate management in order to influence the institutional environment. The elaborations of the previous paragraphs further formed a sound basis to marry strategic processes on the firm level with institutional processes on the industry level. Based on these insights, a neo-institutional framework of strategy formation and a boundary model on the co-evolution of corporate strategy and industry could be formulated. Together with general elaborations on market and non-market strategies, this framework and model will be presented in detail in chapter 7, where the particular value of neo-institutional theory will be highlighted once more.

In accordance with neo-institutional theory, we confirm the findings of previous research that, in addition to political actors, corporate actors also play an important role in the formation of the institutional environment. More precisely (and pointed out less prevalently in past research), this study indicates that market leaders may also act as

[181] From a technical perspective this means that roughly 80% of newly installed wind energy has to be backed by additional conventional generation capacity (Estimate for Germany).

institutional leaders. This study also clarifies the specific importance and interplay of the three institutions – regulative, normative, and cognitive. While regulative institutions could be seen as anchors of the institutional environment that attracts the highest level of corporate attention, consistent normative and cognitive institutions are required to provide stability.

Finally, the roles of corporate actors are further specified. In the specific case of this dissertation, non-market functions such as politics and regulatory affairs departments focused on influencing legislative processes and hence on the laws and by-laws that form the regulative institutions. Market functions, such as corporate development and strategy, played a relatively larger role in the creation of normative institutions.[182] While these insights seem to be interesting and point to future research directions, generalizations are difficult at this point.

6.3.6 Theoretical rooting and propositions

Thus far, chapter 6.3 has presented the results on externally directed response strategies following regulatory involvement. At first, an inductive analysis of interview transcripts grouped all responses under the 3 P's of external responses: prevention, partnering and participation. Participation has been further sub-divided into deferment, information, negotiation, and manipulation. In this chapter we first discuss the overall importance of the different response strategies, then introduce predictors of externally directed responses, and, finally, develop context-specific propositions that will be rooted in existing literature. The empirical findings that form the basis for our propositions result from comparisons across the two regulatory initiatives of emissions trading and market opening, the two sub-units of analysis E.ON Energie and E.ON Ruhrgas, and the different management levels and functional backgrounds.

(1) Overall importance of the different externally- directed response strategies

In terms of Hillman et al. (2004), proactive, relational, collective, and information-based approaches to political activities dominated, despite differences related to the specific context. Also, while these strategies were generally more widely used, they were not exclusive but complemented by other response types.

Being proactive, or staying at the forefront of institutional discussions, was unanimously considered to be advantageous for the firm, even though resource restrictions

[182] For a review of implications relating to neo-institutional theory, please refer to chapter 8.2.

sometimes called for a more reactive behavior. Previous research has already suggested that "*public policy is no longer a spectator sport for businesses*" (Weidenbaum, 1980:46). In other words, research encourages proactive, participative behavior with regard to political or institutional processes. We confirm this suggestion and argue that, given sufficient resources, large incumbents follow proactive political strategies, which are considered to be superior to reactive strategies (Hillman and Hitt, 1999).

The development of personal, long-term, and issue-spanning relationships with political decision makers and their staffs was one of the single most important tasks of corporate political actors. Reflecting the increased importance of firms' government relations (Baetz and Fleisher, 1994), this relational approach further confirms the suggestion of Yoffie (1988) that political strategies should have the same long-term perspective as marketing or investment decisions. The relational strategy was in part supported by ad hoc issue-specific behavior, as in the case of specialized project groups for emissions trading.

Collective strategies, or partnering, were frequently mentioned during our interviews, which led us to suggest that corporate political strategies in general can be characterized as collective strategies. In contrast to this, previous research (Hillman and Hitt, 1999) had suggested that, given the relatively large financial resources of E.ON and the relational approach, a more individual strategy should have been expected. We argue that the resource-based suggestion of Hillman and Hitt (1999) might be more suited to the opposite situation, in which small firms with few financial resources and limited access to political decision makers (no long- term relations) depend on collective strategies. For large firms with financial resources and long-term relations, other arguments might dominate. Also, the pursuit of collective strategies and partnering does not imply that the corporation itself (E.ON) hands over the representation of its interests to collective bodies like industry associations. Instead, it tries to utilize partners or associated actor groups to support corporate interests and add an apparently more neutral, unobtrusive perspective (Hensmans, 2003). From this perspective and under this definition of collective or partnering strategies, our findings pose fewer contradictions to existing research.

Finally, information-based strategies dominated. Aplin and Hegarty (1980) found information strategies to be utilized most extensively. Due to the information asymmetries between governments and corporations, information can be a critical resource highly valued by political actors (Hillman and Hitt, 1999). Corporate actors or lobbyists were most effective if they managed to establish a high level of credibility associ-

ated with the information they provided (Hull, 1993; Nooteboom et al., 1997). Consequently, it is not surprising that our research found information- based strategies to be most important.

While proactive, relational, collective, and information-based approaches to political activities dominated, we are aware that the decision for or against any strategy type is not binary. This means that combinations of different approaches (e.g., relational and transactional, or information-based strategies and constituency building) might best suit an overall access strategy for political decision makers (Schuler et al., 2002). In the following paragraphs we develop context-specific propositions, which might be more appropriate than general judgments regarding the use and benefits of individual strategies.

(2) Predictors of externally directed response strategies

As mentioned in chapter 6.2.5, we suggest that predictors of externally directed responses to regulatory involvement are similar to predictors of internal alignments. Based on a discussion of Oliver's (1991) ten predictors of corporate responses to institutional processes and Hillman et al.'s (2004) antecedents of corporate political activities (issue salience and competition), we identified four determinants of corporate strategies toward regulatory involvement. First, existence of a powerful interceder, which recognizes the importance of network effects (Stevenson and Greenberg, 2000). Second, public pressure, which also includes a network perspective and further highlights the importance of an issue's awareness and perception by opinion leaders and the public (Keim and Zeithaml, 1986; McKay, 2001). Third, maturity of an issue, which introduces a valuable dynamic perspective (Hillman and Hitt, 1999). And, finally, an issue's perceived opportunity structure, which confirms the role of cognition and the importance of whether an issue is perceived as an opportunity or a threat (Shaffer, 1995; Barr, 1998).

Using the four predictors as independent variables we formulated four propositions (2a-2d) regarding the intensity of internal alignments. The fact that different corporate responses could be identified between emissions trading and market opening, as well as between E.ON Energie and E.ON Ruhrgas, helped us to do so. This was especially true because emissions trading was an issue with a powerful political interceder, little pressure on the incumbent utility, relatively little maturity, and a negative perception as a threat. Market opening, on the other hand, was characterized by an absence of a powerful interceder, high pressure on the incumbent, and relatively high maturity. At E.ON Energie it was perceived as an opportunity, at E.ON Ruhrgas as a threat.

For several reasons we decided to focus on perceived opportunity structure as a single independent variable for our propositions (see below, propositions 6 and 7).[183] First, logical argumentation and theoretical rooting did not provide sufficient support for the first three predictors as to their value for the specific dependent variables that were chosen. For example, it was hard to rationalize why the simple existence of a powerful interceder should impact the direction of externally directed responses (consensus-oriented negotiation strategies or strict resistance).[184] At the same time, the perceived opportunity structure seemed to dominate all other predictors. Second, perceived opportunity structure was the only determinant resulting directly from the in-depth analysis of interview transcripts. Theory generation was also very much supported by the comparison of externally directed responses between E.ON Energie and E.ON Ruhrgas; two contexts that are very similar except for the fact that in one case market opening was perceived as an opportunity, in the other case as a threat. Third and finally, we wanted to reduce the complexity of theory building since the expected value added by refined propositions (using all four predictors) was not high enough.[185]

(3) Development of context-specific propositions

Comparing market opening and emissions trading, we realized that market opening in general received more corporate attention. This was reflected by a dominance of empirical quotations on market opening that was 1.92 times higher than on emissions trading.[186] Considering only internal alignments, this dominance was reduced to the factor 1.61, while it went up to 2.53 in the case of external responses. We take this as an indication that E.ON responded to market opening, which is generally perceived as an opportunity, more in terms of externally directed responses, while emissions trading, which is generally perceived as threat, evoked more internal alignments of structures and processes.

This indication can be confirmed through the findings related to E.ON Ruhrgas, where market opening is perceived as a threat and where external responses outnumber inter-

[183] We had also opted for this approach in the case of internal alignments paths (propositions 4a, 4b).

[184] We suggest that a powerful interceder may lead to greater resistance if this is the preferred strategy of the corporation and the interceder. It may also lead to consensus-oriented negotiation if this seems opportunistic for the corporation.

[185] In this sense, we do not suggest that the deselected three predictors do not impact externally directed corporate responses toward regulatory involvement. But we leave this discussion open for further research.

[186] In our co-occurrence analyses of internal alignments and external responses, we found that statements on market opening were made 1.92 times more frequently than statements on emission trading or, in absolute numbers, 429 statements on market opening as opposed to 224 statements on emission trading.

nal alignments only by the factor 1.35 (119 empirical groundings for externally directed responses vs. 88 for internal alignments). Despite the fact that findings at E.ON Energie do not add further evidence, we suggest the following proposition.

Proposition 6: The greater the perceived degree of opportunity of a regulatory initiative is, the more frequently used are externally directed responses compared to internal alignments.

We consider this proposition somewhat counter-intuitive, since one could expect that if a regulatory initiative highly threatens an organization, it will engage in strong, externally directed influencing strategies in order to avoid negative legislation. However, we find two possible explanations for the direction of the proposition; one related to attempts to buffer the technical core of the organization, the other related to the role of strategic adaptation to regulatory constraints.

First, we argue that externally directed responses might not be the initial reaction toward a regulatory initiative that is perceived as a threat. Instead, inertial tendencies might guide the organization to internal alignments first; but if these are not able to cope with the threat, externally directed responses will be used more frequently. In this sense, internal alignments aim at buffering the technical core of the firm from negative regulatory influences (Thompson, 1967).

Second, contingency and resource dependence theories stress the importance of adaptation to regulatory initiatives (Ungson et al., 1985; Carter, 1990). The related alignment skills form an important organizational capability that might be used to achieve a competitive advantage (Powell, 1992). From this perspective, internal alignments seem most critical when a regulatory initiative represents a great threat to the competitive position of the firm.

Returning to the specific approaches of externally directed response strategies, the results of our study show that the open and consensus-oriented strategies of information, negotiation, and partnering dominated the resister strategies of deferment, manipulation, and, to a limited extent, prevention (204 empirical groundings vs. 137). However, results differ significantly between market opening and emissions trading. Resister strategies rated stronger for emissions trading, with a total of 50% of all external responses. This share was reduced to 33% in the case of market opening, which placed relatively more effort on the consensus-oriented strategies of information, negotiation, and partnering (66%). Evidently, fewer external responses were associated with this response type in the case of emissions trading (50%). These results indicate that con-

sensus-oriented strategies dominate if a regulatory initiative is perceived as an opportunity, while resister strategies dominate if an initiative is perceived as a threat.

Comparing externally directed responses to market opening between E.ON Energie and E.ON Ruhrgas confirms this indication. Most notably, E.ON Energie – where market opening was considered an opportunity – clearly focused on negotiation strategies (38% of all empirical groundings); these rated significantly lower for E.ON Ruhrgas (24%) – where market opening was considered a threat. On the other hand, large differences existed with regard to resister-type manipulation strategies, which were mentioned much more frequently at E.ON Ruhrgas (13% of all groundings compared to 5% at E.ON Energie).

Both findings, related to the two regulatory initiatives of market opening and emissions trading and related to E.ON Energie and Ruhrgas, provide empirical indication for the following propositions:

Proposition 7a: The greater the perceived opportunity of a regulatory initiative is, the more frequently used are consensus-oriented strategies of information, negotiation, and partnering.

Proposition 7b: The smaller the perceived opportunity of a regulatory initiative is, the more frequently used are resister-oriented strategies of deferment, manipulation, and prevention.

According to Weidenbaum (1980), corporate behavior in the case of market opening resembles "*public policy shaping*" while behavior in the case of emissions trading is closer to "*positive anticipation.*" The latter encompasses greater integration of regulatory issues into internal processes, but is also characterized by no or only limited participation in political processes. Public policy shaping, in contrast, takes an active stance toward public policy and tries to implement corporate goals into future regulative systems. Actively shaping institutional processes, however, requires cooperation and negotiation with other actors in the field (Pfeffer and Salancik, 1978; DiMaggio, 1988). From this point of view, it is not surprising that the role of an institutional entrepreneur (DiMaggio, 1988) or leader (Yoffie, 1988), which is assumed in the case of market opening, requires an open approach guided by information, negotiation, and partnering. Taking a more marginal position in institutional processes, on the other hand, might encourage a resister strategy that tries to defer or manipulate institutional developments initiated by other actors. The type of external response strategy is,

hence, largely influenced by the decision to engage in institutional entrepreneurship or not.

Furthermore, we hold that responses to regulatory initiatives that are perceived as opportunities are much more open, consensus-oriented, and based on constructive negotiation, since the pressure on the organization is relatively smaller. While initiatives that represent a threat put the survival of the organization at risk, initiatives that represent an opportunity only bear the risk that the opportunity is lost. In the long run this might also threaten the survival of the organization; however, this threat is much more abstract and uncertain. Consequently, management is under less pressure in the short or medium run. In this relative comfort zone, consensus-oriented behavior is much easier. Under pressure, management will probably look more closely at the interests of the firm and try to employ manipulation or resister strategies.[187]

Besides analyzing differences in response strategies for emissions trading and market opening and for E.ON Energie and E.ON Ruhrgas, we also reflected on possible differences between managerial levels (corporate vs. market unit) and functional backgrounds (market functions vs. non-market functions).

Informants from the corporate level replied to our questions on their externally directed responses relatively more frequently in terms of resister-type strategies (49% of all responses compared to 34% at the market unit level). Deferment and manipulation by themselves made up for 30% of all responses, which is significantly above the share of 16% from the market unit level. The latter, therefore, more heavily relied on information and negotiation (45% as compared to 25% at the corporate level).

Overall, roughly three out of four quotations on externally directed response strategies derived from non-market functions, although more interviews were conducted with informants from market functions. Not surprisingly, this proves that non-market functions play a pivotal role in formulating externally directed corporate responses.

More interestingly, response types differed between market and non-market function. The first tended to put relatively more emphasis on consensus-based strategies of information, negotiation, and partnering (76% of all responses). The latter also empha-

[187] We seriously considered using the dependent variable of proposition 6 – frequency of externally directed responses – as an independent variable for propositions 7a and 7b, since they appeared to be intermediary between the perceived opportunity structure and the frequency of consensus-oriented response strategies. For reasons of clarity and due to the fact that the opportunity structure also directly affects the type of responses, as explained in the second paragraph, we chose to keep perceived opportunity structure as independent variable.

sized consensus-based strategies (58% of all responses), but relied more heavily on resister-based strategies of deferment, manipulation, and prevention (42%).

As a result, we suggest the following propositions:

Proposition 8a: The higher the share of contributions from the corporate level is, the more frequently used are resister-based strategies of deferment, manipulation, and prevention.

Proposition 8b: The higher the share of contributions from market functions is, the more frequently used are consensus-based strategies of information, negotiation, and partnering.

As mentioned in chapter 6.3.4, we suggest that the reasons for the more resister-based behavior of corporate level actors might lie in the stretching role of corporate centers, the more abstract and strategic level of corporate positions, and the dependence of market and operational management on good relationships with political actors for day to day business. The corporation might even pursue a purposeful "good guy – bad guy" strategy, as can be observed in numerous corporation situation.

To our knowledge, research on the different roles of the numerous corporate and political actor groups in institutional processes is still lacking. However, we think that the roles of operational and market unit managers for strategy formation might well provide interesting parallels. As a significant body of strategy research has shown, middle managers play a critical role in linking the ideas from the operation level to the top management (Burgelman, 1983b; Wooldridge and Floyd, 1990; Floyd and Lane, 2000; Floyd and Wooldridge, 2000). We suggest that this interface function is not limited to technical issues, but expands to political issues as well. Regarding interactions related to regulatory initiatives, middle management also needs to balance interests and expectations from the top with those from regulatory actors. And it has to decide which issues to bring up and "sell" to top management (Dutton and Ashford, 1993). Based on this logic, it seems clear that the corporate level might rely more heavily on resister-based strategies, but the middle and operational level needs to follow a much more consensus-oriented approach.

As for the different roles of corporate and market or operational levels, we are not aware of research on the differences between non-market and market actors with regard to their roles during institutional processes. In chapter 6.3.4 we explained that the stricter focus of market functions on consensus-oriented strategies is somewhat surprising since these functions form the interface with shareholders and the capital mar-

ket; consequently, one would expect them to be primarily concerned about profitability and, hence, be more inclined to use resister-based strategies. Non-market functions as principal interface for regulatory actors, on the other hand, should be expected to lead more consensus-based strategies. In order to explain our findings we referred to the potential internal pressure on non-market functions to manage regulatory actors and to the fact that they might be more accustomed to shaping political processes through lobbying, manipulation, and deferment tactics. Also, they might be rooted in different roles: non-market actors focusing on tough negotiations when confronted with high regulatory expectations; market functions being more generous, knowing that the course of further negotiations can change earlier promises.

Research on the influence of corporate public affairs offices that are at the core of non-market functions further helps us explain proposition 8b. Prior research has shown that corporations commit significant resources and staff to public or governmental affairs functions (Baysinger and Woodman, 1982). To date, non-market functions represent an integral part of management (Dickie, 1984), a position they want to maintain and strengthen. In order to achieve this and to justify the resource commitments made to them, they will have to insist on corporate interests during negotiations with regulatory actors, which will include resister-based strategies. From this perspective, it is easier to understand why non-market functions might use resister strategies such as deferment or manipulation more frequently.

Pertaining to institutional mechanisms, regulatory initiatives by political actors started the transformation of the institutional environment. However, this study has shown that corporate actors strongly participated in institutional processes, as indicated by 51 empirical groundings on related corporate activities. In reaction to the development of regulative institutions (laws and by-laws) that exerted coercive pressure, incumbent utilities intervened in institutional creation at different points.

First (and primarily carried out by non-market actors from politics and regulatory management departments), energy incumbents directly influenced the legislation processes that led to the creation of regulative institutions. Second, they engaged in creating balancing normative institutions and in challenging existing cognitive institutions in order to transform them in the direction of their own interests. Corporate market functions tended to focus on this second aspect of institutional strategy (representing 62% of all interventions on normative institutions, for example).

Based on these findings we suggest the following propositions.

Proposition 9a: Faced with regulatory initiatives, corporations engage in directly influencing legislation processes that lead to the creation of regulatory institutions, in creating balancing normative institutions, and in challenging and transforming existing cognitive institutions.

Proposition 9b: Direct influencing strategies are dominated by non-market actors, while indirect strategies (related to normative and cognitive institutions) are dominated by market actors.

As suggested by previous research (DiMaggio, 1988; Lawrence, 1999), corporations actively participated in the creation of their institutional environment. However, they did not proactively use institutionalization as a strategic tool (Maijoor and van Witteloostuijn, 1996; Schuler, 1996). Instead, they reacted and interacted with other actors for the construction of institutional or economic patterns (Dowd and Dobbin, 1997).

It is very evident that corporations engage in influencing legislation processes during the phase of "*public policy formulation*" (Ryan et al., 1987). In doing so, they carry out a political strategy of negotiation that focuses on relationships with regulatory actors (Mahon and Murray, 1981). Based on their economic and political power, large incumbents have significant opportunities to impact future regulation (Klement, 2001). Within the corporation, non-market or political functions officially represent the interests of the firm and guide influencing activities during legislative processes.

Since the stability of the institutional order depends on the consistency between regulative, normative, and cognitive institutions (Klement, 2001), corporations also use normative and cognitive institutions to balance potential pressure from regulative institutions. Based on social strategies that address broader public concerns (Mahon and Murray, 1981), corporations try to implant their interests in the general public system of beliefs and values which, in turn, indirectly influences political, governmental decisions (Keim and Zeithaml, 1986). For example, highlighting the importance of other public goods, such as security, quality of supply, and job security, functioned as normative institutions. Attacking the cognitive institution that was manifested in ecological myths of renewable energies was also among corporate influencing strategies.[188] Market actors from corporate development or strategy departments drove corporate activity in this earlier phase of "*public opinion formulation*" (Ryan et al., 1987).

[188] For a complete review of normative and cognitive institutions that are included in corporate activities please refer to chapter 6.3.5.

6.4 Summary and discussion

Chapter 6 presented the results regarding the impact of regulatory actors on strategy formation and how the corporation manages this regulatory involvement. More specifically, we developed theoretical propositions addressing the three specific research questions of this dissertation: (1) Do regulatory actors influence corporate resource allocations and their consistency with the extant concept of corporate strategy? (2) How and in what sequence are the concept of corporate strategy and the elements of corporate strategy and structure aligned following regulatory involvement? (3) How can corporations influence the creation of the institutional environment and the corresponding regulatory actors, using externally directed response strategies to regulatory pressure?

An outside-in analysis of 459 corporate resource allocations at E.ON revealed that regulatory influences led to decreasing levels of consistency between strategic action (resource allocations) and strategic intent (official concept of corporate strategy). Due to coercive pressures exerted by regulative institutions (e.g., divestment requirements related to acquisition clearing and market opening; the decision to phase out nuclear power), resource allocations deviated from the concept of corporate strategy. As a result, institutional pressures were created to realign corporate strategy.

While the first phase of research proved that strategy formation (in terms of subsequent resource allocations) was influenced by regulatory involvement, we aimed at more specifically analyzing how strategy formation was impacted. In the second phase, we analyzed 344 pages of interview transcripts that were coded and categorized with the help of Atlas/ti software, along with the systematic analysis of 72 articles on market opening and emissions trading that had appeared in the weekly press between 1995 and 2005. We also identified regulatory initiatives that could be used as triggers for change and that allowed for context-specific observations of internal alignments at the six elements of corporate strategy.[189] Based on the analysis of inconsistent resource allocations and complementary press research, conference proceedings, and expert interviews, five regulatory initiatives were identified. However, as we have shown in chapter 6.1.5, market opening and emissions trading appeared to be best suited for the purpose of this study.

[189] Concept of corporate strategy, portfolio configuration, coordination, organizational design, management systems, leadership and style.

Characterizing the two initiatives on a more general level led to the identification of four descriptive determinants. Market opening was characterized by the absence of a powerful interceder supporting the interest of E.ON, by high public pressure on the incumbent, by a relatively high maturity of the initiative, and by a perception of the initiative as an opportunity.[190] In contrast, emissions trading was characterized by the existence of a powerful interceder (Ministry of Industry), by relatively low public pressure, by a relatively low maturity, and by a perception of the initiative as a threat. Based on these general characteristics and a comparison of internal alignments across market opening and emissions trading and across E.ON Energie and E.ON Ruhrgas, we were able to formulate context-specific, generalizable theoretical propositions.

First, the weaker a potential interceder, the higher the public pressure, the more mature an initiative, and the greater the perceived opportunity of an initiative were (market opening), the more intense were the alignments of corporate strategy and structure. And the more intense the alignments were, the more significant were the adjustments in the concept of corporate strategy and in portfolio configuration. On the other hand, adjustments in organizational design and management systems were more important where the internal alignments (emissions trading) were less intense.

Second, the sequence of internal alignments appeared to be affected as well. If regulatory initiatives were perceived as opportunities (market opening), a structure-follows-strategy or formulation-implementation routine seemed to occur. The core alignment path then followed this sequence: Concept of corporate strategy – Portfolio configuration – Organizational design – Management systems. If, however, regulatory initiatives were perceived as threats, strategy seemed to follow structure. The core alignments then followed this sequence: Management systems – Organizational design – Concept of corporate strategy.

Interpreting our findings in the light of neo-institutional theory led us to the conviction that only if external institutions were transferred to the concept of corporate strategy and reflected in the corporation's culture and values (which suggests consistency between internal and external institutions) could a stable institutional order be reached. Also, normative institutions and institutional pressures from stakeholders other than the state are required to enhance the formation of a sustainable institutional environment.

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[190] While market opening was perceived as an opportunity at E.ON Energie, it was perceived as a threat at E.ON Ruhrgas.

Besides internal alignments, we also analyzed externally directed responses to regulatory involvement that aimed at influencing the institutional environment. Using the same characteristics (or determinants) of corporate responses as internal alignments, and also comparing results across the two regulatory initiatives, the two sub-units of analysis, and, additionally, across functional (market and non-market) and managerial (corporate and market unit levels) backgrounds, we again formulated context-specific, generalizable theoretical propositions.

First, we found that the greater the perceived opportunity of a regulatory initiative was (market opening), the more frequently used were externally directed responses compared to internal alignments. We suggested that internal alignments, especially at organizational design and management systems, were particularly popular if the company faced a threat and tried to use buffering strategies to protect its operational core. In contrast, corporations rely more heavily on offensive, externally directed strategies in order to seize the potential of initiatives perceived as opportunities.

Second, we suggested that the greater the perceived opportunity of a regulatory initiative was, the more frequently used were consensus-oriented strategies of information, negotiation, and partnering. In contrast, resister-oriented strategies of deferment, manipulation, and prevention were relatively more important if an initiative was perceived as a threat. Interpreting these findings, we suggested that corporations pursued a strategy of institutional entrepreneurship if an initiative was perceived as an opportunity, which required constructive negotiation in order to balance stakeholder interests and to increase the chances of success to realize institutional goals. On the other hand, a greater risk for organizational survival increased the likelihood of pursuing a protective, resister-based strategy.

Third, and specific to externally directed responses, we found that resister-based strategies seemed to be more closely associated with the corporate level and with non-market functions. Although this was not necessarily intuitive, we suggest that the role of corporate management to formulate objectives, the more abstract and strategic level of these objectives, and the greater dependence of business and operational management on good day-to-day relations with political actors might help to explain these propositions. With regard to the greater focus of non-market functions on resister-based strategies, we explain this through their internal pressure to manage regulatory actors. Also, they might be more accustomed to shaping political processes through lobbying, manipulation, and deferment strategies. Market functions, on the other hand,

might be more generous since they know that early promises can still be adjusted during negotiation processes.

Finally, we interpreted our findings in the light of neo-institutional theory. Analyzing regulative, normative, and cognitive institutions, we found that corporations engaged in both direct and indirect strategies. The former refer to influencing legislation processes that lead to the creation of regulatory institutions, the latter to strategies that aim at creating and balancing normative institutions and at challenging or transforming existing cognitive institutions. In general, direct-influencing strategies turned out to be dominated by non-market actors (since they officially represented the firm during legislation processes), while market actors played a relatively more active role in the case of indirect strategies.

7 Managing regulatory involvement - towards an integrative framework

Chapter 6 presented the results of the dissertation project as related to our three distinct research questions: how strategy formation, as represented by corporate resource allocations, was affected by regulatory involvement; how and in what sequence the six elements of corporate strategy were aligned; and how the corporation used externally directed response strategies in order to influence its institutional environment. This chapter will generalize our findings and work towards an integrative framework for managing regulatory involvement.

We are aware that generalizations based on a single case study are difficult to realize, and certainly require further empirical proof. Also, we remind that our suggestions are bound to a context in which regulation changed from protecting a firm to promoting changes that contradicted the firm's interests. Consequently, we argue that the following theoretical elaborations help to identify context-specific pattern of how firms manage regulatory involvement; yet they may not claim to be valid across different contexts.

Within this chapter, we will present superordinate findings on the influence of external actors on corporate strategy and structure and on how they can be managed. Separating external actors from the mechanisms through which they exert an influence over the company will help us to realize a better conceptualization of the environment and to develop a more useful framework for strategic management.

First, chapter 7.1 will present the basic theoretical framework. We will highlight its institutional logic and elaborate on the general role of external actors, as well as on the role of corporate management. Joining strategy process research and neo-institutional theory, we will present a boundary model on the co-evolution of corporate strategy and industry. Then, in chapter 7.2, we elaborate on the relative importance of market and non-market elements of corporate strategy. A particular focus will be on the degree and status of industry regulation. However, other contingency factors will also be discussed. Building on our understanding of the general inter-dependencies between external and corporate actors and on the role of market and non-market strategies, we will dedicate the last subchapter 7.3 to elaborations on the coordination of the two strategy components (market and non-market). We suggest that this coordination is key for a successful management of regulatory influences on corporate strategy and structure and that it is a core responsibility of strategic management.

7.1 Theoretical framework and institutional mechanisms

The work of Hensmans (2003) inspired this study by marrying strategy research with neo-institutional theory. But, while his work focused on the industry level and elaborated on the struggle between incumbent and challenger organizations for new patterns of strategy and organization, we look at firm level effects and responses. Still, the interactions between the focal corporation and other actors on the industry playing field receive significant attention.

In terms of strategy models that have been considered for this study, the work of Bower and Burgelman is most important (Bower, 1970; Burgelman, 1983a; Burgelman, 1983b; Burgelman, 1991; Noda and Bower, 1996). Important elements of their evolutionary model, such as resource allocations, induced and autonomous behavior, and the adaptation selection discourse, have been used for this study. Building on these concepts, we will try to enrich their model through institutional thinking and new insights on the interplay between strategic agency at the firm level and environmental determinism.

In the following subchapters we will present a basic theoretical framework and discuss its core elements and mechanisms (chapter 7.1.1). We will furthermore, elaborate on the role of external actors and context (chapter 7.1.2), as well as on the role of corporate management in terms of internal alignments and externally directed responses (chapter 7.1.3).

7.1.1 Primary institutional mechanism

Combining strategic management with neo-institutional thinking led us to the development of the following basic theoretical framework (see Figure 7-1). At its core is the industry playing field, consisting of regulative, normative, and cognitive institutions that determine the rules of the game (Scott, 1995). Besides governmental actors, industry players[191] are also involved in the creation of the institutional order that will influence corporate action once it has been formed. They react with market and non-market responses towards the institutional pressures, as will be explained in more detail below.[192] We hereby refer to market strategy as strategic decisions related to "*interac-*

[191] For reasons of simplicity we focus on governmental actors and industry incumbents, knowing that other external actors, such as industrial and private customers, suppliers, shareholders, and diverse interest groups are also involved in institutional processes.

[192] Corporate activities appear in italics next to the associated arrows.

tions between the firm and other parties that are intermediated by markets or private agreements" (Baron, 1995:47). In simple terms, market strategy aims at improving economic performance and includes classical elements of strategic management such as customer selection, market positioning, value proposition, and technological strategy. Non-market strategy, on the other hand, relates to interactions that are intermediated by governments or public institutions (Baron, 1995). More precisely, we summarize all activities that include corporate political activities (Hillman et al., 2004) under non-market strategy, which is employed as a synonym to political strategy in this study.

The following Figure 7-1 represents the general institutional mechanisms and corporate strategies based on the empirical observations made during the case study. While we suggest that core elements of the framework may be generalizable across contexts, especially the represented sequence of actions is limited to the specific situation of our empirical study. In our case, the initiative for institutional changes derived from political actors. However, literally all actors in the field might engage in actions that aim at changing the extant institutional order. The corporation's set of generic market and non-market strategies may need to be adapted across contexts as well; however, their principle logic seems to be more robust against different contexts.

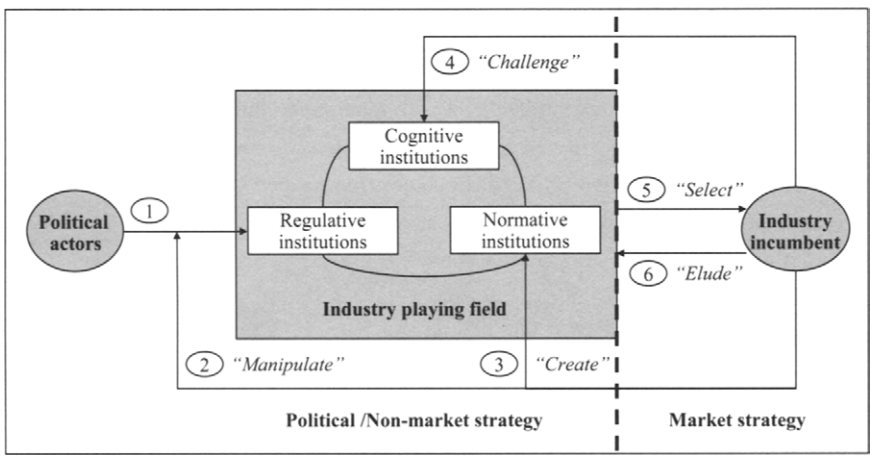


Figure 7-1: A neo-institutional version of integrated strategy - Generic theory framework

At the core of the framework is the industry playing field that contains the opportunities and threats for the corporation. The industry playing field is defined by the exist-

ing institutions: regulative, normative and cognitive (Scott, 1995).[193] Altogether they make up the set of rules, norms, and values that limit and direct corporate activities. The figure distinguishes between the creation of the institutional environment (on the left), and the effects of the institutional environment on the firm (on the right). The first relates to corporate political or non-market strategies, the latter to corporate market strategies.

As for institutional creation, the initiative starts with the government,[194] which tries to realize certain changes in the environment (arrow 1). Embedded in a larger international context with normative institutions derived from the European level, the primary tools at the national level are laws and by-laws that have the power to coerce the market players to obey certain rules and procedures. Once they become effective, they are reflected in the regulative institutions of the industrial playing field. Although possessing the primary political power, governments need to be aware of public and economic powers that might be activated against their interests.[195] For the sake of a stable institutional order the process of institutionalization consequently involves the cooperation of several actors in addition to the government, including market players, and especially large incumbents with significant power to influence institutional processes.

In the first place, these large incumbents can directly influence or *manipulate* the ongoing legislation process (arrow 2) (Hillman et al., 2004), either alone or in cooperation with other market players, e.g., industry associations, who share their interests. The general goal of corporate involvement is to manipulate future regulative orders to their benefit. They may utilize a large variety of political strategies to do so – ranging from constructive negotiation to fierce resistance (please also see chapter 6.3). On the one hand, information-based strategies aim at providing rational arguments for desired outcomes and at showing cooperative behavior. On the other hand, incumbents use bargaining and pressuring strategies to direct the legislation processes towards their proper interests. Throughout the entire legislation process, deferment tactics may be – and, in our case, frequently were – considered, since delaying the formation of new laws and by-laws is often welcomed. Interaction channels with governmental actors in

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[193] The principals of neo-institutional theory, including regulative, normative, and cognitive institutions have been explained in detail in chapters 2.2.4 and 2.3.

[194] This was the case for the five regulatory initiatives under research in this study. In general, shifts in the regulatory environment can also be established by other actors, e.g., new market entrants that challenge the existing institutions and attack the incumbents.

[195] For a discussion of the different power bases and their role in the creation of institutions, please refer to Klement (2001), for example.

our case included personal contacts / relations, expert commissions, internal or external lobbyist. In general, incumbents' efforts targeted the protection of existing power bases and institutional orders (Hensmans, 2003).

Besides direct influencing strategies, corporations might use their market power or might mobilize public opinion in order to *create* normative institutions that counterbalance regulative institutions and support the interests of the organization (arrow 3). In this case, too, they are certainly able to use collective strategies. To position security or quality of supply as an important objective of the electricity system, for example, can weaken the calls for market opening and fierce price reductions. Other normative institutions advanced by incumbent utilities included the costs of environmental protection and negative effects on the job market. Common to all balancing normative institutions is the expected resonance in the public. If shared by a majority of institutional stakeholders,[196] it has the potential to change or even impede regulative institutions targeted by the government.

In addition to creating normative institutions, incumbent utilities also try to *challenge* existing cognitive institutions (arrow 4). Rooted in the general belief system, these kinds of institutions are probably the most subtle, yet most solid, institutions, since they are not perceived as institutions per se yet are customarily adhered to. Challenging the values and norms included in cognitive institutions is a difficult and long winded process that might nevertheless help to disturb the institutional order targeted by governmental actors. In the case of market opening and emissions trading, liberalization and competition as self-sufficient super values, abnormal monopoly rents, and the ecological myths of renewable energies were among the cognitive institutions that were challenged by incumbent utilities.

In sum, incumbents have the chance to influence each of the three institutions (regulative, normative, and cognitive) that make up the institutional context of the firm. Since only a coherent set of institutions guarantees a stable order, they do well to employ concerted actions in order to drive institutional creation in their direction. However, what is true for the incumbent is also true for the new entrant, the industry consumer, or any supplier. Thus, these institutional stakeholders engage in influencing activities, too. The actual institutional environment is, hence, a result of the manifold interactions and negotiation processes between the participating market and non-market actors and

[196] By "regulative stakeholders" we mean all actors affected by regulative institutions, i.e., industry firms and suppliers, and also the general public that has a significant influence over governmental actors (who are meant to be their representatives and who want to be reelected).

the responsible political actors and governments. Stability of the institutional order depends on a fair balance of stakeholder interests, coherence between the different types of institutions, and a stepwise substitution of governmental coercive institutions by widely shared private sector institutions.

The right side of Figure 7-1 refers to the institutional effects on the incumbent utilities and on their reactions. In line with neo-institutional thinking, we suggest that strategic choices of the corporation are limited by the existing institutions in the industry playing field. Contrary to early institutional theory, however, we support a more balanced view that allows for actual strategic choices and that goes beyond a strict adherence to the existing institutions. Corporations may *select* among different options; management choices do matter and do shape the course of the firm (arrow 5). In terms of reacting constructively to the institutional challenges, corporate management utilizes classical market strategies that are also employed under non-regulatory constraints (for example, brand building, customer service orientation, product differentiation, and cost reduction). In this sense, regulatory initiatives of governmental actors triggered legitimate change processes on the corporate level that also bore macro economic benefits (more efficient and customer-oriented energy system).

On the other hand, incumbent utilities tried to bypass or corrupt the existing institutional order by using *eluding* strategies of dumping, cross subsidizing, and profit skimming (arrow 6). This form of market-based resister strategy aimed at annulling the institutional guidelines and tried to fight the new institutional order, not against the governmental actors but against market actors meant to benefit from new institutional rules and standards. Even if difficult to maintain in the long run, these eluding strategies could defer the installation of a stable institutional order, add tension to the industry playing field, and permanently harm potential market challengers.

7.1.2 The role of external actors

The process of institutionalization, as mentioned above, involves the cooperation of numerous stakeholders from different spheres of the environment. These include customers, investors who belong to the resource base of the focal organization (incumbent utility), new entrants, supply chain associates (regional and municipal utilities) that are part of the industry structure, and actors from the social political arena such as governments, political parties, and special interest groups (Post et al., 2002).[197] Depending

[197] Please also refer to chapter 4.4.

on shared interests, power coalitions will form which might change across issues, even though certain stakeholder groups have close mutual interests.[198] Incumbent coalitions defending the status quo will, hence, confront challenger coalitions striving to change the institutional order (Hensmans, 2003). Overall, for each issue a negotiation landscape (see Figure 7-3) can be drawn that specifies the relative positions of the different actors in relation to the incumbent utility (PowerComp).[199]

The negotiation landscapes include judgments on the position of each stakeholder relative to the focal organization (ally, mixed, enemy) which is distinguished by the color in which they are depicted (white, gray, black; see legend of Figure 7-2). Besides the relation to the focal organization, two primary dimensions help in judging each stakeholder's relevance for the considered issue. First, the importance a stakeholder attributes to the issue (salience), because this influences his willingness to engage in institutional processes. Second, the power of the stakeholder, which signals his actual ability to influence institutional processes. Consequently, stakeholders located in the northeast quadrant of Figure 7-3 will be the most active and influential during institutional formation. When shown by a white mark, "stakeholder" means coalition partners and powerful interceders (e.g., industry firm or the Ministry of Industry in the case of emissions trading). A black mark indicates that the stakeholder is a strong opponent (e.g., the European Union or the Ministry of the Environment in the case of emissions trading). In sum, the figure below represents a systematic way of analyzing the network of stakeholder relations for a given regulatory initiative.[200]

[198] In general, corporate management is more closely linked with its supply chain associates than with, for example, new market entrants.

[199] Three concepts have been used to determine the negotiation landscapes: salience, as the importance of an issue, power (to influence a given issue), and position in relation to the energy incumbent (ally, mixed, enemy).

[200] The concrete positions of the different stakeholders have been established by the researchers, based on the information provided during the direct interviews. More important than the positioning of the stakeholders is the presentation of the methodology of systematically analyzing stakeholder relations.

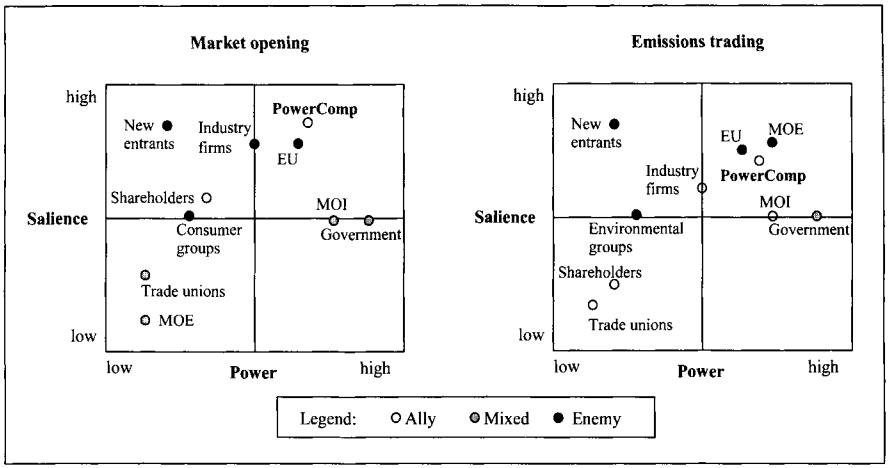


Figure 7-2: Negotiation landscapes for market opening and emissions trading
Source: Adapted from Allas and Georgiades (2001)

Figure 7-2 above indicates that the power coalitions available for market opening are very limited since most actors are in opposition ("enemy") to the focal incumbent utility (PowerComp). Most important in their opposition to PowerComp are the European Union (EU), industry firms, and new entrants; but the Ministry of Industry (MOI) and the government are also in opposition to PowerComp to a limited extent. As for emissions trading more power coalitions seem to be available, despite stronger involvement of the Ministry of the Environment (MOE) which fights against the interests of the focal incumbent. Powerful stakeholders (e.g., industrial firms and the Ministry of Industry) share the interests of incumbent utilities ("ally").[201]

Besides negotiation landscapes, a relationship analysis can also be run for each stakeholder that positions all relevant issues according to their importance and distance. Distance refers to the position the stakeholder maintains relative to the focal organization (ally, mixed, enemy). This shows on which issues opposition or conformity exists. Based on this assessment (importance and distance), coalition strategies can be formulated. The analysis also helps to identify bargaining options (northwest quadrant), deal breakers (northeast), and easy wins (southeast) (Allas and Georgiades, 2001), which are characterized by the salience of an issue for the focal organization and the stakeholder. If the focal organization attributes relatively little importance to a specific issue

[201] We decided not to describe negotiation landscapes and relationship analyses in greater detail since our major purpose was to picture them as tools for systematically structuring the complex relations and negotiation opportunities between the different actor groups. Our goal was not to actually apply them to our situation.

that rates more importantly for the considered stakeholder, this issue would represent a bargaining option for the focal organization (e.g., renewable energies in the relationship between PowerComp and government). Furthermore, prioritizing stakeholder groups according to their importance for the focal organization may help to focus corporate efforts (Aharoni et al., 1978).

Figure 7.3 depicts relationships between PowerComp and governments or industry firms. Rather than portraying the exact position of the different issues, we aim at presenting the systematic methodology, as we did in Figure 7-2 above.

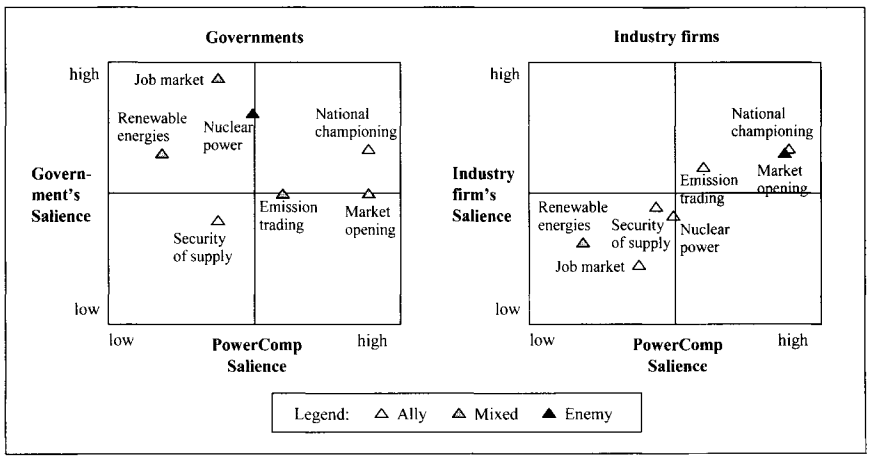


Figure 7-3: Relationship analysis for government and industry firms
Source: Adapted from Allas and Georgiades (2001)

The figure above suggests that the relationships between the incumbent utility (PowerComp) and government are quite diverse whereas the relationships and negotiation options are rather narrow with regard to industry firms. Pertaining to government, bargaining chips – characterized by high salience for the government and low to medium salience for the incumbent utility – exist, most notably, renewable energies, job market, and also nuclear power. While all rate high for the government, they stand behind the issues of market opening or emissions trading in the case of energy incumbents, and consequently they can be traded in exchange for concessions on the really important issues (market opening, emissions trading). As for industry firms, very little bargaining options seem to exist since, except for market opening (and the expected lower energy prices), broad consensus seems to exist between industry firms and energy incumbents. Additional analyses – which cannot be covered within the scope of this dissertation – might reveal different ways of finding a compromise, however.

Negotiation landscapes and relationship analysis represent good, yet static, tools that help formulate stakeholder-specific political strategies. However, it seems that different stakeholders dominate at different points in time. Relating to the theoretical framework introduced in chapter 7.1.1, some actors concentrate on the earlier phase of institutional creation and should hence be targeted more thoroughly by corporate political (non-market) strategies. Their influence on corporate strategy formation is consequently more indirect. Other actors, in contrast, are traditionally more closely linked to market strategies and exert a more direct effect on strategy formation.

Among the first group of actors are governments, industry associations, and capital market analysts whose main levers for influencing corporate strategy lie in the phase of institutional creation, in which the rules of the game on the industry playing field are set. Their influencing strategies include regulative institutions that build coercive pressures (governments) and normative institutions that ask for desired strategy outcomes, such as focused portfolios of activities (capital market analysts). Consequently, their influence on short- and medium-term strategy processes is limited, while their long-term impact on strategy and profitability might outweigh possible direct effects. Corporate management must therefore include considerations regarding these types of non-market actors in their political or non-market strategy.

The second group of actors with a more direct influence on the strategy formation process includes market actors such as customers and supply chain associates. While they might also engage in institutional entrepreneurship and might in this function join efforts with incumbent utilities or act against them, we suggest they are primarily relevant for the formation of market strategies. Due to their close link to corporate strategy, they have been traditionally included in strategy formation. Because the consideration of customer needs is a basic tenet of strategic management, their inclusion in strategy processes should not be surprising (Davies and Walters, 2004). As for supply chain associates, cooperation has become more and more important (Ford and Slocum, 1977) for both product innovation and efficient process management techniques such as, for example, just-in-time concepts. Corporate management should therefore systematically include consideration of this type of market actor in their (market) strategy formation processes.

Obviously, research so far has shown that the corporation has to deal with a variety of stakeholders with diverse and sometimes opposing interests. It has also become clear that this multiplicity needs to be balanced and that corporations have to focus on dif-

ferent stakeholder groups over time. In doing so, corporations combine market and non-market elements in their corporate strategy.

If we compare these findings to our results on the impact of external actors on corporate resource allocations and their consistency with the official concept of corporate strategy (see chapter 6.1), further insights can be generated. Above all, our notion of consistency is very much focused on shareholders and the capital market, since the concept of corporate strategy emphasizes profitability expectations of the investor-based stakeholders of the firm, while it neglects other stakeholders at the same time. If consistency – as defined for this study – decreases, this means in the end that expectations of shareholders are disappointed.[202] However, a decrease in this type of consistency might increase consistency with the demands of other stakeholder groups, like governments or political actors that are more concerned about public welfare. In order to balance stakeholder interests, corporations might consequently have to employ different concepts of consistency.

Figure 7-4 shows the dilemma corporate management faces in times of environmental shifts, when regulatory initiatives threaten the viability and profitability of the firm and when their requirements oppose the long-standing interests and demands of the shareholders.[203] Corporate management will, hence, be in a constant struggle to balance the different stakeholders' interests and to maintain an adequate level of consistency. As long as no sustainable compromise can be reached, management might be forced to shift its focus temporarily and fulfill the different requirements alternately. As a consequence, the consistency levels would modulate around a long-term median.

[202] Prior research has shown that political pressures might induce managers to follow strategies that harm shareholder interests (Oliver, 1991; Hillman and Hitt, 1999, Hillman et al., 2004).

[203] We chose what might be the most contrarian positions, shareholders and governments, but generally could have picked any two stakeholder groups. Furthermore, political and stakeholder expectations might eventually be integrated into one consistent concept of corporate strategy.

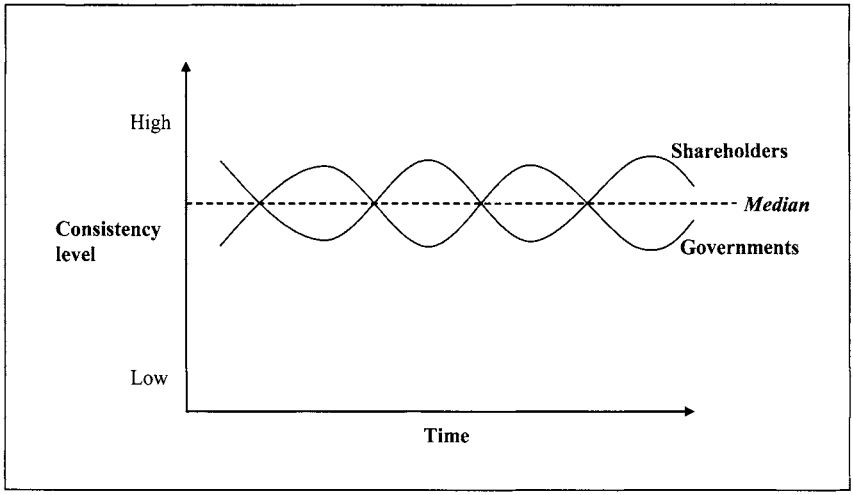


Figure 7-4: Shareholder consistency vs. governmental consistency

7.1.3 The role of corporate management

The first role of corporate management is to assess regulatory initiatives according to their relevance. Building on existing research (Oliver, 1991; Hillman and Hitt, 1999; Hillman et al., 2004) that identified issue-specific antecedents of corporate responses, like issue salience and competition, this study revealed four more determinants that turned out to be better-suited for this research. These are: (1) existence of a powerful interceder, (2) public pressure on the corporation, (3) maturity of the regulatory initiative, (4) perceived opportunity structure of the initiative.

Based on these four characteristics of the regulatory initiative, corporate management will then define the corporation's market and non-market strategies, which refers to internal alignments and externally directed responses. At this point, we focus on the perceived opportunity structure of a regulatory initiative, since it has been functioning as predictor of both corporate responses (internal alignments and external responses). If perceived as an opportunity, internal alignment turned out to be more fundamental and to impact the concept of corporate strategy, and the external responses were more open, consensus-oriented, and included activities such as information, negotiation and partnering. If perceived as a threat, internal alignments were seen as being superficial and focused on adjustments and management systems and organizational design. Externally directed responses showed themselves to be more resistance-oriented and included, most importantly, deferment and manipulation strategies.

Based on the findings of this research we developed a model (see Figure 7-5) that builds on the Bower Burgelman model on evolutionary strategy processes within the firm (Burgelman, 1983b). We combined the model with elements of Hensmans' (2003) work on evolutionary changes at the field level and a neo-institutional version of strategy formation. The suggested value of the new model lies in the combination of internal firm-level processes and boundary-spanning processes between the firm and the industry. The first refers to autonomous and induced behavior on the corporate level; the latter focuses on interactions and negotiation processes between corporate and external actors. Utilizing both market strategies – that are linked with internal processes and alignments of the structural and strategic context, as well as the firm's strategy – and non-market strategies – that primarily refer to boundary processes and institutional creation – the role of corporate management is under study. The orchestration of internal and external processes through an ongoing dialogue with key stakeholders is certainly one of its most important tasks.

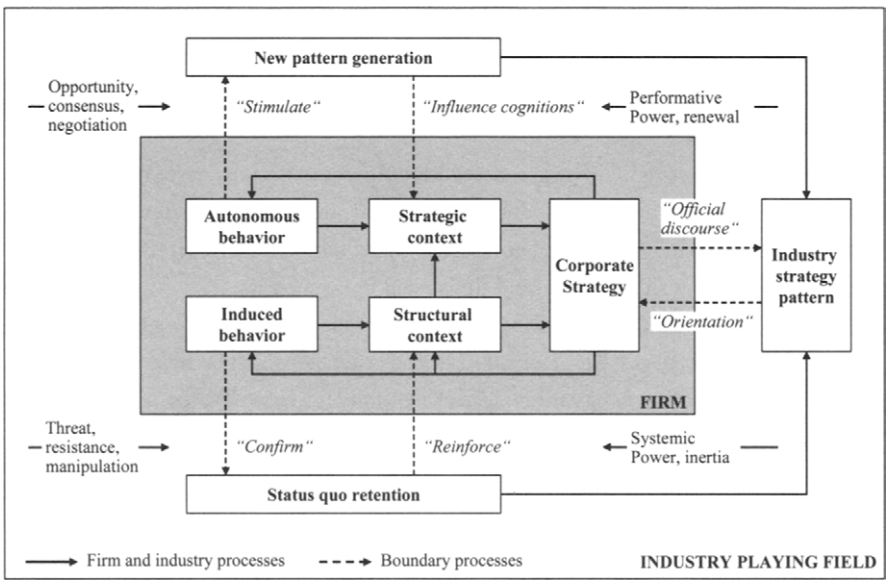


Figure 7-5: Boundary model showing the co-evolution of corporate strategy and industry

The processes on the firm level reflect Burgelman's (1983a; 1983b) suggestions on autonomous and induced behavior that is guided through the strategic and structural context of the firm and that is retained in corporate strategy. The latter in turn sets a structural context for the selection of consistent strategic initiatives and induces con-

formist behavior on the operational level. At the same time – knowing the importance of autonomous behavior for the vitality of the firm – new ideas are allowed that are able to alter the corporate strategy after framing and sense making processes within the strategic context.[204]

On the industry level, there are parallel processes that consist of either confirmative action to retain and reinforce the status quo (analogous to induced behavior) or that challenge existing rules and standards and bring about new patterns for strategy and organizing (similar to autonomous behavior). Processes involving renewal, strategic agency, and performative power, as well as inertia, mobilization of a bias, and systemic power, lead to an industry-level discourse on broadly accepted industry strategy patterns (Hensmans, 2003) that provide stability to the industry playing field.[205]

New to the model are the mutually reinforcing interactions between the corporate and the industry level that are orchestrated by corporate management but enriched by a broad range of organizational members. This "interaction context" embeds each of the strategy, process, and context elements within the large industry playing field and specifies interaction patterns. The latter are influenced by the perceived opportunities and the related consensus or resister-based strategies.

Firm behavior affects not only the course of the firm but also the course of the industry playing field. On the one hand, induced behavior at incumbent firms tends to confirm not only the company's strategy but also the status quo and the existing strategy patterns within the industry playing field. Interested in keeping the institutional order and manifesting the existing rules of the game, corporate actors try to mobilize suitable coalitions for their causes. This type of response is accompanied by resistance-oriented corporate behavior that is based on the fact that threats are associated with regulatory initiatives.

On the other hand, autonomous behavior might not only lead to challenging the extant corporate strategy but might also stimulate the generation of new patterns in the industry playing field. Even if not targeted by organizational members in charge of autonomous initiatives, their innovative potential might not only lead to corporate renewal but might also encourage strategic discourses among field participants on the industry level. In this sense, autonomous behavior might destabilize the extant institutional or-

[204] For a more detailed description of the Bower / Burgelman model please refer to chapter 2.1.2.

[205] For a more detailed description please refer to chapter 2.3.4.

der and question the existing industry strategy patterns. Consensus-oriented corporate behavior that is based on the fact that opportunities are associated with regulatory initiatives accompanies this type of response.

Since the firm is embedded in the larger industry playing field that holds all sorts of institutions that exert pressure on the firm and force it to adjust, it is no surprise that direct links exist from the playing field to the firm. According to the influence of induced behavior on the status quo of the industry, the latter in turn also reinforces existing patterns of organizing within the firm. More precisely, the organizational context that channels corporate behavior from the operational level and that supports initiatives that are consistent with current concepts of corporate strategy can be reinforced.

At the same time, new pattern generation and challenger discourses on the industry level may affect the strategic context of the firm. We suggest that this comes about through the cognition and beliefs of corporate (middle) management, which guides the handling of autonomous initiatives outside the official strategy of the firm. Framing and making sense out of such initiatives requires the linking of possible industry trends that the autonomous initiative might capture and hence involves the belief system and judgment routines of the concerned executives.

While the above mentioned interdependencies referred to influences on the internal context of the firm and on management action from the operational and business unit level (induced or autonomous), there are also direct interactions between the corporate strategy and the industry strategy pattern. Those should be expected to be much more formal and structured and directly involve top management. On the one hand, the industry strategy pattern that is grounded in shared values and beliefs on the rules of the game orients corporate strategy. The latter is supposed to reflect the requirements of the broader industry context and be consistent with the overarching industry strategy pattern. On the other hand, concrete corporate strategies represent distinct examples for strategizing and organizing that are in constant discourse with alternative strategies advanced by other institutional stakeholders. And through this dialogue between internal and external actors, industry strategy patterns are constantly confirmed, abandoned, altered, or reinvented.

7.2 Relative importance of political strategy vs. market strategy

Efficient strategic management combines market components, commonly addressed by classical corporate strategy, and non-market components, traditionally addressed by the political strategy of a corporation. Depending on the environment of the organiza-

tion, the one or the other receives greater relative emphasis (Baron, 1995). On the level of a single issue, research has shown that the higher its perceived opportunity is, the more important are externally directed responses or non-market strategies. On the level of the entire corporation, the total opportunity from the sum of all individual initiatives might well function as predictor of the importance of non-market strategy. Having already elaborated on issue-specific antecedents of corporate responses and on the relation between perceived opportunity structure and non-market strategies in particular (see proposition 6), we opted to extend our focus to more global, industry-specific variables such as degree and status of regulation within an industry.

In chapter 7.2.1, we suggest that the more regulated an environment is, the more important are non-market strategy components. On the other hand, market strategies generally dominate in free market environments. Along with the degree of regulation, the relative importance of the two strategy components varies over time (status of regulation). This dynamic aspect is covered in chapter 7.2.2, where we suggest that non-market strategy receives more attention in times of institutional creation, while market components dominate when the institutional environment is stable.

Despite those differences based on the degree and status of regulation, both market and non-market strategies should be relevant for the firm. Corporate management is urged to continuously synchronize them and to shift focus when required. In line with the findings of preceding research that advocated the joint use of different modes of strategy-making dependent on the given context (Hart, 1992; Hart and Bandbury, 1994; Mintzberg and Lampel, 1999), we suggest that the two strategy types permanently coexist and complement each other.

7.2.1 Degree of industry regulation

Managing corporations in regulated industries differs from managing non-regulated companies (Mahon and Murray, 1981). This finding by prior research is confirmed by this study, as indicated by the following statement made by a corporate informant. It highlights that managing the regulator is central to corporate success in regulated industries.

"*Strategy in a regulated industry is different: The objective of maximizing the value of the business is about playing a long-term strategic game with the regulator.*" (P 22:63)

While the most significant challenges within non-regulated market economies derive from market factors such as changing customer priorities and technological innovation, shifts in the regulatory environment dominate considerations of regulated compa-

nies. Profitability and viability are more significantly determined by the firm's capability to manage regulation than by a superior customer value proposition. And, since value drivers are located to a much greater extent within the regulatory environment, political (or non-market) strategies targeting the associated institutional order have a greater effect on the economies of the firm. This leads us to the suggestion that the degree of market regulation – or the regulatory intensity (Cook et al., 1983) – is positively related to the relative importance of non-market strategies as compared to market strategies.

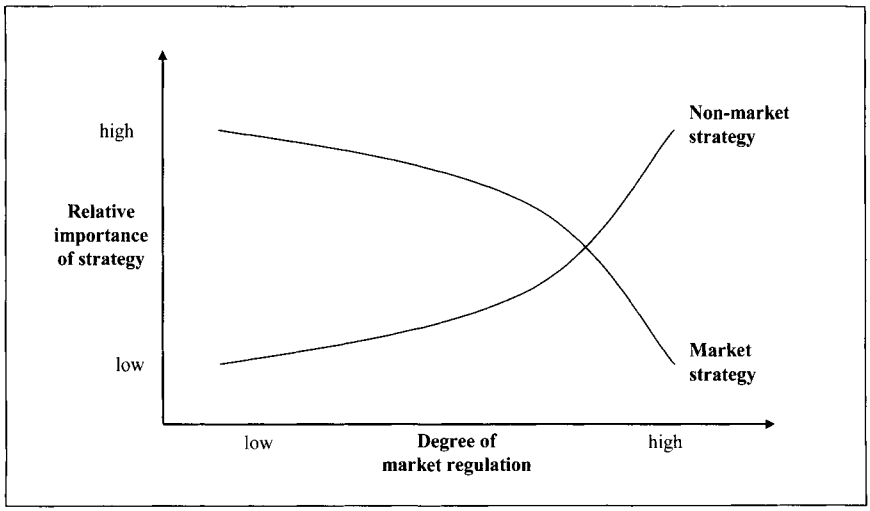


Figure 7-6: Degree of market regulation and relative importance of strategy

At the same time, management attention and activity shift from market to non-market factors with greater regulation of an industry. Customer or competitor analysis, for example, might give way to assessments of legislative processes or the political landscape and lobbying activities in general. Also, the content of common economic analyses shifts. Due to a high degree of regulation, traditional market functions (e.g., environmental screening) change (Elenkov, 1997). In acquisition processes, for example, screening then focuses more on changes in the regulatory or political environment within potential target markets than on the identification of economically attractive target firms. General market analyses differ significantly, too, shifting the focus away from competitors to regulatory assessments, which are the source of much greater uncertainty.

"Market screening in our business is really different than in other markets. We generally live in a very structured world that we understand and we know the players and

their ownership structures. So what you would find in other markets [in terms of market analysis], we just don't have, or at least only in a very limited way." (P10:125)

7.2.2 Status of the environment (transition vs. stability)

While the degree of industry regulation is a good overall determinant of the general importance of non-market strategies in comparison to market-strategies, the status of the environment is an equally important criterion. By status, we mean the degree to which the existing institutional order is under transition. On one side of the scale, there is stability, a situation of status quo retention in which guiding institutions are well-established, shared by the actors in the industry playing field, and under no attack by challenging patterns. On the other side, phases of transition are characterized by new pattern generation, institutional reconfiguration, and creation processes that aim at changing the institutional order to introduce new standards and practices. We argue that transition and stability alternate and that the importance of non-market and market strategies changes accordingly. Finally, we suggest that the degree to which the institutional order is under transition is positively related to the relative importance of non-market strategy.

Combining degree of regulation and status of the environment leads us to the matrix shown in Figure 7-7, below. Depending on the configuration of the two issues, four generic combinations of market and non-market strategies exist, ranging from a strong focus on non-market strategies in the north-east quadrant to a strong focus on market strategies in the south-west quadrant.

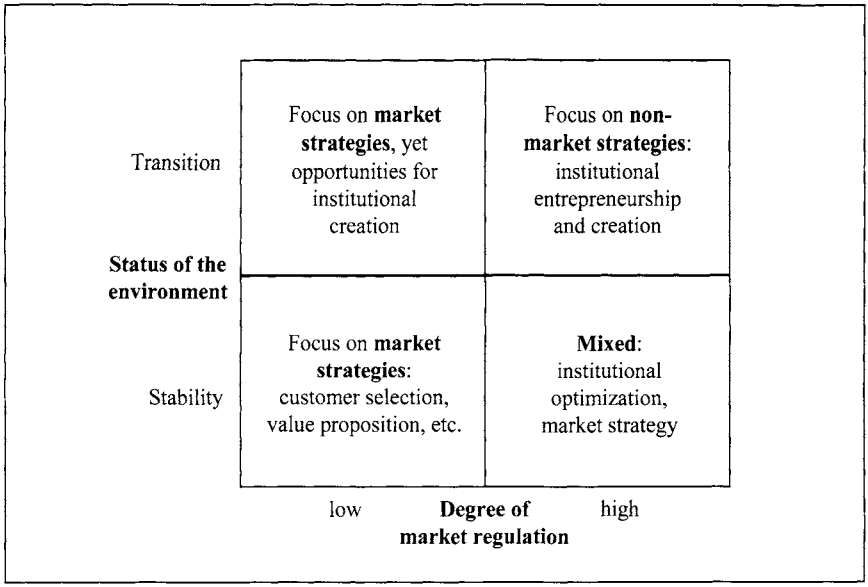


Figure 7-7: Activity matrix for market and non-market strategies

In a situation of a low degree of market regulation within a stable institutional environment (southwest quadrant), a clear focus on market strategy can be expected. Since market mechanisms determine the success or failure of a corporation, company efforts should concentrate on market issues like the selection of profitable customer segments, superior value propositions through superior product and service offerings, and the protection of existing market positions. Non-market functions are primarily limited to general public relations affairs that support the corporation's market positioning.

Remaining in a little-regulated market but shifting to environments under transition (northwest quadrant), the focus remains on market strategies; however, opportunities for the creation of supporting institutions might be examined. Consider, for example, the possibility of transforming the usage of a new technology into a normative or cognitive institution. In such a case, a possible technological advantage might be reinforced by shared awareness of the superior value of a product (which, in the end, is no longer based on its technological assessment).[206] Also, the creation of a regulative institution might be an option to introduce a demand or supply regulation (Hillman et al., 2004) that will protect the market strategy of the firm.

[206] In the case of PDAs, the Palm Pilot has long been considered the state-of-the-art product. The Blackberry is now challenging it. In both cases the technology developed into a "must-have" for organized businessmen, which has certainly supported the success of the products.

As soon as the degree of market regulation increases, non-market strategies become more important. As long as the environment is stable (southeast quadrant) however, their effectiveness is limited, since the institutional order is shared by the key stakeholders of the industry playing field. Nevertheless, institutional optimization, which consists of shaping existing norms, standards, and beliefs, may enhance the position of the firm. Also, institutional strategy might be employed in a more protective way that tries to buffer the operative core of the firm and that maneuvers the firm through the existing regulations and institutional expectations. Market strategies are equally important. And within the institutional boundaries an optimal configuration of the firm must be targeted that develops economic opportunities and realizable strategies.

Finally, when the institutional order within a highly regulated industry is under transformation (northeast quadrant), non-market strategy clearly dominates. Since the institutions that are created through complex negotiations between the different stakeholders of the industry playing field determine the underlying economics of each business, this phase has a large impact on long-term corporate profitability. Therefore, we suggest that non-market strategies that aim at instilling corporate self-interests into the institutional order are the primary concern of corporate management.

7.3 Coordination of political and market strategy

As shown in the previous chapters, both political and market strategy have or should have their roles in strategic management. Besides issue-specific factors, like the perceived opportunity structure, priorities shift depending on the degree and status of regulations. At any time, coordination between the two seems to be pivotal for the success of the firm (Baron, 1995). In this chapter we present some options for achieving such coordination (chapter 7.3.3). Before we attempt to offer some solutions to this critical question, we will, however, refer to two major differences between market and political strategy processes. First, we look at the differences in time cycles (chapter 7.3.1), and second, we have a closer look at general process characteristics that differ between the two (chapter 7.3.2)

7.3.1 Differences in time cycles

Results of this study show that the planning horizons differ significantly. While non-market strategy cycles tend to be very long, market-strategy cycles are significantly shorter. On the one hand, this complicates the coordination of non-market and market strategy. On the other hand, it provides the corporation with considerable time to influence the legislative process and to prepare the organization for future changes.

In the case of market opening, for example, discussions started in the early 1990s at the European level. The first Directive at this level became effective at the end of 1996 (Directive 96/92/EC). Germany opted for the system of negotiated third party access to the transmission grid, which meant that non-discriminatory access should be guaranteed by industry association agreements between energy producers and industrial consumers. Three such agreements ("Verbändevereinbarung") were signed, in the spring of 1998, at the end of 1999, and at the end of 2001. European legislation then required all national governments to install a system of regulated third party access. Based on Directive 2003/54/EC, a regulator had to be installed by July 1, 2004. However, one year after the official deadline, only this Directive has been realized in Germany, as of July 15, 2005. All in all, we are talking about twelve to fifteen years until a new regulatory system is established, sufficient time for a corporation to influence the legislative process and to prepare the organization for shifts in the regulatory system.

At the same time, our case company went through several significant changes in strategy and organization. Since it was a much-diversified firm in the first half of the 1990s, the company pursued a conglomerate strategy of "shaping changes, developing values." In addition to electricity, the portfolio also contained chemicals, oil, telecom, trade, traffic, and service. Only in 1998 did the company start a focusing strategy that was motivated by the growth opportunities in the energy sector. Besides energy, only oil, chemicals and telecom remained as core activities. In 1999 the electricity business contributed less than 20% of total sales but roughly two-thirds of total profits. In June 2000 a "focus and growth" strategy became effective and the company targeted a global leadership position in the electricity and gas business. Compared to 1999, sales in the energy business grew sixfold and almost all non-energy businesses were sold. The major transformation process officially terminated on May 1, 2003, and a phase of "integration and performance" began. Hence, within the non-market cycle of twelve to fifteen years, the company went through three different market-strategy cycles.

While further research certainly has to confirm the results of this study, we think that the findings show that the time cycles of political and market strategy do differ, although the differences might be shorter or longer than indicated by our study. In any case the coordination of political and market strategy is rendered more difficult, since the two do not evolve in the same rhythm, and strategic management has to take this into account. Also, it seems that the relatively long time cycles of political strategies provide proof of the complex negotiation processes between the different stakeholder groups within the environment. Strategic management is advised to shape the course

of the discussion, bearing in mind that decisions are not made easily. This offers the opportunity to carefully extend the range of self-interests that might be introduced into the discussion. It also allows for slowing down processes, or accelerating them, wherever it seems advantageous for the firm. The market interests of the firm and the attempts to prepare the organization in the best way possible should hereby guide the political process.

7.3.2 Differences in process characteristics

Besides the differences in time cycles, market and non-market processes also revealed differences on a number of process characteristics. Based on commonly accepted standards for describing organizational structures (Miller, 1987) and strategic processes (Hoppe, 2004), we used the following five criteria to compare market and non-market strategies: centrality, flexibility, formality, frequency, and rationality.

Centrality represents the degree to which processes are driven and decisions are made at the top. At one extreme are the autocratic top executives who manage processes in the command mode, limiting organizational members to serve as simple "soldiers" obeying their orders (Hart, 1992; Mintzberg et al., 1998). At the other end of the continuum there is a more transactive approach, with top executives promoting participation of a wide variety of organizational members from different functions and levels. The role and involvement of corporate center functions provide further indications of the level of centrality.

Flexibility refers to the rigidity of strategic processes, which can either be regarded as strict plans with deliverables and deadlines that need to be followed or as more generic strategies that function as general guidelines. A more flexible approach regards strategy as an ongoing process that requires constant adjustments, while a rigid approach follows the ideal of first deciding and then implementing strategy.

Formality is about the degree to which strategic processes are determined by formal objectives and procedures. Processes can either be guided by strict steps and requirements, or they can evolve more freely. With regard to the formality of strategic objectives, one can distinguish between clearly articulated and communicated goals on the one hand and more general issues, priorities, and minimum requirements on the other. Formal objectives tend to be rather quantitative while informal objectives are more qualitative.

Frequency of processes or sub-processes is another characterizing factor for strategic processes. While the time cycles discussed in chapter 7.3.1 could be interpreted as

demonstrating the overall frequency of market or non-market processes, there is much more attached to the notion of frequency. There is also the question - how often do sub-processes, like planning routines or project and strategy reviews, occur. In this sense a high frequency also relates to the intensity of strategy processes.

Finally, *rationality* refers to the degree to which rational arguments dominate strategy processes. On the one hand, analytic, fact-based processes and decisions might determine strategy; on the other hand, a more relational approach is possible. The latter includes a greater emphasis on negotiation and relationship skills while the former is more hard-fact oriented and tries to convince through logical argumentation.

The following Figure 7-8 compares the character of market strategy processes with non-market/ political processes and highlights the significant differences according to the five just-described criteria.

	Market strategy	Non-market/ political strategy
Centrality	• High participation from all levels of the organization (corporate, business unit, operations) • Top management and corporate center as facilitator	• Specialist organization that acts as a consultant to top management and as a central gatekeeper • Only restricted involvement of organizational members on selected issues
Flexibility	• Despite some flexibility mechanisms, generally rather rigid process with clear responsibilities and deadlines	• Rather flexible, ongoing process with many interactions at the inter-personal level that allows for subsequent adjustments
Formality	• Formalized planning, controlling and review processes with defined cycles, strategy meetings and milestones • Explicitly articulated objectives that are transferred into means / implementation plans • Open internal and external communication	• Rather informal planning, execution and coordination processes • Issue definition and prioritizing • Minimum requirements • Limited communication
Frequency	• Relatively shorter overall cycles • Frequent interactions and reviews	• Relatively longer overall cycles • Regular coordination meetings
Rationality	• Rationality driven processes • Fact-based, analytical discussions	• Relational approach emphasizing negotiation and relationship management

Figure 7-8: Process characteristics of market and non-market strategy

While market strategy processes themselves differ, depending on their context as it is revealed by the diversity in strategy models (Hart, 1992; Mintzberg et al., 1998), we

suggest that there are general characteristics that distinguish them from non-market strategy/strategies.

Market strategy processes in general involve a broad range of organizational members from different functions and levels. While top management or an associated corporate center function generally leads the process, contents frequently develop from the business unit level. We share the understanding that strategy develops through interaction processes within the firm, with middle management fulfilling important roles (Burgelman, 1983b) and serving an interface function between creativity and market know-how from the bottom and direction and holistic understanding of corporate interrelationships from the top. Non-market strategy involves significantly less organizational members. While managers on different levels are oftentimes confronted with external political or regulatory actors in their day-to-day jobs, they are less well integrated into official corporate non-market strategy processes. Their task is to manage external stakeholders operationally; top management and the political specialist organizations at the headquarters provide the definition of the corporate political position.

With regard to process flexibility, market processes are in general more rigid than political processes. While there is certainly room for autonomous behavior – perhaps more in the case of market strategies than in the case of political strategies – market processes more closely follow defined routines with clear responsibilities and deadlines. Thus, in our research, political processes appeared to be much more flexible and were based on direct personal contacts rather than strict communication routines. For this reason, incremental adjustments to the existing position seemed to be more common.

Market strategy is furthermore characterized by a high degree of formalization, with regard to both procedures and objectives. On the one hand, market strategy follows clearly defined planning, controlling, and review procedures. This requires a formalized strategy process which links the corporate to the business unit level and which leads to the definition of an explicitly articulated, formal concept of corporate strategy that is later translated into measurable goals and implementation plans for business unit management. On the other hand, there are procedures that control progress and review existing plans and objectives. In addition to these formulation-implementation procedures, there are mechanisms that guide autonomous behavior and help to channel strategic initiatives which are outside the current concept of corporate strategy but might be vital to the future renewal of the firm. In our study, non-market strategy

processes appeared to be much less formal; planning, execution, and coordination were based more on informal, ad-hoc procedures. As for the related political objectives, they were generally not articulated in terms of clear, measurable goals but rather in terms of priority lists and minimum requirements for selected political issues. Finally, internal and external communication proved to be clear and explicit for market strategies but remained vague for political strategies.[207]

As already mentioned, process frequency tends to be higher in the case of market strategy, in terms of both overall cycle times and micro level processes. Frequent interactions, strategy and project reviews provide examples of the high intensity of the sub-processes on the corporate and business unit levels. In the case of non-market strategy, regular coordination meetings do exist as well, but they appear to be less formal and comparatively less frequent.

Finally, the rational, fact-based character of market strategy processes seems to be in opposition to the relational character of political processes, even though corporate political non-market actors unanimously supported information-based strategies, too. While analysis and hard facts dominate market strategies, political strategies depend much more on negotiation, personal relations, and other soft facts.

Despite these differences in process characteristics, market and non-market strategies do share a number of commonalities that relate to Hillman et al.'s (Baron, 1995; Baron, 1997) typology for describing corporate political activities, which proved to be suited to describing market strategies as well. In both cases proactive behavior is supposed to be superior to reactive behavior, collective strategies (strategic alliances, constituency building) receive more and more attention, information is perceived as the main ingredient of strategic interactions, and long-term perspectives are, or should be, rated higher than short-term perspectives.

To conclude, we suggest that although market and non-market strategies differ in many ways, they do also share commonalities. Nevertheless, as one reflects on possible options regarding integration of market and non-market strategies, one must be aware of the specifics of the two when trying to combine the best of the two worlds.

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[207] Certainly, non-market strategies are delicate issues at the interface of corporate and external actors. Conflicts of interests between the corporation and its external (political) stakeholders sometimes make it difficult to be explicit and open, especially since political discussions require a great deal of cautiousness and diplomatic negotiation skills.

7.3.3 Coordination options

Coordinating market and non-market strategy means finding a coherent answer to the questions of "*how do we need to adjust to changing environmental conditions and how do we need to try changing the market*" (P 13:105). Results of our study indicate that, frequently, the two questions are addressed by different parts of the organization, within different structures, and with only few systematic links between the two worlds (market and non-market). While there is a common understanding that the two need to be integrated in a consistent way, we found little evidence of concrete structures, processes, or systems supporting the task. Coordination is still dominated by organizational routines on a rather informal, inter-personal basis. While this should not be considered negative, we do suggest that these should be complemented by more systematic and formalized ways of coordination. This chapter aims to provide some thought-provoking ideas in this direction.[208]

Prior research has pointed to the fact that market and political strategies can be both complements and substitutes that, in any case, require integration (Baron, 1995; Baron, 1997). However, little conceptual or empirical work has been carried out, and within this limited sphere integration strategies were discussed only in a very generic way. One of the major contributions in this respect includes the work of Bonardi (2004), who developed propositions on the relationship between political and globalization strategies. He elaborated on defensive, offensive, and combined political strategies, but did not discuss concrete implementation alternatives as we aim to do in this chapter.

Consistent with our research framework (see chapter 3.2), we will present the coordination options in accordance with those different elements of corporate strategy that structured our research on internal alignments following regulatory involvement. Figure 7-9 provides an overview of the different options that will be described in more detail below.

[208] Further research is required to reach a more thorough framework for the structuring of possible coordination mechanisms between market and non-market strategies.

Nr.	Element of corporate strategy	Coordination option
1	Concept of corporate strategy	Integration of non-market elements into the concept of corporate strategy
2	Organizational design - structures	Political steering committees
3	Organizational design - structures	Creation of specialist functions, e.g., Regulatory Management
4	Organizational design - structures	Co-location of market and non-market functions within one department
5	Organizational design - processes	Integration of non-market elements into the strategy process
6	Management systems	Regulatory analysis as part of environmental screening
7	Management systems	Integrated scenario planning combining market and non-market elements
8	Culture and values	Mutual understanding and respect between market and non-market functions

Figure 7-9: Coordination options between market and non-market strategy

(1) Integration of non-market elements into the concept of corporate strategy

When designing the concept of corporate strategy, management focuses on the interests and requirements of external shareholders and the capital market in general. For these central groups of external stakeholders, the official concept functions as a point of reference to evaluate future corporate action (strategic consistency between resource allocations and the official concept of corporate strategy). Other external stakeholders (e.g., customers, supply chain associates, and competitors) are all part of the corporate concept that states which customer to serve with what product and service offering, which part of the value chain to cover internally and which part to outsource, and how to deal with the strategic moves of competitors. Hence, market components clearly dominate the concept of corporate strategy, while political stakeholders (governments, political parties, regulators) are kept marginal. We suggest that their interests and requirements should be considered more closely; consistency of management action with political expectations could develop into a useful measure for complementing strategic consistency. Clarity on political goals and on the interplay between market and political strategy might not always be easy, especially if conflicting interests and political restraints lead to divergence between the official and the real corporate strategies. Nevertheless, we believe that non-market elements should be more explicitly considered within the concept of corporate strategy.

(2) Political steering committees

Political steering committees are already put in place at our case company (see chapter 6.2.1). They have a coordination function and include organizational members from both market and non-market departments. They can either focus on more operational day-to-day issues (which is the case for our case company) that bring together political departments and transmission or sales representatives, or they can focus on strategic issues that require the interaction of politics and strategy departments. In both cases they provide a communication platform that can be used to develop a more holistic picture of corporate strategy (including market and non-market elements) and to generate a better mutual understanding of the different perspectives.

(3) Creation of specialist functions

The creation of a specialist function is frequently an answer to a new issue where the company so far lacks know-how or where it is widely distributed within the firm at selected gatekeepers. This was accomplished at the case company for both market issues (Market Management to coordinate different and so far independently-run businesses that require the transfer of best practices and synergy realization) and for non-market issues (Regulatory Management to manage affairs that require optimized and standardized interactions with outside regulatory authorities). In a first step, these specialist functions consolidated distributed know-how and built a depersonalized knowledge base at the corporate level that was accessible to everybody. Second, they helped educate business and operational functions to obtain required capabilities and develop standard routines. Regulatory Management also acted as a central interface and competent interlocutor for the regulatory actors. Furthermore, the assignment of clear responsibilities made it easier to centrally coordinate market and non-market aspects, since know-how and competencies were bundled. Instead of having to assemble a large group of organizational members, smaller groups could interact and decide more efficiently.

(4) Co-location of market and non-market functions within one department

The location of market and non-market functions in the organizational chart and the according hierarchical links seem to be among the strongest opportunities for close integration. An analysis of the different organizational structures for the corporate development, strategy, politics, and regulatory affairs departments raised interesting questions regarding the most effective organization. As Figure 7-10 shows, the regulatory management function is located at three different positions in the organizational

chart of our case company. While its importance at the corporate level is equal to that of the Politics and Corporate Development departments, it is a sub-function of the Politics department at one Market Unit, and located in the Corporate Development department in another Market Unit.[209] For obvious reasons we consider the last alternative (co-location of Regulatory Management and Corporate Strategy in the Corporate Development department) to be very promising in order to coordinate market and non-market functions.

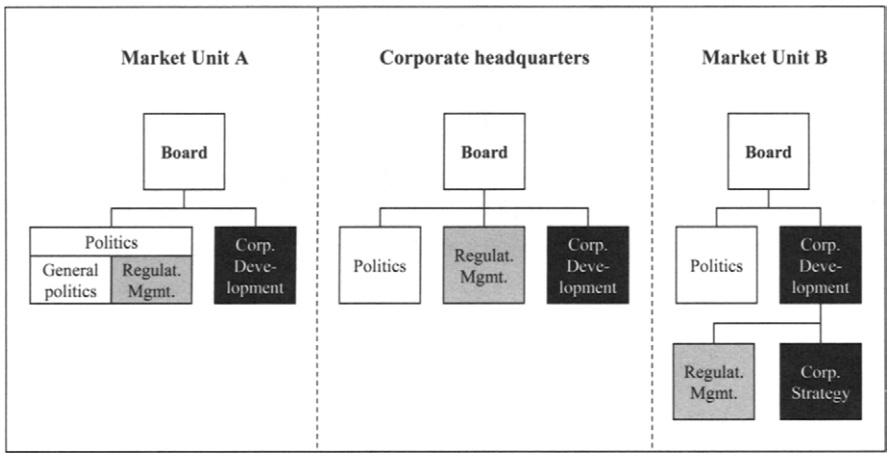


Figure 7-10: Organizational design options for the regulatory management function

(5) Integration of non-market elements into the strategy process

Recently, a new strategy process has been introduced at our case study company that links the corporate with the market and business unit levels and that includes elements of top-down and bottom-up processes. The new strategy process also integrates strategic long-term planning with medium-term planning and budgeting processes.[210] But while different levels of planning have been consistently integrated there are no institutionalized links between market and non-market functions. And there is no systematic input from political or regulatory departments into the strategy process. Corporate Development (together with Investor Relations) takes responsibility for shareholders

[209] At the corporate unit level and at Market Unit B, regulatory affairs and corporate development functions were installed at the same time, only one or two years ago. Market Unit A has had a corporate development and strategy function for some time.

[210] This has not always been the case. Only a few years ago there was a top-down strategic plan and a medium-term budget that had been developed bottom-up. Now, however, we would expect that budgets reflect the strategic plan and vice versa.

and the ongoing refinement of the equity story; however, interfaces with non-market departments seem to be much less developed.

We suggest that a more formalized and systematic integration of political issues into the strategy process would result in a more sustainable and more effective long-term strategic plan. We also suggest that non-market functions should not be restricted to interventions on an ad-hoc basis, but instead they should be more thoroughly integrated into strategy formulation. Concrete measures to realize this might include the assignment of members of politics departments to strategy planning groups or the editing of focused politics reports as inputs for strategy planning.

(6) Regulatory analysis as part of environmental screening

The screening and analysis of customer trends and of competitor activity have a long tradition in strategic management and are key ingredients for strategy formulation. With regard to the regulatory environment, developments are certainly screened and documented in one way or another. However, it seems these analyses are much less systematic and formalized, even though there is a common understanding of the pivotal role of political and regulatory actors in the profitability of the firm. We feel that management could apply some of the principles they regularly use for their business problems to think about regulatory issues and we therefore suggest that they consider traditional business tools to deal with the political environment (Reinhardt, 2000). These tools could include, for example, trend or value driver analysis.

(7) Integrated scenario planning combining market and non-market elements

Scenario planning generally becomes more and more important in times of uncertainty regarding the future state of the environment. It is a widely used technique for anticipating the possible impact on the firm in terms of a most likely, best, and worst case, but it is usually limited to market factors, such as technology, customer trends, or economic developments (e.g., oil prices, in the case of the energy industry). At the case company, however, scenario planning techniques have been developed that use two different dimensions to anticipate the future. More precisely, there was a market-component on one axis, namely the degree of decentralization.[211] On the other axis were different scenarios about the future regulatory environment (full-blown regulation, outcome regulation, and even deregulation). Hence, market and non-market components were integrated into one and the same scenario model. The selection of the

[211] One could also imagine other factors, e.g., degree of substitution between electricity and gas.

two distinct dimensions for scenario planning, furthermore, had developed out of a value driver analysis that identified the two most important factors influencing value creation at the corporation. Based on the different scenarios, corporate management then identified "*parameters of dealing with that scenario*" (P6: 87) and developed overall strategic plans for reacting in a given situation.

We consider this integrated approach to be a very effective and useful option for combining market elements with non-market elements, and we suggest that it might be one of the most important components for coordinating market and political strategy.

(8) Mutual understanding and respect between market and non-market functions

Mutual understanding and respect between market and non-market functions can be an important factor in integrating strategic management. Clearly, the backgrounds and personalities of the two areas differ significantly, as do their functions and responsibilities. Political issues require soft skills like negotiation and relationship building and ask for the prudent use of political tactics like coalition building, concealment, and pressuring. They are also closely related to the purposeful distribution of selected information. Market issues, in contrast, generally imply the deployment of hard skills like methodology, analysis, and problem- solving. Interactions are much more dominated by fact-based discussions, even though the role of soft skills should not be underestimated.

Based on these differences we may assume that there is some sort of psychological distance between organizational members from market and non-market functions (comparable to technical and economic staff). However, we advise both sides to openly approach each other, and to develop a common understanding of the relevant business issues. Since this is a question of organizational culture, solutions are difficult to come up with and require a study of their own.

7.4 Summary and discussion

The purpose of this chapter was to consider the specific results of the three research questions of this study (impact of regulatory actors on corporate resource allocations, internal alignments, and externally directed responses) and to develop higher-level theories. Most importantly, we integrated the results of chapter 6 into a general theoretical framework on strategic management that includes market and non-market components and that also respects the impact of external, regulatory actors on strategy formation. Referring to the mutual interdependencies between corporate and regula-

tory actors, and between the corporation and the environment, respectively, we advanced strategy research by combining evolutionary processes on the micro level (firm) with institutional processes on the macro level (industry). The result was a boundary model on the co-evolution of corporate strategy and industry that was presented in chapter 7.1.3.

The theoretical, neo-institutional framework for integrated strategy presented at the beginning of this chapter (see Figure 7-1 on page 287) used neo-institutional reasoning to explain the impact of regulatory actors on strategy formation, and to discuss corporate management's options for handling this type of regulatory involvement. Once again, we remind that especially the sequence of actions depicted in the framework – starting with regulatory initiatives of political actors – is bound to the specific context of our study. Other contexts might hence produce other types of response pattern.

At the core of this framework is the industry playing field that determines the rules of the game and limits the scope of action for corporate management. External actors – such as governments and regulators – indirectly influence corporate strategy, primarily through regulative institutions but also through normative and cognitive institutions. However, the corporation has the opportunity to use political (or non-market) strategies in order to exert a proper influence on the institutional environment and its actors. Towards this end, it may engage in three types of strategies: (1) Manipulate ongoing legislation processes to shape future regulative institutions for the benefit of the organization. (2) Create balancing normative institutions that better reflect corporate interests. (3) Challenge existing cognitive institutions that counteract corporate objectives and limit activity.

Once in place, the institutional environment limits the strategic choice of the organization. However, corporate management can still shape the course of the firm through its market strategies. On the one hand, this implies that corporations may use classical strategies such as brand building, customer service orientation, and cost reduction to select among possible strategic alternatives within a given institutional order. On the other hand, corporations might also try to bypass or corrupt the existing institutional order by eluding strategies such as dumping, cross-subsidizing, and profit skimming (from remaining open or secret monopolies).

One of the major challenges for corporate management is to form coalitions with other actors in the industry playing field. The more closely an actor's interests are related to the corporation, the more important an issue is for the given actor; and the more powerful he is, the more valuable he is believed to be for a corporate coalition. Since dif-

ferent coalitions might be required for different issues,[212] corporations should systematically analyze their environment, for example, with the help of negotiation landscapes and relationship analyses. The first pinpoints the relative position of all actors for each regulatory issue;[213] the second analyzes all issues according to their conflict potential and importance for a given pair of actors (e.g., the focal organization and the government). It is important to remember that corporations tend to focus on few actors, most notably its shareholders, despite the fact that corporate behavior must also be consistent with other stakeholders' expectations (e.g., governments). For this reason, a temporarily shifting focus might be required in the face of opposing stakeholder interests.

In general, the initial responsibility of corporate management is to screen novel regulatory initiatives according to their relevance for the corporation and, then, to design corporate strategy according to the characteristics of the initiatives and the overall competitive landscape (in the political sense). In doing so, management can either opt to focus on adjustments of the structural context that guides induced behavior, and that, in the end, confirms existing patterns on the industry level. This type of response is to be expected if a regulatory initiative is perceived as a threat. Or, management can opt to pursue more autonomous strategic responses that encourage new pattern generation at the industry level. This type of response is most likely if an initiative is perceived as an opportunity. Combining the strategic micro processes at the firm level with the institutional macro processes at the industry level allowed us to develop a boundary model on the co-evolution of corporate strategy and industry (see Figure 7-5 on page 297).

Coming back to the central argument of this chapter, the integration of market and non-market elements, we proceeded with an assessment of the relative importance of the two. We suggested that the degree and status of regulation (stability vs. transition) were the most important determinants for the actual design of strategy. In highly regulated industries under transition, for example, the focus was to be set on political (or non-market) strategy, and institutional entrepreneurship and creation. At the other extreme, characterized by low regulation in a stable environment, market strategies clearly dominate.

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[212] For market opening, for example, large industry consumers are in strong opposition to energy incumbents and are not available for coalitions. However, in the case of emission trading, they do share common interests and hence join forces with energy incumbents.

[213] According to the three criteria: issue salience, influencing power, and consistency of interests or position (ally, enemy, mixed).

Finally, and specifically relevant for management practice, we suggested required co-ordination options between market and non-market strategies that seemed to be feasible despite differences in time cycles and other process characteristics (e.g., less formalization of non-market strategies). Even though the presented options, such as common organizational structures and systematic integration of non-market elements into the strategy process, could not be described in great detail, we argue they are a good starting point for further investigations.

8 Discussion and implications

This dissertation aimed at better integrating external actors into strategy process research. First, we looked at the impact of regulatory actors on corporate resource allocations, internal alignments and external responses following regulatory involvement (see chapter 6). Then, we tried to generalize our findings in an integrated neo-institutional framework and to extend existing research (Burgelman, 1983b; Burgelman, 1991; Hensmans, 2003) toward a boundary model of the co-evolution of corporate strategy and industry (see chapter 7). Finally, we reflected on the role of market and non-market components for strategic management and we elaborated on possible coordination issues. While the stand-alone findings of chapter 6 are intended to contribute to extant research on their own, we also tried to lift those results to a higher general theoretical level in chapter 7. All throughout our research, we used neo-institutional theory to explain the impact of external actors on strategy formation and the role of corporate management in the creation of the environment. The use of this rather novel theoretical lens for strategy process research proved to be very helpful due to the fresh and powerful perspective on strategy formation.

In this chapter we will reflect on our findings, discuss the results and deduct implications relating to theory and practice. Chapter 8.1 will first review the logical flow of the dissertation and summarize our findings. Implications relating to theory will be presented in chapter 8.2, implications relating to management practice in chapter 8.3.

8.1 General discussion of the results

Based on the current state of research, this dissertation project aimed at narrowing the research gap of a weak integration of external actors into strategy process research (Burgelman, 2002a). So far, only exemplary research on the role of external actors in strategy formation exists. Frequently, external actors are consolidated under abstract descriptions of the environment, e.g., uncertainty or complexity (Papadakis et al., 1998). If explicitly considered, mostly cross-sectional content studies try to measure their effect on elements of corporate strategy, such as diversification (Russo, 1992; Matsusaka, 1996), organizational design (Dickie, 1984), or scope of operations (Haveman et al., 2001; Toulan, 2002).

Aside from those internally directed effects, a largely separate field of research focuses on externally directed response strategies (political strategies) of firms when facing environmental pressure. Research includes typologies of those response strategies

(Fischer, 1983; Oliver, 1991; Hillman et al., 2004), their use and effectiveness (Keim and Zeithaml, 1986; Hillman and Hitt, 1999), or the power of collective strategies (Gargiulo, 1993; Dowd and Dobbin, 1997; Stevenson and Greenberg, 2000).

This research project aims at integrating both research streams and at developing a more holistic conceptualization of how external actors impact strategy formation and how firms manage external, regulatory involvement. In order to do this, we formulated three related questions guiding our research.

First, we asked if strategy formation was impacted by regulatory involvement. Therefore, we dynamically analyzed the influence of regulatory actors on the consistency between strategic intent (concept of corporate strategy) and strategic action (resource allocations). This was in line with the broader research goal of this dissertation, and it helped us to get a first understanding of the impact of external actors on strategy formation. Results showed that increased regulatory involvement led to decreasing strategic consistency. Interests and requirements by external actors created regulative institutions and coercive pressure that forced the firm to deviate from its concept of corporate strategy. The resulting dissonance within the organization (Burgelman and Grove, 1996) then induced internal alignments in search of consistency (Bacharach et al., 1996:503) and fit (Venkatraman and Camillus, 1984).

Second, we asked how strategy formation was impacted by regulatory actors. Hereby we analyzed how and in what sequence the six elements of corporate strategy were aligned following regulatory involvement. Comparing results across two different types of regulatory initiatives (market opening and emissions trading) and across two sub-units of analysis (E.ON Energie and E.ON Ruhrgas), we suggested that the type of internal alignment depends on the characteristics of the influencing initiative and on the corresponding discussion dynamics. Based on common antecedents of corporate responses to external pressures, such as issue salience or issue competition (Hillman et al., 2004), we found four more determinants that seemed to be better suited for this study. The four determinants and the related literature are: 1) existence of a powerful interceder (Gargiulo, 1993; Stevenson and Greenberg, 2000), 2) public pressure on the organization (Ring and Perry, 1985; McKay, 2001), 3) maturity of a regulatory initiative (Hillman and Hitt, 1999; McKay, 2001), and 4) perceived opportunity structure of a regulatory initiative (Shaffer, 1995; Barr, 1998).

More specifically, our results suggested that internal alignments were more intense – and hence included fundamental adjustments to the concept of corporate strategy and portfolio configuration – if the following conditions were met: 1) no powerful inter-

ceder advancing the interests of the firm, 2) high public pressure on the organization, 3) mature initiative, and 4) perception of initiative as an opportunity. In the opposite case, internal alignments were more superficial and focused on adjustments to the organizational design or management systems in order to buffer the technical core of the firm from expected risks (Cook et al., 1983). If opportunity was perceived, the sequence of internal alignments followed a path of corporate strategy, portfolio configuration, organizational design, and management systems. In this context, it could be confirmed that structure follows strategy (Chandler, 1962; Morgan, 1981a; 1981b; Bacharach et al., 1996). If perceived as a threat, the according sequence was likely to be: management systems, organizational design, and concept of corporate strategy (hence a strategy-follows-structure sequence) (Cook et al., 1983). Using neo-institutional theory, we further argued that only if alignments included the concept of corporate strategy and the corporation's culture and values could consistency between internal and external institution, and hence institutional stability, be achieved.

Third, we asked how corporations used externally directed response strategies in order to shape the institutional environment according to their interests. Overall, results suggested that proactive, relational, collective, and information-based approaches to political activities (Hillman et al., 2004) dominated. Comparing our findings across regulatory initiatives and sub-units of analysis – as we did for internal alignments –, but also across management levels and functional backgrounds, allowed us to formulate context-specific propositions. For several reasons we focused on the perceived opportunity structure as primary predictor of corporate responses.[214] First, we found that the greater the perceived opportunity of a regulatory initiative is, the more frequently used are externally directed response strategies. Second, results suggested that consensus-oriented strategies of information, negotiation and partnering were associated with regulatory initiatives that were perceived as an opportunity, while resister-oriented strategies of deferment, manipulation and prevention dominated if an initiative was perceived as a threat. We explained these results through the required cooperation and negotiation with other actors during institutional processes (Pfeffer and Salancik, 1978; DiMaggio, 1988) which were more sensitive in case an initiative was perceived

[214] We understand that the perceived opportunity structure is not the only influencing factor, yet it is the one that came out clearest from our research. For a more detailed explanation of why we focused on this independent variable please refer to chapter 6.3.6.

as an opportunity. Incumbent utilities then were found to act as institutional entrepreneurs (DiMaggio, 1988) or leaders (Yoffie, 1988).[215]

While these results are considered to be helpful on their own for advancing theory in the related fields, we still aimed at integrating and lifting them to a more general level (see chapter 7). In order to do so, we introduced a generic framework of integrated strategy based on neo-institutional theory. Hereby, integrated strategy refers to a combination of both market strategies and non-market or political strategies (Baron, 1995) and consequently includes internal alignments at the six elements of corporate strategy (second research question) and externally directed response strategies (third research question). At the core of this theoretical framework is the industry playing field defined by the regulative, normative and cognitive institutions (Scott, 1995) that determine the rules of the game and that limit strategic choices of all players in the field.

Political actors certainly play a central role in shaping the institutional environment and, especially, the coercive regulative institutions. However, a new institutional order in the end is the result of complex interactions between the different actors of the field (DiMaggio and Powell, 1983; Brint and Karabel, 1991). From the perspective of an industry incumbent, non-market strategy provides three options to influence institutional creation, and our case company proved to employ all of them. First, it can engage in directly influencing the legislation process and hence the related regulative institutions. Second, it might create balancing normative institutions that better reflect their proper interests and balance regulative institutions. And third, it is able to challenge existing cognitive institutions that thwart their positions.

Despite institutional pressures, corporations can also direct the course of the firm through their market strategies. This can be done on the one hand by selecting among a range of legitimate classical strategies such as brand building, customer service orientation, product differentiation or cost reduction.[216] On the other hand, it can be done by bypassing or corrupting the existing institutional order using eluding strategies such as dumping, cross-subsidizing, or profit skimming that harm new market entrants who might benefit from new institutional rules and standards.

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[215] We understand that the perceived opportunity structure is not the only influencing factor, yet it is the one that came out clearest from our research. Besides, issue salience, issue competition, and public pressure on the firm are expected to influence external response strategies. For a more thorough discussion please also refer to chapter 6.3.6.

[216] All of these responses were observed in the case of market opening when incumbent utilities started extensive brand-building campaigns or worked on their cost structures in order to get more efficient, for example. For a more detailed discussion please refer to chapter 6.3.6.

As mentioned above, the process of institutionalization involves manifold interactions between the different actors in the field. From the perspective of the incumbent utility, a central challenge is to identify power coalitions that might support its interests during institutional discussions. Prioritizing actor groups (Aharoni et al., 1978) and using negotiation landscapes or relationship analyses (Allas and Georgiades, 2001) might support this task. At most points, incumbent utilities are confronted with partially opposing interests of different stakeholders, most notably shareholders and political or regulatory actors. Corporations tend to focus on their shareholders who ask for profitability and value maximization. Their requirements are reflected in the concept of corporate strategy, and corporate actions (resource allocations) are measured as to what extent they are consistent with this official corporate concept. During this study, decreasing levels of strategic consistency could be explained by regulatory involvement. This led us to the suggestion that next to strategic consistency, other concepts of consistency might have to be considered, e.g. consistency with the expectations of regulatory actors. As long as no sustainable compromise can be reached, the different consistency levels are supposed to modulate around a long-term median since management is forced to balance opposing interests and temporarily shift its focus.

Using the above-mentioned findings on the context-specific impact of regulatory actors on strategy formation, externally directed responses toward institutional pressures, and the role of corporate management for balancing stakeholder interests and guiding institutional processes, we formulated a boundary model on the co-evolution of corporate strategy and industry (see chapter 7.1.3). The model builds on the work of Burgelman (1983b; 1991) on firm-level processes of strategy formation, and combines it with elements of Hensmans' (2003) work on the field level that introduces a neo-institutional version of strategy formation. New to the model is the combination of firm-level and boundary spanning processes that occur between the firm and the industry. We suggested that autonomous behavior on the firm level and new pattern generation on the industry level are mutually reinforcing each other and that a regulatory context that is perceived as an opportunity enhances the boundary processes between the two. We also suggested similar reinforcing mechanisms between induced behavior on the firm level and status quo retention on the industry level. A regulatory context that is perceived as a threat would be enhancing this type of process. Consequently, corporate strategy and the larger industry strategy pattern constantly interact and co-evolve.

At the end of our theoretical chapter 7, we generally elaborated on the roles of non-market or political strategy and market strategy. Strategic management traditionally focused on market strategy; however, we suggest that non-market strategies can be of

equal or even greater importance depending on the degree and status of industry regulation. Especially in highly regulated industries under transition, non-market strategies are supposed to dominate. In any case, both strategies need to be considered and coordinated. While different time cycles (market strategy in general changes faster) and process characteristics such as the degree of formalization or centrality (market strategy tends to be more formalized and to include a greater variety of organizational members) complicate coordination, we suggested several organizational measures that support coordination and integration. Among them are the co-location of market and non-market functions within one department, the introduction of integrated scenario-planning techniques combining market and non-market elements, and the establishment of a corporate culture that is based on mutual respect and understanding between market and non-market functions.

8.2 Implications relating to theory

This dissertation attempted to make the following theoretical implications: (1) First of all, we aimed at advancing strategy process research. (2) More specifically, we strengthened a contingency approach to the analysis of strategy formation. (3) We also advanced research on consistency and organizational alignment. (4) Furthermore, we crossed the boundary toward corporate political activity (CPA). (5) Combining internal alignments and externally directed, political strategies, we then added insights to an integrated approach to strategic management. At the same time, this study contributed to organizational theories presented at the beginning of this dissertation, including (6) neo-institutional theory, (7) evolutionary theory, and (8) stakeholder theory. (9) Finally, the dissertation's methodology bears theoretical implications that help to refine existing qualitative methods of strategy process research.

(1) Strategy process research[217]

The principle, overall contribution of this dissertation lies in an explicit integration of external actors into strategy process research as requested by Burgelman (2002)[218]. Prior research has largely focused on actors inside the firm. The top management team

[217] We followed the suggestion of previous research (Pettigrew, 1992; Lechner and Müller-Stewens, 2000) that process issues cannot be analyzed detached from their content. Therefore, we integrated content and process issues and asked, for example, what elements of corporate strategy changed (content) and in what sequence this change occurred (process).

[218] During the 2003 Annual Conference of the Academy of Management in Seattle, Robert Burgelman emphasized his call for a better integration of external actors, who are supposed to have a powerful effect on strategy, into strategy process research (Burgelman 2002).

traditionally received the greatest attention for being the top strategist (Ericson et al., 2001) or strategic leader (Hitt et al., 2003) of the firm. Other actors, such as operational and middle managers, were also considered due to their critical role in bottom-up strategy processes and the strategic renewal of the firm (Burgelman, 1983b; Wooldridge and Floyd, 1990; Burgelman, 1991; Dutton and Ashford, 1993; Floyd and Wooldridge, 2000). Actors external to the firm, especially governmental or regulatory actors, however, only received sporadic attention and are less well understood (Carter, 1990; zu Knyphausen-Aufsess and Piepenbrock, 2003).

Focusing on regulatory actors, we elaborated on the mutual inter-dependencies between corporate and regulatory actors and hope to advance existing research in several ways. First, we not only provided further proof of the influence of regulatory actors on strategy formation (as indicated by their effect on corporate resource allocations)[219], but we also specified how strategy formation was affected in terms of internal alignments at the six elements of corporate strategy. We showed that fundamental alignments of the concept of corporate strategy and portfolio configuration dominated when regulatory involvement was perceived as an opportunity. More superficial changes in management systems and organizational design dominated in the case of perceived threats.

Second, we presented a theoretical framework that specified the indirect influence of regulatory actors through regulative institutions that are complemented by normative and cognitive institutions. Besides the fundamental strategic option to exit businesses with negative regulatory influences (Burgelman, 1994), we highlighted strategic options to manage regulatory influences within a given institutional context.[220] Furthermore, we stressed the pivotal importance of managing processes of institutionalization that lead to the creation of a binding institutional environment.[221]

Third, we advanced a neo-institutional perspective on the strategy formation process that includes the creation and effectiveness of regulative, normative, and cognitive institutions (Scott, 2001). Next to general institutional mechanisms described in the paragraph above, we were able to link the intra-organizational ecological perspective

[219] As we have shown during the first phase of this dissertation, increased regulatory involvement led to increased levels of inconsistency between the official concept of corporate strategy and actual resource allocations.

[220] "Selection" or "eluding" strategies as presented in chapter 7.1.1 and figure 7-1.

[221] These institutional processes include influencing legislation processes that lead to the creation of regulative institutions, creating balancing normative institutions and challenging existing cognitive institutions.

on strategy formation (Burgelman, 1991) with industry-level processes of institutionalization (Hensmans, 2003). We presented a boundary model on the co-evolution of corporate strategy and industry that extends attempts of current research to combine induced and autonomous behavior with specific environments (Burgelman, 2002b). While induced behavior on the firm level is supposed to be related to status quo retention on the industry level, autonomous behavior refers to new pattern generation in emerging environments. Our findings suggest that induced behavior dominates if regulatory initiatives are perceived as threats; autonomous behavior dominates if they are perceived as opportunities. Conversely, the structural and strategic contexts of the firm are influenced by the existing institutional order. Stable institutional patterns hereby reinforce the structural context, while new patterns influence cognitions of corporate managers that determine strategic context setting and hence autonomous behavior.

Finally, the study employed a more actable and precise conceptualization of the environment and its influencing mechanisms. Instead of summarizing external actors under general conditions of the environment, such as uncertainty or complexity (Papadakis et al., 1998), we clearly distinguish between the sources of influence (actors) and the according influencing mechanisms (institutional pressures). Through this differentiated approach we facilitate a better look at the influence of external actors on the corporation and enhance the identification of options for corporate actors of how to better manage those influences.

(2) Contingency theory

This research also strengthened a contingency approach to strategy process research (Beach and Mitchell, 1978) that neglects the existence of universal solutions and calls for context-specific, appropriate organization structures (and strategies) for a given situation (Kieser, 2002). In order to reach this goal, we elaborated on two different regulatory initiatives and compared corporate responses across different sub-units of analysis, management levels and functional backgrounds.

The most important context variables for our study were the perceived opportunity structure of a regulatory initiative, the existence of a powerful interceder, the public pressure on the organization, and the maturity of the initiative. Based on these determinants, we formulated propositions regarding internal alignments of the different elements of corporate strategy and externally directed response strategies toward regulatory involvement.

Comparing results across two rather independent sub-units of analysis (E.ON Energie and E.ON Ruhrgas) also allowed us to study strategy-making processes in different types of organizations as suggested by Burgelman (1991). Using the Miles and Snow (1978) typology of organizations, we may define E.ON Ruhrgas as "*defender*", which perceives the regulatory changes as threats and which "*strives aggressively to prevent competitors from entering its 'turf'*" (Miles et al., 1978:550). E.ON Energie, on the other hand, tried to seize the opportunities generated by regulatory changes, and combined defensive behavior for their home markets with finding and exploiting new market opportunities abroad. For this reason, E.ON Energie can be viewed as "*analyzer*", which combines "*defender*" and "*prospector*" behavior. Since we focused on the opportunity perception at E.ON Energie, and for the clarity of further argumentation, we may even consider observed behavior at E.ON Energie as "*prospector*" behavior.[222]

Based on these definitions, the results of our study suggest that "*analyzers*" tend to react toward regulatory changes more in terms of internal alignments of management systems and organizational design in order to buffer the operative core of the firm. As for externally directed response strategies, resister-based deferment and manipulation strategies receive greater importance. "*Prospectors*", on the other hand, tend to realize more fundamental organizational changes at the concept of corporate strategy and portfolio design. Their external responses can be characterized by greater consensus-orientation, information, negotiation, and partnering.

(3) Consistency and organizational alignment

This dissertation also contributes to the related research on strategic consistency between the official concepts of corporate strategy and management action (Burgelman and Grove, 1996) and to research on organizational alignment (Venkatraman and Camillus, 1984; Venkatraman, 1989; Miller, 1992). Pertaining to organizational alignment, the core idea is that organizations must align their strategies and structures in order to "*achieve fit both with their external environments and among their elements of structure and process*" (Miller, 1992:159).

So far, measurement of consistency and alignment has been difficult (Venkatraman, 1989). In this respect, this study advances theory through the dynamic analysis of resource allocations that are rated according to their coherence with the existing concept of corporate strategy and accumulated to a consistency level for a certain period of

[222] Since defenders and prospectors reside at opposite ends of a continuum, we may, at least, state that E.ON Ruhrgas is more of a defender, and E.ON Energie more of a prospector.

time.[223] This helps to identify "*strategic inflection points*" (Burgelman and Grove, 1996:10) that not only signal strategic dissonance between strategic intent and strategic action, but also between the environment and the organization, as well as among the different elements of corporate strategy ("misfit"). Strategic inflection points consequently trigger organizational alignment activities.

Generally speaking, the construct of strategic consistency is well suited to analyze the effect of external factors on strategy formation and to function as clinical thermometer for the current status of the firm. In our case, the dynamic analysis of consistency over time proved to be very helpful in determining the effect of regulatory actors on strategy formation. More precisely, we found that decreasing levels of consistency were associated with increasing levels of regulatory involvement. Based on these insights, further research could then deepen our understanding on the effect of regulatory actors on strategy formation.

Finally, the detailed analysis of organizational alignments following shifts in the regulatory environment added refined insights to the evolution of corporate strategy and the long-standing discussion about strategy and structure. Many prominent researchers, including Alfred Chandler (Chandler, 1962) argue that structure follows strategy. Others, however, hold that the opposite is true. Cook et al. (1983), e.g., in their analysis of organizational responses to regulation in the public sector, have shown that structural changes in organizational design or management systems preceded changes at the strategic core of the firm (e.g. product and service offerings). Once more, we support a contingency approach and argue that the sequence of strategic and organizational alignments depends on the specific context of the firm. More precisely, we suggest that strategy follows structure when changes in the organizational context (regulatory initiatives) are perceived as opportunities and the corporation initially adjusts its concept of corporate strategy and portfolio configuration. If they are perceived as threats, structural changes tend to precede changes in corporate strategy; alignments of management systems and organizational design dominate in order to buffer the operative core of the firm from external influences.

(4) Corporate political activity (CPA)

[223] The consistency level represents the number of consistent resource allocations divided by the total number of resource allocations within a defined period of time (half a year for this study).

So far, research on corporate political activity (CPA)[224] (Lenway and Rehbein, 1991; Shaffer, 1995; Hillman and Hitt, 1999; Schuler et al., 2002; Blumentritt, 2003; Hillman et al., 2004) has remained largely separate from strategic management literature. Very little work has been done to bridge the gap between political, strategic (in classical market terms), and organizational issues (Hillman et al., 2004); exceptions include the works of Baron (1995; 1997), Shaffer (1995), and Bonardi (2004). In this study, we explicitly integrated political strategies into our research design (as reflected by the third research question on the externally directed corporate responses to regulatory involvement). In the first step we formulated propositions regarding corporate political activities; in the second step, we theorized on an integrated version of strategic management (see next section below).

This study refined existing research on corporate political activities in three ways. First, we challenged and complemented existing antecedents of CPA (Oliver, 1991; Hillman et al., 2004). Second, we tested and specified different types of CPA (Shaffer, 1995; Hillman and Hitt, 1999; Hillman et al., 2004). And third, we refined organizational and process-related options to implement CPA (Baron, 1995; Hillman et al., 2004).

This study initially used and tested both Oliver's (1991) predictors of corporate responses toward institutional pressures and Hillman et al.'s (2004) antecedents of CPA. We found that ambiguous results on the different criteria (e.g. issue salience and competition) reduced their predictive power for corporate activity.[225] Furthermore, they seem to neglect network effects and to be missing a dynamic perspective: weaknesses that have already been identified by the researchers themselves (Hillman et al., 2004). For this reason, we added four new predictors: existence of a powerful interceder, public pressure on the organization, maturity of an issue, and most importantly, the perceived opportunity structure of an issue (or regulatory initiative).

With regard to the different types of corporate political activity, we confirmed the suggestion of Hillman et al. (2004) that proactive, collective, information-based strategies in general receive a better rating. In addition, we specified the types of CPA and defined two clusters according to their degree of resistance (which is missing in Hillman et al.'s (2004) typology): (1) consensus-oriented strategies, including information, ne-

[224] To our understanding, corporate political activities as a whole represent the corporation's non-market or political strategy. Pertaining to the different parts of this research project, they refer to externally directed response strategies.

[225] Some criteria argue for resister behavior, others for acquiescence; so what response is to be expected?

gotiation and partnering, and (2) resistance-oriented strategies such as deferment or manipulation. We could then formulate context-specific propositions that suggest that consensus-orientation was stronger in the case of issues that were perceived as opportunities; while resistance-orientation received relatively more importance if an issue was perceived as a threat.

Pertaining to the implementation of corporate political activities (CPA), we also extended existing knowledge by elaborating on the possible structures and processes that might help to integrate CPA with market strategies (Hillman et al., 2004). For example, the study pointed to possible organizational design options (integrating market and non-market functions into one department) or adjusted management systems (scenario planning integrating both market issues, such as decentralization of electricity generation, and non-market issues, such as degree of regulation). We also developed context-specific suggestions for the relation between CPA (externally directed responses) and organizational alignments of the six elements of corporate strategy. When shifts in the environment (regulatory initiatives) were perceived as opportunities, political strategies received relatively more importance and organizational structures and processes were aligned in order to implement and support them. In case of a perceived threat, internal alignments of strategies, structures, and processes were relatively more dominant and functioned as buffers for the technical core of the firm.

(5) Integrated management

This study also suggests a broader conceptualization of strategic management, which traditionally focuses on market issues such as competitive positioning (Porter, 1980), (re-)definition of products and services (Hamel, 1996), or innovation (Christensen, 1997). Instead, we argue that non-market components, such as interactions with political and regulatory actors, should receive more importance, especially in highly regulated industries under transition.

With the exception of few studies that mostly remain on a generic level (Baron, 1995; Shaffer, 1995; Baron, 1997), research has not embraced the notion of integrated management. This study advances theory by creating awareness of the pivotal role of both market and non-market elements in strategy formation. It also highlights differences in process characteristics (e.g., in terms of centrality, formality, or flexibility) and cycle times, and it suggests coordination options between market and non-market strategies.

First, we showed that corporations do have opportunities to shape their institutional environment by using political strategies such as influencing legislation processes or

creating balancing normative institutions. Especially in highly regulated industries that are in the course of transformation, value levers of non-market strategies are supposed to be higher than levers of market strategies.

Second, we contributed to a better understanding of market and non-market processes by highlighting their characteristics. While market strategies in general involve a broad range of organizational members, follow rigid routines and contain formal objectives and procedures, non-market strategies are more likely to be carried out within specialist organizations and can be characterized by more informal structures and processes.

Finally, we provide concrete options regarding how to coordinate market and non-market strategies. For example, we refer to the integration of both market and non-market components into scenario planning techniques, the formalization of input from non-market functions into the strategy process, or the co-location of regulatory and strategy departments under one roof.

(6) Neo-institutional theory

Neo-institutional theory once more proved to be a powerful tool for the analysis of economic phenomena, and corporate strategy in particular. Utilizing the perspective of an industry incumbent, we hopefully contributed to a better understanding of the interplay between the different institutions (regulative, normative, and cognitive) and the roles of different actor groups in their formation. Beyond supporting the advancement of other theories (Rowley, 1997), neo-institutional theory itself was advanced by this dissertation.

First, we continued to develop neo-institutional theory into a broader theory that assimilates elements of strategic agency, power, and multiple institutional actors other than the state (Beckert, 1999; Lawrence, 1999; Phillips et al., 2000; Hensmans, 2003).[226] The absence of those elements led to a fundamental critique of early institutional approaches (Scott 1987b, 2001). Through our analysis of externally directed response strategies, we clarified the role of institutional entrepreneurs (DiMaggio, 1988). Accepting the influence of regulative institutions on the corporation, we never-

[226] Please remind that this study is based in the field of strategic management and could not thoroughly cover business and society literature that more specifically elaborates on the complex interactions between corporations and politics or society, respectively. Also, we do not argue that institutional theory exclusively focused on the state as institutional actor (see chapter 2.3); however, the state has been at the core of institutional thinking for a long time.

theless pointed to the opportunities to proactively influence the creation of those limiting factors.[227]

Second, we were able to integrate an institutional, macro perspective on the field level (Hensmans, 2003) with evolutionary, micro processes of strategy formation on the firm level (Burgelman, 1983a; Burgelman, 1983b). Building on the work of Hensmans (2003), we were able to advance a strategic version of neo-institutional theory. The boundary model on the co-evolution of corporate strategy and industry linked induced behavior on the firm level with status quo retention on the industry level and suggests that both dominate in situations that are perceived as threatening. If opportunities prevail, autonomous behavior and new pattern generation seem to be more important.

Finally, we suggest that the discourse on environmental determinism versus strategic agency could be weakened by separating deterministic effects of existing institutions and the strategic options of corporations to influence the creation of those institutions. In this way, the corporation ought to be viewed simultaneously as "*creator and prisoner of the environment*" (Burgelman, 2002b:245). We also showed that corporate management at any time had opportunities to shape the course of the firm (even in face of established institutional mechanisms) by using market strategies such as branding or product differentiation or by eluding strategies such as dumping, cross-subsidizing, or profit skimming.

(7) Evolutionary theory

Evolutionary models of strategy formation processes have a long tradition in management research (Bower, 1970; Burgelman, 1983a; 1983b; Floyd and Wooldridge, 2000; Lovas and Ghoshal, 2000) and also influenced some of the fundamental beliefs of this dissertation (for example, relevance of resource allocations, autonomous behavior, and context setting). While their contribution to the field of strategy process research is undoubted, evolutionary approaches are also vulnerable to a number of criticisms (Walgenbach, 2002) that this dissertation addresses.

First, selection mechanisms remain vague. Burgelman (1983a; 1983b), for example, states that internal selection must reflect the requirements of the external environment. However, there is no specific link between internal and external selection, and hence,

[227] Aside from the general strategies of influencing legislation processes and hence regulative institutions, we referred to the creation of normative institutions and the challenging of existing cognitive institutions. More specifically, we elaborated on the different types of influencing strategies that corporations might use in order to influence their institutional environment, e.g. information, negotiation, manipulation, or partnering.

internal structures and processes might support strategic initiatives that are not able to survive in the market environment. In this respect, this study advances a much more precise conceptualization of external pressures. Using regulative, normative, and cognitive institutions, our framework embodies clearly defined external selection mechanisms that not only refer to economic efficiency criteria, but also include social factors of power and legitimacy (Zucker, 1987; Scott, 1987a; Beckert, 1999).[228] The boundary processes introduced in our model on the co-evolution of corporate strategy and industry further insures that the external environment is better linked with the internal context (strategic and structural) of the firm.

Second, evolutionary approaches leave little room for strategic agency and stay abstract as to actual levers management can activate in order to positively influence strategy formation (Lechner, 2003). This study, in contrast, was very specific about the concrete options management can pursue in order to influence the course of the firm. Either it can use institutional strategies to influence the selection mechanisms themselves, or it can employ market strategies to select strategic options within the institutional boundaries.

(8) Stakeholder theory

Due to its focus on regulatory and other actors outside the firm, this dissertation also has some implications relating to stakeholder theory (Freeman, 1984; Donaldson and Preston, 1995; Post et al., 2002). Previous research suggested that stakeholder perspectives should examine the sources for external pressures that derive from both institutional and resource-based stakeholders (Rowley, 1997). We did so when looking at regulatory actors and shareholders at the same time. We argued that shareholders traditionally exert significant influence on corporate management by implanting their interests into the official concept of corporate strategy and by observing whether management actually acted according to this concept. If they did so, strategic consistency was achieved; otherwise, strategic dissonance occurred (Burgelman and Grove, 1996). Analyzing reasons for inconsistency, we found that other actors with opposing interests – regulatory actors in our case – also influence the firm. This led us to the suggestion that firms ought to balance stakeholder interests and therefore consider different forms of stakeholder consistency (strategic consistency, regulatory consistency, etc.).

[228] According to Walgenbach (2002:274), evolutionary approaches can also be criticized for their dominant focus on economic efficiency criteria that neglect the component of power for selection processes within social contexts.

Second, we further refined a stakeholder theory that goes beyond dyadic ties (Rowley, 1997) and encompasses manifold relationships within the firm's stakeholder network (Post et al., 2002). More specifically, we applied and developed frameworks for systematically analyzing stakeholder relationships and deriving negotiation strategies for the different stakeholders (Allas and Georgiades, 2001).[229] This allowed us to drive the normative character of stakeholder theory and advance a holistic, but still actable, conceptualization of stakeholder management.

(9) Methodology

Due to their complex and socio-political nature, most studies of strategy processes have so far used qualitative case histories (Van de Ven, 1992). While this study remains in this tradition, we still suggest that this dissertation's methodology has complemented and refined existing qualitative methods of strategy process research in several ways.

First, we refined the resource-based methodology presented by Schmidt (2000) that combines an outside-in analysis of corporate resource allocations with an in-depth analysis based on interview data. Through the development of an online database, we systematically stored corporate resource allocations and coded them according to specific coding tracks (Weber, 1985; Van de Ven and Poole, 1990; 1995). This allowed us to analyze the course of resource allocations over a period of nine years using partly numerical methods. The original methodology (Schmidt, 2000; Müller-Stewens and Schmidt, 2003) was refined in several ways, including improved coding tracks, the integration of a second and potentially third rater, automated consistency analyses, and the development of a standardized rating and coding manual.

Second, we complemented existing methodologies (Punch, 1998) for the analysis of interview transcripts during the second phase of this dissertation. With the help of Atlas/ti software (Muhr, 1991), we coded and categorized our data and used memos to enhance our cognitive process. While this proceeding follows classical suggestions of qualitative research (Miles and Huberman, 1994; Punch, 1998), we introduced complementary co-occurrence analyses and density measures to structure and guide our research process.[230] In our view, density measures (number of times a certain code has been assigned) and word count analyses provide an indication of the relative impor-

[229] We refer to negotiation landscapes and relationship analyses as presented in chapter 7.1.2.

[230] For a detailed description of co-occurrence analyses and density measures please refer to chapter 5.4.2.

tance of specific codes and categories.[231] Further, through these simple statistics, we were able to add objectivity to the results generated by the creative and purely qualitative analysis of interview quotations. Overall, density measures and word count analyses proved to be extremely helpful for this research process and may have to be considered more frequently in future research.

Finally, press research was used to support the findings from the analysis of interview data (Hoffman, 1997). All articles were classified and coded with the help of standard Microsoft Excel software and Atlas/ti. Once more adding quantitative elements through coding and word count analyses, we were able to further strengthen the logic of our argument. Through this additional press research we gained novel insights into strategy formation and the impact of external actors that helped us to complete our picture and triangulate our findings.

8.3 Implications relating to management practice

The practical relevance of managing regulatory influences on corporate strategy and structure has been highlighted in chapter 1.4. This dissertation aims to shed light on some implications of management practice, which include the following:

(1) This dissertation project has focused on the manifold interdependencies between corporate and regulatory actors, and the co-evolution of corporate strategy and industry. Using an institutional approach to strategic management opens a different perspective on how to think about corporate strategy in relation to environmental mechanisms and external necessities. Understanding the way these external forces function and are created, management can better configure an actable set of strategies comprised of strategic adaptation (internal alignments) and participation strategies for institutional creation and optimization (external responses).

(2) The systematic depiction of antecedents to corporate political activity provides a normative base and helps management to define their specific strategy in a given situation. Based on the assessment of an issue (e.g., existence of a powerful interceder, perceived opportunity structure), management can determine the relative importance of internal alignments and externally directed responses. It can also design its strategies in terms of intensity of internal alignments (ranging from superficial changes at organ-

[231] If a certain code has been used very frequently we consider this is a justified indication for the general importance of that code and the underlying facts. We are aware that this approach does not match up with the strict criteria for quantitative, statistical analyses; however, we emphasize its power for supporting purely qualitative approaches.

izational design and management systems to fundamental adjustments to the concept of corporate strategy and portfolio configuration) or consensus-orientation (consensus-based information, negotiation and partnering strategies or resistance-based deferment and manipulation strategies).

(3) The detailed discussion of both internal alignments and external responses provides the basis to derive normative guidelines of promising strategies for a given context, even though a performance link is not given in the study. The generally successful evolution of the case study company over the past years gives us at least some indication of potentially successful strategies (externally focused, consensus-oriented in the case of issues that are perceived as opportunity; relatively more internally oriented, protective manipulation strategies in the case of perceived threats).

(4) The study also highlights the importance of political strategies, especially for the long-term success of the firm. Corporate management is hence advised to incorporate non-market elements more thoroughly into strategic management. The given determinants for the relative importance of market and non-market strategy (degree and status of regulation), as well as the framework for integrated management, help management to find the right balance between the two elements and the according stakeholder groups (customers and shareholders on the one hand, political and regulatory actors on the other hand).

(5) Furthermore, the study gives concrete suggestions on how to coordinate market and non-market strategies and highlights the different process characteristics and cycle times that might hamper coordination. Managers can reflect on those options in their organization's current situation and then configure their internal context accordingly. Without repeating all eight suggestions made in chapter 7.3.3 we still want to emphasize that they focus on organizational design issues (e.g., market and non-market functions under one roof or integration of non-market elements into the strategy process) and management systems (e.g., integrated scenario planning), but do also include the concepts of corporate strategy, culture and values.

(6) In order to support stakeholder management and to balance partly opposing interests, the study proposes the creation of negotiation landscapes and relationship analyses for each issue and stakeholder. Based on the factors position (as opposed or in line with the focal corporation), issue salience (for each stakeholder), and power (to influence the issue), a negotiation landscape can be drawn for each issue. This helps to anticipate the roles of the different stakeholders during institutional processes and highlights possible coalitions. Accordingly, relationship matrices for the different stake-

holders show possible bargaining chips (issue not so important for the focal organization but very important for the other stakeholder group), easy gains (priorities reversed), and potential deal breakers (issue very important for both parties).

(7) Finally, the concept of strategic consistency can be easily used as a corporate governance mechanism. In times of increased concerns about appropriate behavior by top management, mechanisms to control their activities become increasingly important. Since strategic consistency measures the coherence between management action (in terms of resource allocations) and management's defined concept of corporate strategy, it shows whether management actually keeps its promises ("do they walk as they talk?"). The development of consistency over time is consequently an interesting indicator for the effectiveness of corporate management. Management itself can also use it as a powerful tool to evaluate the actual consistency of its activities. Like a clinical thermometer, it can tell managers if everything is all right or if a problem seems to arise. If consistency decreases, for example, management must find the reasons behind it and initiate counter-activities.

9 Conclusions

The main objective of this dissertation was to better integrate external actors into strategy process research. For this reason, we elaborated on the influences of external, regulatory actors on corporate strategy and structure and how these can be managed by the corporation. In order to link this research to existing theory, chapter 2 reviewed the relevant literature, introduced the main concepts of this dissertation (regulatory initiatives, consistency, internal alignments, and externally directed responses), and selected a suitable theoretical perspective (neo-institutional theory). Chapters 3, 4 and 5 then presented the empirical and methodological foundation. Due to the novelty and holistic nature of the research objective, a longitudinal single case study design was selected which allowed for in-depth elaborations on the mutual interdependencies and interactions between internal and external actors. The German energy industry seemed to be particularly suited due to its transitional character and the traditionally significant influence of regulatory actors. In chapter 6 the results relating to the three concrete research questions were presented and propositions were developed.[232] Chapter 7 then generalized the findings and applied them to higher level theories. Central theoretical findings of this dissertation included an institutional framework that integrates market and non-market strategies, a boundary model on the co-evolution of corporate strategy and industry, and a discussion of coordination options for market and non-market strategies. Finally, chapter 8 provided a general discussion of the results and highlighted the theoretical and practical implications.

In this chapter, we will first discuss the limitations of the dissertation (chapter 9.1). Subsequently, we will outline directions for further research (chapter 9.2). And finally, we will once more summarize our findings and try to reach a final conclusion (chapter 9.3).

9.1 Limitations of this dissertation

This dissertation provides evidence of the importance of both internal alignments and externally directed responses for managing regulatory influences on corporate strategy. Depending on the specific context, the mix of the two differs. The concrete characteristics of internal alignments and external responses also change according to the per-

[232] (1) Direct influences of regulatory actors on corporate resource allocations and their consistency with the concept of corporate strategy. (2) Internal alignment processes of strategy and structure. (3) Influences of the firm on the institutional environment and the regulatory actors (as reflected by their externally directed responses). For more details, please refer to chapters 1.2 and 6.

ceived opportunity structure of an influencing issue and other factors (e.g., the existence of a powerful interceder, public pressure on the corporation, and the maturity of an issue). Based on the empirical results of our study we tried to develop generalizable and higher level theoretical findings. However, the dissertation encounters several limitations in regard to theory and to the empirical study. They will be outlined and discussed in the following paragraphs.

Methodological and empirical limitations:

(1) For reasons explained in chapters 5.1.2 and 5.1.3 we used a single case study approach based on 20 in-depth interviews (18 within E.ON) and eleven final interviews to confirm and complement our results. This methodological choice seemed suitable since the object under investigation was novel and complex, and therefore required longitudinal in-depth observations of rich and holistic data (Eisenhardt, 1989; Miles and Huberman, 1994). While affirming the choice of this qualitative approach, we recognize that the generalizability of our findings is difficult. Especially the theoretical findings presented in chapter 7, but also the propositions developed in chapter 6, are bound to the specific context of our case (most importantly: regulation changing from protecting the firm to promoting changes that contradict the firm's interests; sequence of action starting with regulatory initiatives of political actors). Comparative case studies and a greater variety of issues under research (other than market opening and emissions trading) would certainly help to better ground evolving theories. In a second step, quantitative research designs would then be useful in order to empirically test the findings and establish reliable theories.

(2) At different points during our research we had to consider that interpretations of the researchers might be subjective. First, consistency ratings (referring to the gap between the official concept of corporate strategy and the actual resource allocations) during the first phase of the study might be biased, even though they were based on written rating guidelines (Frankenberger and Schmid, 2003) and cross-checked by a second rater (Yin, 1994).[233] Second, the coding of interview transcripts during the second phase of the project, using Atlas/ti and following the rules of Strauss and Corbin (1998), also bears risks of subjective interpretations of quotations and might not have been sufficiently stringent at any given time.

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[233] Consider, for example, an investment in a business unit that is supposed to be divested. If the investment is simply necessary for a value maximizing divestiture, it would be consistent with the current concept of corporate strategy; in all other cases it should be considered a misallocation of resources and inconsistent. It would be difficult to decide which one is the case without internal knowledge of the logic of the given investment.

(3) Data sources for the interviews were limited to the focal case study company because we were interested in the corporation's perspective and the logic of its internal and external responses, which could only be provided by informants internal to the organization. We also interviewed organizational members from different parts of the case study company with significantly different backgrounds,[234] and we triangulated our findings through neutral press research and analysis (Punch, 1998). However, an additional external perspective (e.g., from political/regulatory actors, new entrants, or incumbent competitors) might have been helpful to better understand and interpret the different facets of corporate activities (Stevenson and Greenberg, 2000).

(4) Co-occurrence analyses and frequency measures (=density) played a major role in the generation of results in the exploratory second phase of this dissertation and seemed to be well suited to complement purely qualitative research methods (Stablein, 1996). We found these extremely helpful in orienting our thinking and providing indications of the relative importance of the different codes and their underlying constructs. However, the basic population was not large enough to satisfy the requirements for sound statistical analysis (Punch, 1998). Furthermore, varying coding intensities might have biased our results.[235] For this reason, we had to rely on qualitative interpretations of the basic statistical data, which might have affected the reliability of our results.

Theoretical limitations:

(5) The holistic and multi-faceted research design employed by this study (strategic consistency, internal alignments, and externally directed responses) bears some theoretical limitations. While it reflects the complex nature of the object under research and is, hence, partly determined by the overall research objective (Miles and Huberman, 1994; Shaffer, 1995), it also complicated the development of a coherent theory. However, real world phenomena in general tend to be too complex to strive for simple cause-and-effect relations or black-and-white recommendations. For this reason, the central thread of this dissertation thesis might appear to be less clear than the one of most quantitative studies. Instead, the study focuses on the development of thought-

[234] Ruhrgas joined the E.ON group only in 2003. Before that date it had maintained its own position regarding market opening and emission trading that differed significantly from E.ON's. Organizational structures and processes were diverse, too.

[235] If, for example, codes were assigned more liberally in one interview than in another, the statements of the first would have been over-weighted.

provoking impulses and new perspectives that can inspire creative theorizing in the future.

(6) Related to the previous limitation, we suggest that further research is required to drive theorizing on the relation between internal alignments and externally directed responses, and between market and non-market strategy. We think this study provided useful theoretical insights for integrated strategy (Baron, 1995); however, in order to develop a full-blown theory on the management of regulatory influences on corporate strategy and structure, further research is required to integrate the theoretical fragments generated through this study.

(7) More specifically, the questions of how firms react on regulatory involvement in terms of internal alignments and in terms of externally directed responses have been addressed separately. Their internal logic has not been sufficiently considered; i.e., the interdependencies and causal linkages between adjustments of corporate strategies, structures and processes and specific external influencing strategies have not received adequate attention. The question of how external strategies are transferred and backed by according internal provisions is mostly overlooked. Instead, all internal alignments are directly referred to external triggers of change (regulatory initiatives), independent of the external response strategy taken. While we did consider the integration of market and non-market components, which provided some hints regarding that issue, the subject was reduced to a minimum due to efforts not to increase complexity even further.

(8) Referring to the propositions developed in chapter 6 and the antecedents for corporate behavior, we suggest that our selection of variables might not be complete. First, we focused on issue specific factors – neglecting firm, industry, and institutional antecedents. Additionally, there might be other issue-specific factors that could not be discovered by this study. We still think that by including network effects, adding a dynamic perspective, and integrating a cognitive component to the analysis, we were able to advance existing theory. However, empirical research is required to test the relevance of the four identified antecedents (existence of a powerful interceder, public pressure, maturity of an issue, and perceived opportunity structure).

(9) Finally, the concept of strategic consistency bears some limitations. It seems obvious that a consistency level of one hundred percent is not to be considered optimum, since this would not leave any room for vital autonomous behavior outside the current concept of corporate strategy (Burgelman, 1983a). It is also clear that assuring overall consistency between strategic intent and strategic action belongs to top management's

responsibilities (Burgelman and Grove, 1996). While it is helpful to observe the development of consistency over time in order to learn about the current status of the firm, determination of the ideal level of consistency remains vague. Furthermore, judging inconsistency is difficult, since the reasons for it can be diverse. Is the reason for perceived inconsistency mismanagement? Or is it bad communication of the official concept of corporate strategy (which means strategy and resource allocations would effectively be in line)? Does inconsistency refer to internal factors or is it externally forced? Is there a time lag that should be considered? In order to come closer to an answer, industry-specific, large sample, quantitative studies are required.[236]

Its deficiencies notwithstanding, this dissertation represents an attempt to better integrate external actors into strategy process research. And despite the complexity of the subject, this study has advanced theory generation on the effect of external actors on strategy formation and on how corporate management can deal with regulatory involvement.

9.2 Further research directions

The limitations of this dissertation at the same time show possible directions for future research. Certainly, there is a need for further theoretical and empirical research to develop the insights of this study into a full-blown theory. In the next paragraphs we will briefly introduce some of the most promising avenues for further research. These can be summarized as follows: (1) methodological and empirical, (2) theoretical related to consistency, (3) theoretical related to internal alignments and externally directed responses, (4) mid-range theory on integrated management.

(1) Methodological and empirical. Naturally, the single case study design employed for this dissertation requires further empirical proof. For this reason, we think that comparative case studies within and across industries would help to deepen our understanding and add empirical evidence. Secondly, large sample, quantitative studies could empirically test the different parts of the theory (for example, regarding the antecedents of externally directed response strategies, or regarding the different types of internal alignments and externally directed responses). Both types of studies would help to verify and complement the context-specific patterns of managing regulatory involvement as presented in this study.

[236] Those are planned for the larger ICS project at the University of St.Gallen of which this dissertation is a part.

Furthermore, even though this study aimed at considering network effects, our perspective remained centered on the case study company and its relations with political actors. A more network-oriented approach that departs from the analysis of dyadic ties and that systematically includes multiple nodes in the complex interaction grid could certainly be a fruitful direction for further research (Rowley, 1997).

Finally, adding a performance link would enhance the value of this study.[237] This would allow for a thorough analysis of the effectiveness of the different types of internal alignments and externally directed strategies, and also of different coordination mechanisms for market and non-market strategies. In the end, normative conclusions could be generated that would increase the practical value of this study.

(2) Theoretical related to consistency. In terms of consistency between strategic intent and strategic action, we suggest that research might be enriched by a more differentiated perspective that takes into account the different reasons for inconsistency.[238] Judging consistency levels, in our opinion, must certainly consider whether autonomous behavior that renews the firm was responsible for temporary inconsistency, whether external actors forced decreasing levels of consistency, or whether mismanagement was responsible for inconsistent resource allocations. In this regard, it might also be useful to reflect on possible time lags between actual and officially communicated shifts in corporate strategy.

Second, strategic consistency very much focuses on shareholders whose expectations are generally reflected within the concept of corporate strategy. As this study has shown, other stakeholders, like regulatory actors, also formulate expectations regarding the organization that might lead to strategic inconsistency. We suggest that research would benefit from a more holistic perspective that considers the different types of consistency (strategic consistency, regulatory consistency, etc.) that need to be balanced by corporate management.

Third, since strategic consistency measures whether management action deviates from the official concept of corporate strategy, it seems to be well-suited to function as a corporate governance mechanism for strategy and resource allocations (Brauer and Schmidt, 2004). Due to past crises and bankruptcies of large and renowned corpora-

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[237] While an objective performance measure (market share, profit, shareholder value, etc.) might be difficult to establish, personal evaluations by knowledgeable respondents internal and external to the firm should be possible. For a brief discussion of possible performance links, please refer to chapter 2.1.6.

[238] This suggestion refers to Limitation Number 10 presented in the previous chapter.

tions, the discussion on effective corporate governance has significantly gained in importance. As an early warning system for possible problems within the organization, consistency analysis might help the supervisory board to better fulfill its governance function.

(3) Theoretical related to internal alignments and externally directed responses. Due to reasons of complexity, this dissertation to a large extent separated the questions of how internal alignments and externally directed responses were impacted by regulatory involvement. However, we feel that further research might include both aspects and analyze their interrelations. For example, future studies could elaborate on the sequence and causal linkages between changes in strategies, structures and processes, and externally directed strategies; or, on structures and processes (internal alignments) that are required to implement corporate political activity (externally directed responses) (Hillman et al., 2004). In the course of our research, we found that one way to approach this issue could be an in-depth analysis of corporate regulatory projects (e.g., emissions trading at E.ON Energie). The project included the preparation of the organization in terms of internal, organizational and structural alignments, but also all activities related to externally directed influencing strategies. We suggest that analyzing project communication (e.g., email exchanges of the project managers) and documentation could provide extremely interesting insights on how the project focus shifted over time, which interactions took place between the different modules, and how the overall project integrated both issues.[239]

Also, and eventually relating to the previous issue, a more dynamic perspective might be employed for studying internal alignments, externally directed responses, and their interplay. We suggest that the relative importance and design of the different elements might vary over time, and that future research might want to reflect this. So far, our propositions suggest that regulatory initiatives that are perceived as an opportunity have a greater impact on the concept of corporate strategy, focus more intensively on externally directed responses, and utilize a rather consensus-oriented approach. However, these findings might vary according to the different phases in which an issue

[239] Project management of the emission trading project was, in fact, preparing a sort of activity report itself; however, it was very reluctant to grant access to project documentation (more than 1,000 emails had been stored and would theoretically be ready for examination).

evolves.[240] Consequently, more exact findings might result from a dynamic perspective.

Pertaining to the antecedents of internal alignments and externally directed responses, this study challenged existing predictors (Oliver, 1991; Hillman et al., 2004) and suggested four complementing variables (existence of a powerful interceder, public pressure, maturity of an issue, and perceived opportunity structure). Since we largely focused on the perceived opportunity structure, future research could evaluate the impact and inter-dependencies of existing and new antecedents of coporate activity.

As for external actors, this study clearly focused on regulatory actors. We presented an overview of the different stakeholder groups and their interests (see chapter 4.3.2), and we highlighted the ambiguities between certain stakeholder groups, most notably shareholders and regulatory actors (see chapter 7.1.2). Future research might want to holistically integrate a broader range of external actor groups (including customers, supply chain associates, and competitors).

Finally, a more differentiated perspective on internal and external actors might be utilized in future research. As this study has shown, corporate responses differ across functional backgrounds or management levels.[241] Analyzing the roles internal actors from different parts of the organization play during interactions with external actors could provide interesting insights on the complex negotiation processes between corporations and external actors. In the same vein, different actor groups (so far, included under the umbrella of external, regulatory actors) might be distinguished as to their concrete political function. We suggest that different actors (government, ministries, political parties, opposition, etc.) might have to be addressed differently by corporate actors, and that success factors differ.[242] This differentiated approach might also help to contain the power of combining different strategies (resistance, constructive negotiation, co-operation, etc.) within one overall strategy (Hillman et al., 2004).

(4) Mid-range theory on integrated management. In chapter 7 we proposed a theory on strategic management that integrates internal and external actors, market and non-

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[240] Even though externally directed responses might dominate overall, internal alignments might be the first reaction towards regulatory pressures, or vice versa.

[241] Market functions and the corporate level, for example, put relatively more emphasis on resister-based strategies like deferment or manipulation while non-market functions put more emphasis on consensus-oriented strategies of information, negotiation, and partnering.

[242] Hillman et al. (2004) suggest similar directions for future research with regard to the addressees of corporate political activities.

market components, and corporate strategy and industry. We are confident that this study was able to reveal and describe important mechanisms and theory fragments. However, we realize that further research is required to develop and test our propositions on consistency, internal alignments, and externally directed strategies, and our neo-institutional framework of integrated strategy, the model of the co-evolution of corporate strategy and industry, and the coordination challenges and mechanisms for the integration of market and non-market strategies. Strengthening our understanding of how corporations use their political strategies to drive institutional creation (regulative, normative, and cognitive) remains one of the challenges for future research. Investigating how these political, externally directed strategies can be coordinated with classical market strategies will be among primary research objectives that explore the complex institutional processes that occur in and around the focal organization.

The theoretical and empirical richness inherent in linking strategy process research and neo-institutional theory opens up various areas for further research. Including elements of strategic choice in neo-institutional theory, and institutional elements in strategy process research, bears a great potential to enrich both research areas. For this reason, we support future studies that draw the two theories closer.

As always, knowing more also means knowing more about what you don't know. And evidently, there is still plenty of work left. For this reason, we warmly encourage further research on the subject of managing external influences on corporate strategy and structure, or more generally, research at the borderline between market and non-market strategy. We suggest this type of work will bear fruitful insights for a more holistic and better theorizing on successful strategic management of organizations. Due to the complex nature of the subject, solutions won't come easily; however, these novel perspectives have the power to enable both researchers and practitioners to improve theories and their practical implications, and to provide guidance to configure context-specific strategies.

9.3 Final conclusions

This dissertation has contributed to a better integration of external actors into strategy process research. Based on a retrospective, longitudinal case history on the German energy giant E.ON, the study has shown that strategy formation – represented by corporate resource allocations – was clearly influenced by regulatory actors. Furthermore, regulatory involvement led to internal alignments of corporate strategy and structure and induced externally directed response strategies that aimed at influencing the or-

ganization's environment. Overall, this dissertation suggested an integrative framework of strategic management that includes internal alignments and external responses, i.e., market strategies and non-market strategies.

More specifically, the dissertation offers four major contributions. First, we demonstrated the negative effect of regulatory actors on the consistency between resource allocations (strategic action) and the official concept of corporate strategy (strategic intent), which led to strategic dissonance within the organization and pressure to realign organization and environment.

Second, we derived context-specific propositions on the intensity and sequence of internal alignments of corporate strategies and structures. When a regulatory initiative was perceived as an opportunity, internal alignments initially included fundamental adjustments to the concept of corporate strategy and portfolio configuration in order to seize the perceived opportunity; organizational design and management systems were aligned subsequently to support the strategic changes. In the opposite case, when a regulatory initiative was perceived as a threat, internal alignments focused on management systems and organizational design to protect the technical core of the firm; minor adjustments to the concept of corporate strategy were only realized afterward.

Third, we developed propositions on the corporation's externally directed response strategies that aim at managing regulatory involvement by influencing institutional processes that lead to the creation of the institutional environment. These externally directed activities also depend on the perceived opportunity structure of regulatory initiatives: Consensus-oriented strategies of information, negotiation, and partnering dominate if a regulatory initiative is perceived as an opportunity. Resister-based strategies of deferment, manipulation, and prevention are relatively more important if a regulatory initiative is perceived as a threat.

Fourth, summarizing our findings on a higher theoretical level, we developed a basic, neo-institutional framework of strategic management that combines internal alignments and externally directed responses. While the first represent classical market strategies (such as brand building and customer service orientation), the latter are generally discussed separately in terms of non-market or political strategies. Based on the results of this study, we suggest that both ought to be considered within one integrative framework. On the one hand, future firm performance depends on the corporation's ability to effectively influence institutional processes that limit the scope of corporate activity (non-market strategies). On the other hand, efficiently maneuvering the firm within the institutional boundaries also matters (market strategies). We suggest that

configuring and balancing market and non-market strategies is among corporate management's primary responsibilities.

In sum, this dissertation advanced current research that has, so far, emphasized the influence of internal actors on strategy formation (Burgelman, 1983a; Wooldridge and Floyd, 1990; Burgelman, 1991; Barnett and Burgelman, 1996; Floyd and Wooldridge, 2000) by providing detailed insights on the influence of external, regulatory actors, and on the resulting strategic challenges for the organization. With this dissertation, we have also contributed to the development of a more complete view on corporate strategizing that integrates market and non-market elements, internal and external actors. We believe that this dissertation is a step in the right direction, and hope that some of our findings will be advanced by future research.

Appendices

Appendix 1: List of interview partners (first interview series)

Appendix 2: List of interview partners (second interview series)

Appendix 3: Interview guideline (for first interview series)

Appendix 4: Example of interview coding with Atlas/ti

Appendix 5: First Concept of Corporate Strategy: Conglomerate Strategy (Veba)

Appendix 6: Second Concept of Corporate Strategy: Focus and growth (Veba)

Appendix 7: Third Concept of Corporate Strategy: Focus and growth (E.ON)

Appendix 8: Fourth Concept or Corporate Strategy: Integration and Performance (E.ON)

Appendix 1: List of interview partners (first interview series)

Nr.	Name	Company	Function	Date
1	Mr. Delbrück	E.ON AG	Corporate Development (Market Unit Germany, Central)	January 23, 2004
2	Dr. Frankenberg	E.ON Ruhrgas	Head of M&A, Investment projects, Tax&Law	January 23, 2004
3	Dr. Pompey	E.ON Ruhrgas	Specialist on M&A and Anti-trust laws	January 23, 2004
4	Mr. Zizow	E.ON AG	Corporate Development (Corporate center functions, scenarios)	June 7, 2004
5	Mr. Lewis	E.ON AG	Corporate Development (Market Units UK, Nordic)	June 7, 2004
6	Dr. Burchard	E.ON AG	Head of Regulatory Management	June 7, 2004
7	Mr. von der Groeben	E.ON AG	Head of Politics and Economics	July 13, 2004
8	Mr. Winkel	E.ON AG	Head of Market Management	July 13, 2004
9	Dr. Possmeier	E.ON AG	Specialist Corporate M&A	July 13, 2004
10	Dr. Kolb	E.ON Energie	Head of M&A Controlling	December 8, 2004
11	Mr. Bokelmann	E.ON Energie	Head of Strategic Planning	December 20, 2004
12	Dr. Kruhl	E.ON Energie	Project leader for corporate project on emissions trading	December 20, 2004
13	Dr. Link	E.ON Ruhrgas	Head of Corporate Development	January 18, 2005
14	Mr. Thelen	E.ON Ruhrgas	Head of Regulatory Management	January 18, 2005
15	Dr. Riemer	E.ON Ruhrgas	Head of Politics	February 9, 2005
16	Fr. Walz	E.ON Ruhrgas	General Energy Affaires	February 9, 2005
17	Dr. Paskert	E.ON	Head of Corporate Development	March 9, 2005
18	Mr. Menzel	E.ON	Corporate Development (Strategy process and toolbox)	March 9, 2005
19	Dr. Grellmann	RWE	Head of Strategic Planning	April 26, 2004
20	Dr. Böge	Federal Cartel Office	President	July 13, 2004

Appendix 2: List of interview partners (second interview series)

Nr.	Name	Company	Function	Date
1	Dr. Weise	E.ON Ruhrgas	Memeber of the executive board	September 27, 2005
2	Dr. Bernotat	E.ON AG	CEO	September 27, 2005
3	Dr. Paskert	E.ON AG	Head of Corporate Development	September 27, 2005
4	Mr. Danco	E.ON Ruhrgas	Head of General Sales Division	September 27, 2005
5	Dr. Link	E.ON Ruhrgas	Head of Corporate Development	September 27, 2005
6	Dr. Benke	E.ON AG	Chairman of Management Board of Ruhrgas Exploration & Production	September 27, 2005
7	Mr. Winkel	E.ON AG	Head of Market Management	September 28, 2005
8	Dr. Theyssen	E.ON AG and Energie	Memeber of the executive board E.ON AG, CEO E.ON Energie	September 28, 2005
9	Mr. Hienz	E.ON Energie	Senior Vice President, Sales Management	September 29, 2005
10	Mr. Weber	E.ON Energie	Memeber of the executive board, Corporate Development	September 29, 2005
11	Mr. Bokelmann	E.ON Energie	Head of Strategic Planning	September 30, 2005

Appendix 3: Interview guideline (for first interview series), translation from German language

Interview guideline

Institute of Management
University of St.Gallen

Dissertation project: Managing regulatory influences on corporate strategy and structure

Sebastian Frankenberger, Tel: +41-71-224-2361
Email: sebastian.frankenberger@unisg.ch

Supervisor: Prof. Dr. Günter Müller-Stewens

1. Functions and integration of your department

1.1. What is the position of your department in the organizational chart?

1.2. How many people work in the department?

1.3. What are the principle functions and responsibilities?

1.4. How are responsibilities assigned between centralized and decentralized units (are there similar functions on the corporate and business unit level)?

1.5. What are the principle interfaces (input / output) toward other units and the corporate headquarter (Regulatory Management, Corporate Development, etc.)?

1.6. What were the most important changes during the past 5 years (strategy, organizational structures, portfolio, management systems, corporate culture)?

1.7. In what sequence did the changes occur?

1.8. What are the actual effects of E.ON's focus strategy and the increasing centralization for your daily business?

1.9. How is your strategy process (today, in the past, in the future)? (Degree of formalization, centralization, autonomy, etc.)

1.10. Who are the most important (internal and external) actors of the strategy process?

2. Issues of the regulatory environment

2.1. What were the most important regulatory initiatives for your company?

(1) Emissions trading

(2) Renewable energies

(3) Nuclear power

(4) Market opening (incl. Privatization, grid access, and unbundling)

(5) Merger control

(6) Other

2.2. How coherent is your position (regarding each initiative) with the position of the political decision makers?

2.3. How coherent is your position (regarding each initiative) with the interests of the general public?

2.4. Which stakeholders support your interests and which are opposed to them?

2.5. Where is the focus of your department? Are employees assigned to specific initiatives or stakeholder groups?

2.6. When did the initiatives officially appear on your agenda? How did they evolve? How do you judge their current status?

2.7. How exactly do you deal with the initiatives?

3. Internal adjustments of strategy and structure following regulatory involvement

3.1. How important are the following issues fort he formulation and implementation of your strategy?

(1) Emissions trading

(2) Renewable energies

(3) Nuclear power

(4) Market opening (incl. Privatization, grid access, and unbundling)

(5) Merger control

3.2. What is the influence of the issues on organizational structures (specialized corporate center functions, restructuring of market or business units, centralization, etc.)?

3.3. What is their role for product and market planning (business portfolio, product and service offering, markets)?

3.4. What is the influence of the issues on the company's management systems (planning, controlling, etc.)? How, e.g., do the insights into the development of the environmental context feed into the strategy process?

3.5. Do you systematically employ environmental screening techniques and scenario planning? If yes, how often and in what form (personal/impersonal, internal/external)?

3.6. What was the influence of the regulatory initiatives on the transformation of E.ON from a financial to a management holding?

3.7. What were the biggest changes that were (at least partly) initiated by shifts in the
regulatory environment?

3.8. In what sequence did the changes occur?

3.9. What is the influence of the different initiatives on the effectiveness and efficiency
of the firm?

3.10. Did the regulatory changes lead to increased networking with other market participants?

4. General, externally directed strategies to influence the regulatory environment

4.1. When did E.ON actively start to engage in the discussion on the different issues?

4.2. To what extent could you anticipate the regulatory changes and effectively prepare the organization?

4.3. Do you build long-term relations with political decision makers?

4.4. Are there permanent responsibilities for the contacts with political decision makers or are specific responsibilities assigned for the different issues (limited in time)?

4.5. Would you consider your company as politically active?

4.6. Do you pursue your interests on the different regulatory initiative stand-alone or in cooperation with other market participants or associations? If collective, with whom?

5. Specific externally directed activities

5.1. What specific influencing strategies do you use (information, incentives, constituency building, etc.)?

5.2. How do your influencing strategies differ across the five regulatory initiatives?

5.3. How did the strategies for the five initiatives change over time?

5.4. Can you briefly describe the interactions with the major stakeholders?

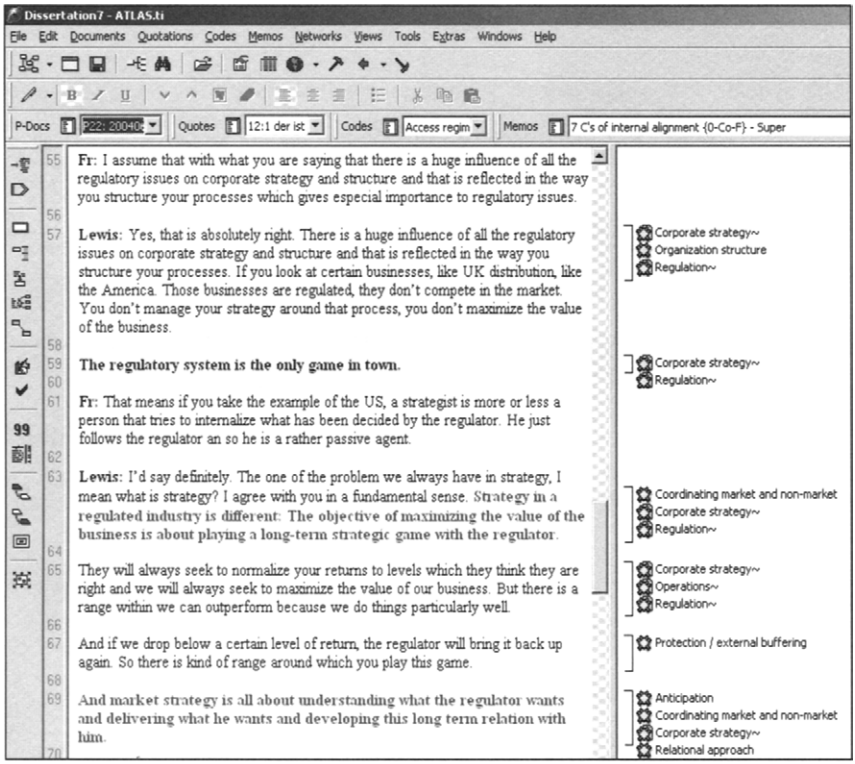
5.5. How far could you actually influence legislation according to your interests?

5.6. How do you measure the success of your influencing strategies?

5.7. How do you coordinate and harmonize political and market strategies?

5.8. In what way do political and market strategies differ (with regard to their formalization, centralization, frequency, etc.)?

Appendix 4: Example of interview coding with Atlas/ti



Appendix 5: First Concept of Corporate Strategy: Conglomerate Strategy (Jan. 1995 – Dec. 1997); Source: Annual report 1995 VEBA

Vision of a successful conglomerate

a. Strong focus on a value-oriented corporate policy
b. Transparency through value-oriented management- and controlling systems and through intensive Investor-Relationship
c. Significant cost reduction in all business divisions and increasing profitability
d. Reduction of the number of different business areas and restructuring of the remaining ones
e. Strong focus on Shareholder-Value
f. Decentralized and flexible management structure in order to react to new challenges at an early stage

Strategy: "Shaping changes, developing values"

Electricity: Profitability and competitive position in Europe

- Cost reduction and optimization of the provision of services
- Continuous modernization and rationalization in the new German federal states
- Focus on Europe; Especially Scandinavia and Baltic countries
- Implementation of a broad, long-dated cost reduction program

Chemicals: Ongoing consistent portfolio-management

- Future focus on special chemicals; basic products only if preliminary for special chemicals
- Strong focus on added value and user-oriented products
- Disposal of non-core activities
- International growths of core businesses especially in USA and Asia

Oil: Fortification of the actual competitive position and improvement of the cost structure

- Upstream business: Development of new low-cost reserves
- Downstream business:
  - Consequent cost reduction and an increase of the productivity
  - Further expansion of the petrol station network to eastern Europe

Trade/Traffic/Services: Leading position in specific business activities

- Focus on growth businesses with adequate return on investment
- Use of new IT and decision systems as an important competitive advantage

Telecommunications: Business Development and international positioning

- Telecommunication as a future key-industry with high potential to grow
- Development of an own infrastructure and innovative services
- Leading position in Germany and Europe

Appendix 6: Second Concept of Corporate Strategy: Focus and Growth (Jan. 1998 – Jun. 2000); Source: Annual report 1998 VEBA

Vision:

1. Strong focus on Energy, Chemicals and Telecommunication as developing businesses and core activities (→ investments)
2. Value based corporate policy, focusing on improved competitiveness and profitable growth
3. Permanent optimization and focusing of the corporate portfolio
4. High expenditures on the restructuring process

Strategies of the single business units:

Energy:
- Strong cost position and consistent customer orientation
- A leading position among European energy companies
- Restructuring activities along the value chain in order to succeed in new competitive circumstances; Optimization of the sales and marketing activities
- Selective expansion of the international activities

Oil:
- VEBA Oil as service provider for mobility and heat
- Fortified engagement in low-cost regions in the upstream segment
- Downstream: Leading position in the EU; Aral: Expansion of the shop business, optimization of the domestic network and further development of the East-European network

Chemicals:
- Focus on special chemicals; new leading positions through internal and external growth
- Integration and focusing of the Degussa & Hüls businesses; Generate synergy benefits and growth of the core business
- International strategy of expansion of the special chemical unit especially in the USA and Asia
- Focus on businesses with high potential to grow and with low sensitivity to economic cycles

Telecommunication:
- Main focus on strict cost management, on the concentration on market segments with appropriate margins and on the development of innovative products and services (e.g. Internet)
- Market share increase of O.tel.o, E-Plus and Bouygues Telecom; Focus on fixed network, cellular phone network and the Internet

Other Activities – systematically developed and value-optimized

Distribution & Logistic:
- Stinnes will be completely listed at the stock exchange; business portfolio to be further consolidated (only Traffic, Chemicals, Materials and Sortiments)
- Consolidation of the market position through intensive cost management and integration of the single companies at VEBA Electronics

Real Estate:
- Active portfolio management; Expansion of the activities in the USA and China
- Expansion of the attractive development business
- Internationalization of the Energy Services Business

Silizium Wafer:
- Recapitalization case MEMC: Massive personal sanctions and location reductions
- Reduction of the investment program

Appendix 7: Third Concept or Corporate Strategy: Focus and Growth (Jun. 2000 – Apr. 2003); Source: "Börsenzulassungsprospekt" June 2000, E.ON Strategy & Key Figures 2001

1. "Vision: A global powerhouse"
   a. Pure-play energy service provider
      - Electricity & gas as core activities
      - Water and services as supplementary businesses
   b. Global leadership position
      - Leading consolidator in pan-European markets
      - Focused growth outside Europe
   c. Best-in-class aspiration
      - Cost leadership in generation, transmission and distribution
      - Innovative branding and customer offering
   d. Successful integrated model
      - Retail customers and power generation as natural hedge
      - Convergence between gas and power along the value chain
2. Strategy: " Expand to become a top global, integrated energy service provider via Focus & Growth strategy"
   a. Concentrate on core energy service business
   b. Pursue accretive acquisitions to cement leading position in Europe and establish solid position worldwide
   c. Dispose of non-utility activities
   d. Continually cut costs and restructure throughout the Group
3. Implementing global growth strategy:
   a. Strengthen core business in Germany
      - Establish premier supply business in Germany
      - Participate in further privatization of municipalities
      - Increase stakes from minority to majority interests
   b. Broad expansion in Europe
      - Expand around Germany
      - Establish European-wide wholesale presence
      - Enter into non-contiguous markets
   c. Growth outside Europe
      - Acquire integrated utilities in North America
      - Selectively engage in South America
4. Strict strategic and financial evaluation of potential acquisition targets
   a. Market attractiveness (profitability, growth, regulation)
   b. Company attractiveness (quality of assets and management, market position)
   c. Value creation potential (cost reduction, integration benefits, best practice transfer)
   d. Financial criteria (positive profit contribution in the first year, within 3 years returns must exceed cost of capital)
5. Intermediary portfolio strategy (June 26, 2000 – July 3, 2001: Specialty chemicals originally considered core business, Telecom as "important business" (stock market placement planned), Real Estate as "complementary business" (integrated real estate group with value add services linking to energy business)

Appendix 8: Fourth Concept or Corporate Strategy: Integration and Performance (since Mai 2003); Source: E.ON AG, Strategy Presentation and Newsletter August, 2003

1. Strategic priorities:
    a. Integrate acquired companies
    b. Mobilize group-wide synergies (among business units and between electricity and gas)
    c. Focus on target markets
    d. Carefully evaluate investment opportunities
    e. No big acquisitions
    f. Further expand in gas business
    g. Increase profitability
    h. Intense and transparent internal and external communication
    i. Conservative financing strategy
    j. Respect acquisition criteria
        - Market attractiveness (profitability, growth, regulation)
        - Company attractiveness (quality of assets and management, market position)
        - Value creation potential (cost reduction, integration benefits, best practice transfer)
        - Financial criteria (positive profit contribution in the first year, after 3 years returns must exceed cost of capital after three years, low country-specific risks)
2. Guiding principles:
    a. Integrated electricity and gas group with clear focus on Europe
        - Integrated, European-wide offer for sourcing, transport, storage and wholesales of gas
        - Regionally specialized electricity and gas units for target markets: Central Europe, UK, Scandinavia, and U.S. Midwest
        - Focus area for planned investments of 26 - 28 bn Euro between 2003 and 2005
    b. Market oriented organization structure
        - Strategic Market Management: Co-ordination an optimization over the market units
        - Regulatory Management: Co-ordinated activities with regulatory institutions
        - Operational Excellence: Establishment of best-practice processes
    c. Revenue improvement by 2 bn Euro until 2006

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