

# How history matters in organisations: The case of path dependence

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## Abstract

The quest to consider the historical side of managerial and organisational action has become increasingly accepted. An open question still is how this can be achieved systematically. In this paper we refer to the theory of organisational path dependence as an interesting candidate to fill this gap. The problem with the notion of path dependence is, however, that while being much quoted, its actual meaning and logic have remained vague and ambiguous. In order to provide a clear template for the consideration of historical relations and how they impact on present and future developments, we present a comprehensive theoretical framework clarifying how organisations become path-dependent. The process of an organisation – or some of its subsystems – becoming path-dependent is conceptualised along three distinct stages: preformation, formation and lock-in phase. A case from the German publishing industry is used to demonstrate the potential explanatory power of this processual framework. The case study focuses on a book club that has, after years of huge success, persistently suffered a decline and losses for more than 10 years. Reasons are given for why and how this book club has become path-dependent and, finally, locked-in.

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**Key words** • business history • case study • complementarity • media industry  
• organisation theory • path dependence • process theory

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*Any social setting can be read as a historical document of itself shelved momentarily between past and present. Whatever the current social order, we know it became so from what it was in the past. To where the social order evolves, we know it will arrive there by some transformation of what it is now. (Barley 1990, 222)*

## Introduction

The proposition that history matters in organisational decision-making and – more generally – the development of social systems has become broadly accepted. The striking question nowadays is no longer if but rather how and to what extent history matters in organisations. Among the current historically informed approaches, the notion of path dependence features prominently. This increasing popularity, however, has not yet advanced the clarity and coherence of the conception. On the contrary, the notion of path dependence has been used to characterise so many different processes that ultimately nearly all social processes have received this attribution. This is because the notion is often merely used as a metaphor emphasising that history matters when explaining cultural artefacts. That is too vague a conception, however. In our view this is all the more regrettable as the analytical power of (concepts from) the theory of path dependence offers a promising template for advancing systematic historical explanations of organisational persistence. Hence, it is the aim of this paper to demonstrate that explanations of institutional persistence and puzzling stability can profit a lot from a specified concept of organisational path dependence. We thereby build on the seminal studies on the diffusion of technologies and the emergence of standards by Paul David (1985) and W. Brian Arthur (1989, 1994).

Though this is a mainly conceptual paper that builds on our earlier work in this field (Schreyögg and Sydow 2010; Sydow, Schreyögg, and Koch 2009), we also aim to demonstrate the usefulness of the advanced framework for empirical research. To this purpose, we use a case study on the book club division of a German media conglomerate that was extremely successful for quite a while but ended up suffering a dysfunctional flip and becoming path-dependent (Holtmann 2008). Based upon the theoretical framework and the empirical case study, we draw some conclusions and point out some directions for managerial practice and future history-sensitive organisational research. By presenting a theoretical framework and an illustrative case, we picture one systematic way, but by no means the only one, that shows *how* history matters in organisations.

## Organisational path dependence: Theoretical framework

The basic point of any path dependence argument stresses the importance of past events for future action or, more precisely, of foregoing actions for current and future actions. Hence, organisational acts are conceived as historically conditioned: 'bygones are rarely bygones' (Tece, Pisano, and Shuen 1997, 522). Although this insight has certainly advanced the building of a time-sensitive understanding of organisational phenomena and helped to overcome the ahistorical and unbounded view of rational choice thought (e.g. Booth and Rowlinson 2006; Kieser 1994; Üsdiken and Kieser 2004), it is too vague a theoretical framework. Path dependence is supposed to mean more than a mere 'past-dependence' (Antonelli 1999). Such

all-embracing understanding of path dependence does not get us closer to a better understanding of the specific dynamics of persistent organisational processes and their underlying forces.

In a first attempt to develop a more specific understanding, we can say that path dependence implies, at the very least, more than just one event, and more likely a sequence of events. Furthermore, the dynamics of this sequence bring about a narrowing of the scope of action, which eventually results in a state of persistence or inertia. An important point of nearly all path dependence thought is that this development must not be conceived as a negative spiral in terms of stabilising a bad decision or action pattern. In contrast, most path dependence processes start quite promisingly; it is only later that the situation changes and the development becomes troubled by a dysfunctional flip. Path dependence, therefore, is inherently ambivalent in character.

Valuable insights into the dynamic nature of such eventually entrapping or locking processes have been provided by studies from evolutionary economics (Arthur 1994; David 1985; Dosi 1982, 1997). In these accounts, actions taken in the past *increasingly* restrain future choices. The action pattern used repeatedly may even amount to an imperative for the future course of action, so that ultimately no further choice is left. In order to explain the dynamics of these processes, *self-reinforcing processes* have been identified as major drivers. Such self-reinforcing dynamics usually get incrementally beyond the control of the individual actor; the internal dynamics increasingly take the lead (David 1985). This brief illustration already highlights the fact that the process of path evolution cannot be characterised by the same structural properties at any point in time during the process. The initial situation differs completely from the final situation. Therefore, we suggest subdividing the whole process into different stages along the different regimes which are likely to govern the process (cf. Sydow et al. 2009). We have identified three different regimes and therefore suggest three phases: preformation, formation and lock-in phase.

### **Phase I: Preformation phase**

The first phase can be characterised by a broad scope of action, where choices taken cannot be predicted by prior events or initial conditions (Mahoney 2000). It seems to be governed by a regime of unrestricted choice. Up to a certain degree, however, the first phase is also influenced by the past (e.g. Child 1997). All choices are historically framed and therefore, in a way, 'imprinted'. Hence, we should refrain from conceiving this phase as completely unrestricted choice in terms of rational choice models (as do David and Arthur in their seminal work). The shadow in Phase I in Figure 1 is intended to indicate this thought. Among the decisions made – on whatever basis – one choice may turn out to be a 'small event' that triggers further developments. From a path dependence point of view, this 'innocent' or even random decision gains importance if, and only if, it sets self-reinforcing processes into motion. The moment of starting self-reinforcing processes can be conceived of as a 'critical juncture' (Collier and Collier 1991).

## Phase II: Formation phase

In Phase II the range of options increasingly narrows and it becomes progressively difficult to reverse the initial choice. In this – at least in the beginning, still quite open and possibly contested – phase of path-building, a new regime takes the lead: the dynamics of self-reinforcing processes. Arthur (1989, 1994) elaborates on these driving forces, conceiving them as increasing returns. On a general level, the notion of increasing returns highlights positive feedback processes in which the increase of a particular variable leads to a further increase of this very variable. The notions of increasing returns or positive feedback indicate self-reinforcing processes with growing benefits when using a specific pattern of action. Eventually, a dominant organisational solution emerges. The other side of the coin is that the whole process is becoming more and more irreversible. Decision processes in Phase II are, however, still contingent: while essentially constrained, choices are still possible. As David (1985) put it, the processes are ‘non-ergodic’ – they are not accidental, but do not yet fully converge to a fixed-point distribution.

In economic and institutional studies (Ackermann 2003; Arthur 1994; Cowan 1990; Katz and Shapiro 1985; North 1990) six types of self-reinforcing dynamics have been identified to date: economies of scale, (direct and indirect) network externalities, learning effects, adaptive expectations, coordination effects, and complementarities. Most of these effects have, however, been modelled in a restricted economic way, that is they develop only if the decision to reproduce a particular option is suggested by a utility-maximising calculus in terms of increasing returns. Without excluding this case, it seems too restrictive a starting point for an explanation of organisational paths (see also Crouch and Farrell 2004; Eden 2004; Ortmann 1995). As is well known from a long-standing tradition in organisation research, there are other self-reinforcing patterns in organisations, for instance based on emotional reactions, cognitive biases or political processes (e.g. Huff and Huff 2000). These dimensions have to be included when setting out to understand the specific dynamics of organisational paths. Our suggestion, therefore, is to broaden the scope of self-reinforcing effects by including all kinds of positive self-reinforcing feedback cycles. In this broader view, increasing returns represent a specific form of self-reinforcement – among other forms of positive feedback. A broader perspective beyond individual decision-making is also needed to account for the social setting in which the positive feedback processes are embedded. It is the broader organisational context (the sedimented institutions, the hidden assumptions of the organisation, the organisational culture, the status and role system, etc.) which informs actors and presses for self-reinforcing processes (see also Koch, 2011).

Take learning effects, for instance. The pure economic version holds that the more often an operation is performed, the more efficiency will be gained when realising subsequent iterations. The operations become more skilful (faster, fewer errors, etc.), which, in turn, means a decreasing average cost per unit of output. And, the more attractive (less costly) the chosen solution becomes, the less attractive it is to switch

to other learning sites (where these actors would have to start from scratch). Only sticking to the once chosen solution promises (increasing) returns. However, there is not only the positive effect of increasing returns from learning. Rather, the literature on organisational learning points to the fact that repeated exploitative learning may gradually crowd out explorative learning (March 1991, 2006). For various reasons (prevailing institutionalised rules, organisational culture, reward system, etc.), the motivation to reproduce and improve everyday practices is likely to receive more acceptance or legitimacy, whereas the attraction of looking for fresh alternatives and critically examining well-established organisational practices shrinks step by step. This myopia or preference for legitimate learning eventually builds another path along the familiar practices.

A related unintended side effect of repetition has been highlighted by Miller's (1993) 'Architecture of Simplicity': an organisation develops a successful set of capabilities and tends to focus all learning abilities on refining this success. It amplifies these strengths while neglecting other opportunities. Ultimately, 'it turns into a monolithic narrowly focused version of its former self, converting a formula for success into a path toward failure' (Miller 1993, 116). Basically, these and the other effects resulting from self-reinforcing dynamics refer to both push and pull explanations of the formation of path dependence. It should be stressed that the effects are not fully separate; rather often, they occur jointly and overlap. The same holds true for the other self-reinforcing mechanisms.

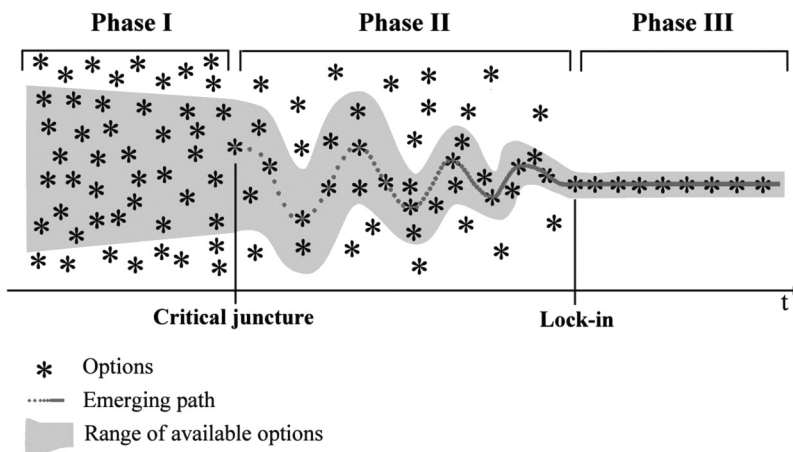
### **Phase III: Lock-in phase**

The transition from this second phase to Phase III can be characterised by a further constriction which is likely to (but will not necessarily) lead into a lock-in – i.e. the dominant pattern gets fixed and even gains a quasi-deterministic character. Further processing is bound to the emergent path. One particular choice or action pattern has become the predominant mode; flexibility has been lost. Even new entrants into this field of action have to adopt it. A lock-in is not necessarily inefficient in a short-term view, but is always problematic from a strategic perspective that requires organisational flexibility in increasingly 'turbulent fields' (Emery and Trist 1965). However, the problem of a lock-in, even from a short-term perspective, becomes obvious in cases where a more efficient alternative appears but a switch is no longer possible. The result is actual or potential inefficiency.

Considering specifically organisational paths, it may be inadequate to conceive the third phase as a situation of total rigidity; a somewhat modified conception of lock-in seems to be required. Due to their social character, organisational processes are more complex and ambiguous in nature than market standardisation (Cyert and March 1963). They are not likely to amount to a concrete monopolistic solution that excludes any further choices. Rather, they are prone to bring about a specific action pattern which gets deeply embedded in practice and replicated across various situations. Fixed

recursive patterns of action, however, cannot be equated with determinism, as practices have to be reproduced and all reproduction includes interpretation and at least some minor deviation (Giddens 1984). For these reasons, we should refrain from reifying paths and attributing an objective quality to them. Instead of a fully determined lock-in, no matter whether cognitive, normative or resource based, a theory of organisational paths is well advised to conceptualise the final stage of a path-dependent process in a less restrictive way, leaving some scope for variation (similarly Eden 2004; Martin and Sunley 2006; Pierson 2000; Thelen 1999). By implication, it seems more adequate to conceive of the lock-in state not in terms of total rigidity, but rather as a matter of degree accounting for some variance in the actual practising of the path. A corridor may serve best to illustrate this reasoning; the shadow in Phase III in Figure 1 is designed to indicate this corridor.

In sum, the proposed theory (Figure 1) conceptualises an organisational path as a historically imprinted social process that is initially, in Phase I, shaped by a contingent choice, possibly leading to a critical juncture which is triggered by one or several events. Phase II, the path formation phase, is governed by a regime of positive, self-reinforcing feedback loops, constituting and setting up a specific pattern of actions (social practices), which gains progressive predominance against alternative solutions to such an extent that, at least potentially, it leads, in Phase III, into a lock-in, in terms of a pattern underlying actions and/or practices. Thus, all three stages pictured in Figure 1 are governed by different regimes allowing us to differentiate the phases not only in the theoretical model but also in the empirical data. Though this model focuses on the organisational level of analysis, it may also be helpful to analyse path dependence on the (lower resp. higher) levels of organisational subsystems or organisational fields and to explore the interrelationships among various paths.



**Figure 1** The constitution of an organisational path (Sydow et al. 2009, 692)

This conceptualisation provides a more systematic view. While an uncountable number of studies have investigated the persistence of institutions and/or the rigidity of organisations, only relatively few have adopted an analytical approach based on (strict concepts from) the theory of path dependence as presented above. Theoretical explanations of institutional and organisational persistence provided so far point to critical features and have their merits. This is particularly true for theoretical explanations of organisational inertia such as escalating commitment (e.g. Ross and Staw 1993; Staw 1984), institutionalisation (e.g. Scott 2001; Tolbert and Zucker 1996), imprinting (e.g. Johnson 2007; Stinchcombe 1965) or learning (e.g. Argote 1999; March 1991). What they are missing, however, is a theoretical clarification of the process of *becoming* persistent. The unanswered questions are: what are the underlying dynamics of becoming trapped, and why do organisational members not resist institutional rigidifying? And from a comparative point of view: in which cases do organisations get locked into their behavioural patterns and in which not?

The theory of organisational path dependence aims at answering these questions. How organisations actually get trapped from a path-dependence perspective will be specified by a case in the following section.

## **An empirical case of organisational path dependence**

Our thoughts and conceptual suggestions will be exemplified in the following using an in-depth case study on the book club division of Bertelsmann AG, the leading German media conglomerate. The book club – the first and for a long time the best performing division of the company – has been in economic trouble for over 10 years. The firm tried repeatedly to change the initial business model of the division, but so far has not succeeded in doing so. It even considered selling its traditional business, but no consensus could be reached to abandon the field. An explanation for the company's puzzling immobility could be that it has become path dependent over this period.

### **Methodology**

The book club division of the Bertelsmann AG has been studied in terms of a single 'embedded case' (Yin 2009) over a long period at different points in time. The time span in this longitudinal or 'diachronic' (Barley 1990) study covered the years 1945–2007. The history-sensitive, qualitative approach adopted offered the possibility to reach a rich understanding of the major events and their linkages. In Langley's (1999) list of strategies for making sense of process data, our approach comes closest to the temporal bracketing strategy, which, starting from the assumption of recursive influences in social life, analyses mutual processes in a sequential order by temporarily 'bracketing' (Giddens 1984) one of them. Moreover, 'the decomposition of

data into successive adjacent periods enables the explicit examinations of how actions in one period lead to changes in the context that will affect action in subsequent periods' (Langley 1999, 703).

Apart from historical studies on Bertelsmann (Gohr 2006; Gööck 1968; Langenbucher 1985; Lehning 2004; Schulze et al. 2005), our analysis is based on data from two main sources. Our primary source was thousands of pages of archival material. Bertelsmann was kind enough to provide access to major parts of its well-equipped corporate archive that has been opened to the public and managed by professional historians since 2003 (cf. Booth et al. 2007). One of the authors spent several weeks there searching for relevant material. The archival material used included annual reports, strategic reports to the board, minutes of board and executive meetings, correspondence with external agents, press releases, book club catalogues, advertising materials, the website, and articles in newspapers and book trade journals, in particular, *Börsenblatt des Deutschen Buchhandels*. The analysis of the archival material was supplemented by interview data as the second major source of data collection. In all, 11 face-to-face, semi-structured interviews were conducted with current and former executives in charge of the book club and with industry experts. The interviews lasted from one to three hours and were recorded and transcribed. Using multiple sources of evidence allowed for data triangulation and the improvement of construct validity. All data collected for the case study have been documented and organised in a 'case study database' (Yin 2009) so that other persons can check their reliability and validity.

The analysis of the data from this database was organised along the theoretical framework on path dependence presented above. The framework and its propositions, in particular, concerning the three-stage development, focused attention on certain events (as potential triggering devices) and governed our analytical choices (e.g. studying self-reinforcing processes). The analysis of the vast array of materials and data was assisted by computer tools. For analytical purposes, codes for recurrent patterns in the data were developed (such as strategic decisions or environmental dynamics), relating the codes to the themes derived from the path-dependence framework as the analysis proceeded; more often than not, data analysis induced new inquiries or the search for additional material or interview partners, which amounted to an iterative procedure. This was continued until a certain level of 'saturation' was achieved (Suddaby 2006).

## Findings

Bertelsmann's book club (originally: *Lesering. Das Bertelsmann Buch*) was founded in 1950 by Bertelsmann publishing company (C. Bertelsmann Verlag). After the Second World War there was a shortage of bookstores in Germany, in particular in rural areas, and at the same time a strong demand for entertaining literature (in particular, from countries that were 'forbidden' during the Nazi regime). At that

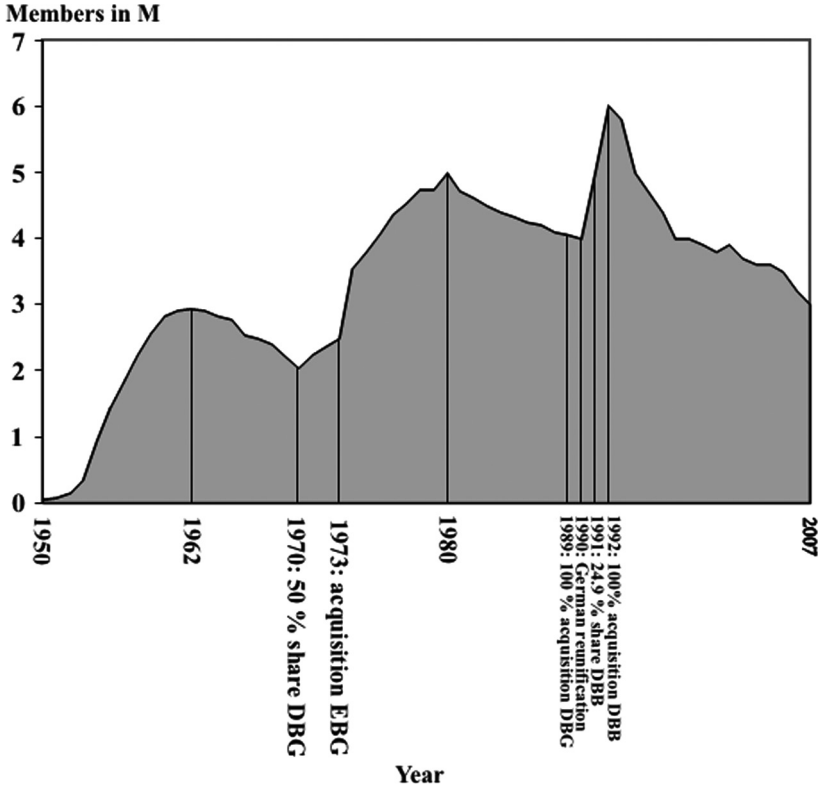


time, when looking for an effective channel of distribution with access to the mass market, Bertelsmann Verlag chose direct selling as the most promising method. The strategic guideline was: mass circulation, hardcover books at moderate prices. Bertelsmann organised the direct selling in the form of a book club – a business model that already existed at that time. It built up its clientele in a decentralised way: the publishing house cooperated with independent distributing agencies (which were in many cases established bookstores, an extra business for them). These agencies drummed up customers and administered the distribution. In a way, this amounted to an early franchise system, which allowed the publisher to grow rapidly without capital-consuming investment in distribution facilities. The book club set up the programme, produced the catalogue and printed the books. The independent agencies managed the distribution.

Starting in 1951, the book club launched a new customer campaign encouraging existing customers to ‘recruit friends and collect a bonus’ (*Freundschaftswerbung*), which proved to be a huge success. The book club soon became a company on its own, detached from the printing house and the publishing company. The *Lesering*, focusing on selling a selection of very popular books at reduced prices to members of the book club, not only grew rapidly, it also turned out to be a highly profitable business. It soon became the major German book club and as early as 1962 it went international and founded subsidiaries in other countries, including Spain, Austria, Switzerland, Belgium and France.

In the 1970s, operating under the new brand name *Bertelsmann Buchclub*, many competitors were acquired (in particular a 50% share in Deutsche Buchgemeinschaft – DBG – and 100% of Europäische Bildungsgemeinschaft – EBG) and Bertelsmann became the market leader in the German book club business. The market share of the book club grew from 18% in 1972 to 66% in 1985. The company excelled in many respects and the acting owner became a widely admired person in Germany and abroad. There seemed to be no stopping him on his road to continued success. However, in the 1980s the membership stagnated and began dropping progressively afterwards (though there was a considerable short-term peak after German reunification). In 2007 the number of members had dropped almost to the level of 1962 (Figure 2).

In the 1990s the economic situation of the book club changed dramatically; since 1999 the company has suffered losses year after year. The estimated cumulative loss by 2007 was €110 million, according to an article in the *Financial Times Deutschland* on September 26, 2006. In response to this deterioration of profitability, the company started various strategic renewal programmes, but none succeeded. Actually, in most cases they stopped the change initiative after two or three years and returned to the established business model and related routines. Also, the owners have replaced the top manager 12 times since 1990, but no one has been able to effectuate a structural change so far. Hence, one cannot claim that the Bertelsmann management was not aware of the problem. As a matter of fact, a puzzlingly strong strategic persistence has



**Figure 2** Membership development of Bertelsmann's book club

developed over time; the company seems to be frozen, pointing to potential organisational path dependence. We examine this conjecture along the three-stage model presented above.

**Phase I**

The initial situation right after the Second World War was characterised by some imprints from the past. Before the war, Bertelsmann was a small publishing house specialising in school books as well as religious products such as prayer books, catechisms and theological literature. During the war Bertelsmann initially produced cheap books for the soldiers (*Feldpostausgaben*). Towards the end of the war, air raids destroyed nearly all production facilities (printing equipment) and stocks (Adron 1983). After the war, the family immediately tried to redevelop their business, but except for some printing machines only a few minor publishing activities had remained. The heritage focused the search for a means to rebuild the business, but in general the strategic situation was quite open (Schuler 2005). There was a broad scope of strategic alternatives after the Second World War, for instance focusing on

high-margin books and selling via established retail bookstores. The company, nevertheless, decided to restart with producing and selling entertaining books at low prices.

Distribution turned out to be problematic. When looking for more effective distribution channels, the management backed the book club idea. To save money they started acquisition and distribution in a very special, indirect way by making use of freelancing distribution agencies run on a commission basis. The customers were (and still are) 'owned' by the agencies, which also administer the membership (Schaper 1977; Tietz 1985). In many cases, these agencies were established bookstores, which carried out these activities in addition to their traditional retail business. As many German bookstores were interested in becoming book club agencies, Bertelsmann was quickly able to develop a comprehensive network of multipliers and distributors. This first cautious step, initially devised to keep the capital requirements and the risk at a low level, proved to be of significant importance for the rapid development of the club. And it turned out to be *the* triggering event for the development of the organisational path. The agencies were extremely successful in acquiring book club members and they kept the administrative load for the book club low. In one of our interviews, a former division manager stated:

To make use of the existing chain of agencies can be seen as the big, big invention of the book club founders.

Three other early decisions also proved to be of critical importance:

- (i) to produce representative hardcover and leather-backed books (also intended to serve decorative purposes on the bookshelf in the living room) at a low or at least moderate price;
- (ii) to offer only a very limited range of books (initially only 100, later 10 times as many, but still few compared to others); and
- (iii) to offer 'suggested reads' – every three months the club selects and sends a book (which, however, can be returned by the customer) (Hutter and Langenbacher 1980).

Taken together, this shows that history already matters in this first phase. Furthermore, the initial attempt to adopt the book club business model quickly amounted to a critical juncture.

## Phase II

The second phase of our theory of organisational path dependence is characterised by self-reinforcing dynamics. In the Bertelsmann book club case we found various mechanisms that contributed decisively to building an organisational path that was in the best interest of the corporation for many years. The first and major self-reinforcing mechanism that could be identified and is assumed to have contributed first to the constitution of the organisational path was *economies of scale*. The Bertelsmann book club model implied a focus on relatively few and promising titles, which allowed the

production of a single title with a high number of copies. The economies of scale in book production are considerable; the unit cost decreases dramatically. A standard calculation of publishers shows, for instance, a unit cost of €6.50 for an edition of 2,000 copies and €2.33 for an edition of 12,000 copies (Blana 1993). It is primarily a fixed cost degressive effect. In the 1960s and 1970s the average edition of fiction books in Germany was some 5,000 copies; in contrast, Bertelsmann could sell at least 100,000 copies of a title and thereby realise tremendous economies of scale (Beinsen-Ruf 1980). Of course, it did not take the full difference – it sold the books at lower prices than regular editions – but there was still a remarkable profit span. Particularly successful were the so-called suggested reads. These books turned out to be a huge success with enormous economies of scale. In 1955 the book club sold on average as many as 725,000 copies of the suggested book and in 1960 no less than 1,450,000 copies. In combination with the distribution agencies, which held the distribution investment cost down, and the small range of items offered in the catalogue, there was an extremely rewarding economies of scale machinery (increasing returns) which pushed for ever more members.

In addition, there proved to be a second self-reinforcing dynamic at work that also produced many appreciated effects, at least for many years: *complementarities*. The rapid growth of the book club produced a high demand for printing capacity. The Bertelsmann printing house proved far too small to fulfil the needs of this rapid growth. In 1954 only 50% of the book club copies could be printed using the company's own printing facilities (Adron 1983). The management decided to expand the printing facilities of the corporation considerably and founded a printing company that also served the (then) separate Bertelsmann publishing company. In 1961 75% of all printing orders were met in-house. High printing investment demands full plant utilisation to bring the fixed unit cost down – implying an even greater demand for more members. The same logic took place in the logistics, in particular, in the distribution outlets. In order to manage the distribution of the huge editions of the book club effectively and on time, Bertelsmann started to invest heavily in logistics. It founded a separate corporation (Arvato), which managed the printing and the mass distribution for all Bertelsmann media activities (the share of the book club was, however, considerable), according to an article in *Industriemagazin* on October 15, 1984. There were also complementarities between the publishing house and the book club. In many cases, the book club bought the licences for already published titles from the publishing house and produced a second special book club edition of the same book. In 1960 40% of the book club titles were derived from the Bertelsmann publishing companies' programme. As a result, all other Bertelsmann affiliates (now all part of its Random House division) profited greatly from the growth of the book club. In order to keep pace with this growth, the Bertelsmann group pushed the expansion of complementary investment. On the other hand, this meant a high degree of interdependence – a tightly coupled network – and the internal purchases of the book club became of crucial economic importance for the whole group: the book club needed the services of the production

and the logistics divisions and the affiliated publishing companies as much as 'the publishers needed the book club'.

Once under way, the two self-reinforcing dynamics proved to be mutually self-reinforcing, economies of scale and complementarity effects even interacted and accelerated the positive feedback process. However, there was also a downside to this process: growing mutual interdependence and, subsequently, a shrinking reversibility of the investments. As a result, it seems plausible to assume the building of an organisational path. Paths become obvious when the environment changes. These changes occurred: we saw the increasing importance of large stationary book retailers (e.g. Hugendubel), technically advanced Internet booksellers (e.g. [www.amazon.de](http://www.amazon.de)) and largely modified consumer preferences (e.g. more differentiated reading habits). In sum, since the 1980s the situation of the German book market has changed considerably (cf. Holtmann 2008, 169–82, for details).

### Phase III

The analysis revealed that the first weak signals in the 1970s had already indicated that the book club idea might no longer fascinate as many German readers as it had in the years before and in the 1980s the Bertelsmann book club membership (and that of all other German book clubs) stagnated. The company tried to overcome this stagnation by acquiring other (also stagnating) German book clubs, such as EBG or DBB. Despite many acquisitions, there was no stopping the overall decline of book club membership. In 2007 the number of members dropped almost to the level of 1962 (and the number has continued to drop since then) (see Figure 2 for more details).

The economic situation came to a turning point in 1999 when the book club showed a loss for the first time since its foundation – and it has not recovered since then. By 2007 the losses had accumulated to €110 million, according to an article in the *Financial Times Deutschland* on September 26, 2006. Obviously, the dropping number of members made the book club fall under the break-even point. Because of the glorious past, the fixed costs and the concurrent complementing investments stayed very high and capacities were underutilised. The possibilities to expand and to bring the number of members beyond the break-even point once again seemed limited. The general lifestyle and the ubiquitous availability of books no longer favoured the book club idea. The whole concept had become fuzzy and old fashioned. In addition, as nearly all German book clubs had already been acquired by Bertelsmann, the reservoir had been exhausted. Responding to the obvious changes and the upcoming crisis, the management (assisted by a couple of well-known consultancies) developed a lot of strategic restructuring initiatives: broadening the range of products and introducing catalogue selling without membership, founding an Internet bookstore, launching stationary mega bookstores, and so forth. But surprisingly enough, all the initiatives up to now have failed.

The pattern was always the same: the company started a new strategic initiative, but after two or three years the strategic initiative was stopped and replaced by a

subsequent project. As a result, the book club never actually assimilated the new ideas; the old pattern proved so dominant that the new initiatives bounced off. A former Bertelsmann executive provided his view of the failed change initiatives:

All the upcoming business ideas have been abandoned after a short period of time. This goes back to a lack of patience to invest in these diversification strategies sufficiently. The managers were not willing to wait to break even and for profitability so they returned to the traditional core business, the book club business.

It is interesting to learn that the Bertelsmann book clubs in France and Spain managed a strategic renewal quite successfully at that time. In Spain the book club was substantially complemented by a wine club and in France by an agency for renting vacation houses and apartments. Explorative learning seems to have been possible in these locations; the decentralised organisational structure of Bertelsmann AG ensured that foreign operations were able to act quite independently of the German book club. The more puzzling issue, however, is that the German operative procedures obviously did not allow for cross-unit learning – the national action pattern seems to be frozen. Moreover, the continued economic successes in these countries even had an unfortunate effect on the German book club: they could be and actually were used as an argument to hold on to the book club business model, according to an article in *Handelsblatt* on December 16, 2004.

Concurrently, the strategy to exchange key managers failed, too. The owners have replaced the management several times (top management alone six times from 1990 to 2007). But so far all the new top managers have failed to change the situation. It appears that the system 'Bertelsmann book club' has entered a stage of organisational rigidity that can be characterised as a lock-in. The structural change of the business environment has been quite obvious since the 1990s and has turned a once very successful business into an economic failure. But the organisation seems to stick closely to the old business model and it seems to stick so firmly that any attempts to change the situation have not been realisable – despite all efforts.

There were early warning signals discussed within the firm; former top managers report that in the early 1980s, the first analyses were circulated saying that the business model of book clubs was likely to become outdated in the near future:

In the book club, there used to be a surprising clarity. In the early 1980s there were strategy papers outlining that the business model of those days could not continue to be successful but would fail in the long run.

But due to the still successful business at that time, the proud tradition and the emotional attachment of the owner family, no one dared to draw strategic conclusions. Another Bertelsmann manager shared the following view with us in one of the interviews:

The pessimistic view was rejected. The managers referred to their monopolistic position in the book club market and ignored any upcoming competition.

Later on, in the face of falling membership and rapidly diminishing profits, the management began various interventions. The interventions were, however, not sustainable enough; the system had already become path dependent and was no longer responsive. The large-scale investments in the book club and its affiliated businesses, as well as their tremendous success, had fixed the practices reproducing the old business model both physically and mentally.

After years of significant losses, even the exit decision has been taken into consideration by the corporation, but it was eventually dismissed. On the one hand, there is the glorious tradition; the family, the brand name, and the reputation of the company have been closely associated with the book club and its former success as part of the German *Wirtschaftswunder*. On the other hand, there are so many interdependencies with other corporate activities and affiliates. The once so promising and reinforcing complementarities have turned into a burden. While formerly elements of Bertelsmann's core capability, they should now be described best as part of a 'core rigidity' (Leonard-Barton 1995). The corresponding affiliates and facilities (printing and logistic firms, publishing house) depend heavily on the purchases of the book club in their cost management – and are therefore in no way interested in closing it down. After the turning point, the self-reinforcing complementarities amount to a path dependence that seems extremely difficult to escape.

## Conclusions and directions

This paper has suggested a theory of organisational paths that builds on the one hand upon the seminal works of Paul David and W. Brian Arthur in order to transcend a purely metaphorical use of the notion of path dependence, but on the other hand goes beyond these works by first specifying the regimes under which the process of becoming path dependent unfolds in organisations and, second, modifying important assumptions in the light of organisation research.

By illustrating the process of the emergence of an organisational path, the case of the Bertelsmann book club is used to demonstrate the importance of triggering events and the narrowing character of the entire process. At its very beginning the strategic situation was open, although history already mattered in this initial phase of the process. Among the triggering events, the 'small' decisions to produce a relatively limited programme only and to rely on freelancing distribution agencies proved salient. The path came into being through self-reinforcing dynamics consisting of a combination of economies of scale and complementarity effects. Though other self-reinforcing mechanisms such as coordination, learning and adaptive expectation effects (cf. Sydow et al. 2009) seem less important in this case, they have also been at work. For instance, over the years Bertelsmann had certainly learned to optimise the book club business, not least in face of the continuous internal growth and the frequent acquisitions of other businesses in this field. However, and pretty much in line with the proposed theory of organisational path dependence, this was

a single-loop rather than a double-loop learning experience (Argyris 1976). Eventually, in the final phase the whole process has become locked. In contrast to 'simple' organisational or institutional persistence, other more efficient alternatives are no longer realisable, and significant economic losses are the result. In contrast to escalating commitment, the decisions originally taken were anything but inefficient at that time. While the concept of escalating commitment implies that decision-makers hold on to decisions that were wrong from the outset ('throw good money after bad'), this does not apply to the case under investigation, where the Bertelsmann Buchclub was economically successful for at least two decades precisely because of the decisions taken, which later proved to lead the organisation into a lock-in that still seems impossible to break.

The theory of organisational path dependence presented in this paper helps to reconnect business history with strategy and organisation theory, as called for by Booth and Rowlinson (2006) as well as Kipping and Üsdiken (2008), for instance. Applying this theory to an in-depth case study of a division of a large media conglomerate such as Bertelsmann goes well beyond most former efforts, which have either inquired only into the persistence of organisations like Firestone (Sull 1999) or Polaroid (Tripsas and Gavetti 2000) or referred to the notion of path dependence in a rather loose way or applied the theory of path dependence without necessary modifications, often in a rather crude manner, to organisations such as NASA (Bruggeman 2002), car manufacturers (Hefferman 2003) or leading research organisations (Hollingsworth 2006). The trade-off from this more precise analytical approach is that the intriguing phenomenon of organisational path dependence may turn out to be quite rare.

The major limitation of the present study results most obviously from the fact that only one embedded case has been investigated – though one that could be studied extensively and over a very long period of time. Future studies of organisational path dependence could and should nevertheless adopt a multi-case design allowing for 'parallel analysis' (Barley 1990) and at the same time pay even more attention to the embeddedness of an organisation into an industry, region or field than was possible in our (single) case. It may well be that major developments or institutional rigidities or path dependencies in the field of book publishing and distribution (e.g. resale price maintenance) prevented Bertelsmann from turning away from its book club business in Germany or from renewing it. Finally, future studies of organisational path dependence could be more precise when unpacking the interdependencies between the self-reinforcing feedback processes at the core of the theory of path dependence in general and of organisational path dependence in particular.

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