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**Aligning to Disadvantage: How corporate political activity and strategic homophily create path dependence in the firm**

**Abstract**

To what extent should firms get close to government for competitive advantage? What happens if they get too close? In this article we explore how corporate political activity (CPA) inculcated strategic homophily in leading UK aluminium producer, the British Aluminium Company Ltd (BACo), resulting in its path dependence and eventual lock-in. The paper makes three main contributions: a longitudinal study of CPA and strategic homophily revealing their organizational manifestations and detailed understanding of certain mechanisms of path dependence; articulating the value of historical methods and perspectives to exploring organizational path dependence; and exploring the impact that prolonged business-government relations can have on the organizational behaviour and strategic outlook of the firm with implications for TMT selection and environmental scanning. In so doing it responds to calls for firms to align market positions with political activity, as well as those for the recognition of the value of business history in better understanding the links between CPA and firm performance. It further elucidates the longer-term consequences of strategic homophily, which has to date focused on the early stages of venture formation.

**Introduction**

Heightened awareness of the corporate political activities (CPA) of businesses has resulted in a number of scholars considering the effects of such actions on the firm and vice versa (Hillman, Keim, and Schuler, 2004; Mellahi, Frynas, Sun, and Siegel, 2016). Consistent within these analyses are attempts at understanding the social dynamics at play in the cultivation and

deployment of political links by organizations to gain competitive advantage, with some scholars recommending that firms pursue CPA as integral to their strategy (Lawton, Doh, and Rajwani, 2014). Nevertheless, there remains a lack of understanding of the potential negative consequences of pursuing such activities, or their effects if prosecuted repeatedly over time (Mellahi et al, 2016). In order to establish a more complete understanding of CPA and its consequences for firms, an analysis of its effects over time is thus required.

This article examines the value of historical perspective in understanding CPA by capturing the changing socio-political context and institutional landscape and contingent outcomes on the organizational form (Bucheli and Kim, 2014). We draw on a rich historical case study of organizational path dependence in the British Aluminium Company Ltd. (hereafter BACo) to identify the self-reinforcing dynamics in the TMT's decision-making and company culture arising from the long-term effects of CPA. In this analysis, strategic homophily is shown as the principal mechanism by which organizational path dependence becomes embedded within the firm when engaged in CPA.

BACo at its formation exhibited homophily in the form of the narrow social selection of directors from elite backgrounds (see appendix). Initially the composition of the TMT, while sharing similar social backgrounds, included scientists and engineers (Ristori, Morrison and Kelvin), city speculators, lawyers and gentlemanly enthusiasts (Wallace and Cooper). Andrew Tait, a renowned corporate accountant joined the board from Ferranti's, in 1910, and was pivotal to the financial restructuring of the company. While the company sought to apply pressure on the state to increase military uses of the metal in the first decade of the twentieth century, it was the First World War, as for so many other British companies, which

demonstrated the advantages to be leveraged from proximity to government and prefaced BACo's adoption of strategic homophily.

BACo demonstrated its embrace of strategic homophily through its adoption of a strategy of appointing former senior military officers (Charles and Portal) and top ranking civil servants (Cunliffe, Plowden and Strath) (see appendix) as key strategic decision-makers within the organisation ('board capital') (Hillman and Dalziel, 2003; Hillman et al., 2009), based on their intimate knowledge of military and civil procurement processes and their access to senior officials and ministers, with the express intention of accessing government contracts and reducing uncertainty. This was a marked change from its previous focus of TMT drawn from elites from technical and business backgrounds. However, in this case, rather than protecting the firm over time, this strategic homophily begun to lock BACo into a dependent path threatening its survival. Despite the gains arising from senior BACo managers involvement in wartime government, there were already portends of this 'formation' of organizational path dependence in the 1920s when commercial decisions were compromised to align with the serving government's strategic priorities in exchange for ministers' political patronage. However, the gains of the war and immediate postwar period reinforced the calculation that the pursuit of strategic homophily would be advantageous to the company. Once committed though, they failed to demonstrate acuity to political and policy changes. Through these strategic appointments, a culture of dependency on government was embedded within the TMT.

The article unfolds as follows; we present a literature review and theoretical framing for our approach followed by the methodological analysis and rationale based on archival analysis and triangulation. We then provide an empirical analysis of the company's creation, emergence,

and eventual decline identifying strategic homophily as the key mechanism for the organizational path dependence that occurs. In doing so we consider the initial homophilic characteristics of the company in the shared elite backgrounds and networks of directors, and then subsequently the strategic homophilic acts of recruiting directors from senior military officers and civil servants to gain competitive advantage. It notes how the company became increasingly reliant upon government and blind to the changing political and policy environment, compounded by the organizational culture inculcated by the selection of such staff, which in turn explains the organizational path it followed. As the article explains BACo's path was contingent on the socio-historical context. In our concluding section, we offer a theoretical framework linking these concepts as a way of understanding path dependence in organizations and how it can arise from strategic homophily (with alignment of market priorities to political environment in this case damaging firm performance), illustrating the implications for the study of social and political contexts in organizations over time, and consider the limitations of our work and potential future research. Finally, an appendix is provided in the form of a table containing the names, social positions, political, business, military, and educational backgrounds of BACo's main directors over the period analyzed serving as a further evidence base.

### **CPA, strategic homophily, and elite networks**

CPA is defined as 'corporate attempts to shape government policy in ways favourable to the firm' (Lawton, McGuire, and Rajwani, 2013: 87), and as a component of nonmarket strategy has become formalized and established over the last twenty years (Hillman and Hitt, 1999; Hillman et al, 2004; Frynas et al, 2006; Lawton et al, 2013; Mellahi et al, 2016), with recent work calling for businesses to align their market positions with political activity (Lawton et al, 2014). Significantly few CPA pieces (Hillman, 2005 being an exception) explore the impact of former state actors employed on boards of directors on organizational behaviour and strategic

decision-making. It is also notable within the CPA literature that, despite Lawton et al's (2013) recognition of its importance, history is not considered a priority for TMT environmental scanning but instead deployed selectively as context.

Homophily as a concept finds its origins in sociological enquiry and network analysis. It is 'the principle that a contact between similar people occurs at a higher rate than among dissimilar people' (McPherson et al., 2001: 416). Homophily has received attention in the business and management literature since the 1980s with McPherson and Smith-Lovin's early analysis in voluntary organizations (1987). Since then the concept has been applied both within and between organizations on a diverse range of topics such as entrepreneurial alliance portfolios (Ozcan and Eisenhardt, 2009), CEO advice networks (McDonald and Westphal, 2003), new venture formation and legitimation (Browder, Aldrich, and Bradley, 2019; Philips et al, 2013), team work in organizations (Yakubovich and Burg, 2018), social power and status (Lamertz and Aquino, 2004), and minority experiences in organizations (Maranto and Griffin, 2011; Derous, Pepermans and Ryan, 2016).

In business and management scholarship, homophily has been utilized especially in organizational and entrepreneurship studies to explore and understand how entrepreneurs deploy and advance their social ties and capital to achieve growth in the early days of their ventures (McPherson et al.; Borgatti and Foster, 2003; Karra, Tracey, and Phillips, 2006; Ruef et al.; Ozcan and Eisenhardt, 2009). In an important update on the concept, Phillips, Tracey, and Karra (2013) identified strategic homophily as distinctive from homophily, arguing that in the literature on the subject "homophily [is] portrayed essentially as an automatic process that occurs without the conscious knowledge of those involved" (Philips et al., 2013: 134). Their work evidenced how entrepreneurs deploy homophily strategically to build resources in the

early stages of venture formation, resulting in a positive view of its effects. However, they raise the point that

...the strategic use of homophily may inhibit the functioning of a venture by, for example, binding underperforming partners to the network and constraining the supply of talent. Further research that examines the possible negative effects of the strategic use of homophily would make an important contribution to the literature. (Phillips et al., 2013: 149)

Taking this distinction between homophily and strategic homophily and addressing Phillips et al's call for exploration of the negative effects of strategic homophily, we further address a research gap on its longer-term effects (Baum, Calabrese, and Silverman, 2000).

Resource Dependence Theory (RDT), a salient theme in the CPA literature, is relevant here as an exploration of the board as the provider of resources (such as counsel and external links) and the effect on firm performance (Pfeffer and Salanick, 1978; Hillman and Dalziel, 2003; Hillman et al, 2009). Hillman and Dalziel have defined the central factor here as 'board capital' (2003, p.383). Board capital is deployed to 'help reduce dependency between the organization and external contingencies... diminish uncertainty for the firm... lower transaction costs... and ultimately aid in the survival of the firm' (p.386). Hillman et al (2009) detected a generally positive association between board capital and firm performance. Pfeffer and Salanick (1978) underlined the imperative of a mastery of context to understanding such firm behaviours. Our empirical case study provides a valuable opportunity to scrutinize the role of board capital, external environment, and contingencies on firm performance. We therefore pose the question: what role does CPA, and the aligning of market priorities with the political environment, have on firm performance? In particular we explore the unintended consequences of board capital

in the recruitment of former public servants, military officers and politicians to unlock insider openings through engagement with the processes that can lead to instances of path dependence, in particular examining the effects of ‘strategic homophily’.

Recent work by Maclean et al. (2018) in this journal identified elite networking and cultivation of officialdom as key components of the growth of the Hilton International hotel chain in the twentieth century. Consistent with this analysis was recognition of the importance of how elites engage both within and beyond organizations over time and the social milieus in which they operate. Concomitant work by Maclean et al. (2017) discussed the existence of an ‘elite of elites’, composed of ‘bridging actors’ who form ‘coalitions to determine institutional settlements and societal resource flows’ in France (p.127). The existence of such ‘bridging actors’ forging and perpetuation of such settlements and networks is relevant to the consideration of the exchanges between elites in business and politics in Britain over the period under discussion here. Aluminium’s importance stemmed from its increasing role as a strategic raw material to the British state, as well as the closed nature of the industry, making it all the more apposite for such study.

Elite networking and cultivation of officialdom are imperative to understanding the operation of CPA (Hillman and Hitt, 1999; Hillman, 2005) and its impact on strategic decision-making and ultimately firm performance (Rajwani and Liedong, 2015; Mellahi et al, 2016). Burt et al (2015) in their contemporaneous case study of a defence contractor show how close proximity to government resulted in unintended consequences on strategic decision-making leading to managerial hyperopia where strategic homophily was apparent in the appointment of former senior military officers and civil servants to the board. Zhu and Chung (2014) discuss how portfolios of political ties impact on business strategy and the importance of having a sufficiently diverse resource base and capabilities to mitigate reliance on ties. Each of these

illustrate the complex nature of political and social interactions that organizations have and the impact that this can have on different characteristics, strategies, and operations accordingly.

### **Path dependence, history, and self-reinforcing mechanisms**

In an influential piece, Jones and Khanna (2006) argued that ‘history can allow us to move beyond the oft-recognized importance of issues of path dependence’ (p. 455). The ‘path dependence’ scholarship of Brian Arthur (1994), Paul David (2000), and Paul Pierson (2000), has identified a number of properties of ‘path dependence’ within organizations including non-ergodicity (possibility for a number of outcomes with historical contingencies a key factor), non-predictability (indeterminacy of outcomes), and subsequently inflexibility and inefficiency, constraining the options of the organization and leading to lock-in. Each of these require a temporal dimension in order to be sufficiently explained and understood as they are processual in nature and outcomes. Sydow et al. (2009) acknowledged the importance of the past in understanding of organizational path dependence, stressing the imperative of elucidating the process leading to organizational path dependence rather than economic descriptions of the result, and calling for a more critical application of history (p.690):

The starting point of any advanced path dependence thought stresses the importance of past events for future action or, in a more focused way, of foregoing decisions for current and future decision making. Hence, decisions are conceived of as historically conditioned... We learn that history can be quite important for explaining strategic choices and organizational failures.

In seeking to understanding the processes leading to path dependence, Sydow et al propose a three-stage framework linking (p.690): ‘(1) singular historical events, (2) which may, under certain circumstances, transform themselves into self-reinforcing dynamics, and (3) possibly end up in an organizational lock-in.’

To address this lacuna in the path dependence literature we note literature on cognitive explanations for strategic decision-making, and in particular Powell, Lovallo and Fox (2011) on behavioural strategy's historic grounding (p. 1381), and how strategic problems in a complex environment may be framed by assumptions shaped by heuristics and biases (Schwenk, 1988). In particular, 'selective perception', 'conservatism' and 'the illusion of control' assumptions may deceive strategic decision-makers as to their ability to control outcomes, limit the strategic options open to them, and prevent the consideration of new ideas and revisions. Equally, the identification of 'hindsight bias', in which the assumptions over the predictability of past events may foster a strategic hubris and assumptions of a status quo are pertinent (p. 44). We consider that these may offer an insight into strategic homophily as a self-reinforcing mechanism that can lead to path dependence – in this instance in the form of homogeneity (Apfelbaum, Phillips and Richeson, 2014) and strategic stagnation – and its attendant effects on firm performance.

These lead us to our principal research goal of understanding the longer-term effects of CPA, strategic homophily, and elite networking on organizations to inform our understanding of how path dependence occurs. By showing how strategic homophily evolves over time in an in-depth analysis of a company, we illustrate that while it can be of benefit in the early stages in terms of legitimising an organization and helping it grow, if left unchecked it can result in path dependence towards homogeneity and strategic stagnation. We underline the imperative of comprehending this within socio-historical context both for the organisation and top management teams. Contrasted against other firms within this story, it also illustrates how such contextual factors can conspire to limit the contingent outcomes of the firm. Ocasio (1997: 196) argues that, 'The firm's principles for action, interaction, and interpretation are collective

human constructions that reflect the organization's history and the history of its environment.' We extend Ocasio's analysis to include scrutiny of the background histories of the decision-makers within the firm as well, and situate them in the political economic, and socio-historic contexts, offering a multi-level perspective on how such contexts are responded to the firm and what this means for our current understanding. In extending Ocasio's conceptualization of the principles for action, interaction, and interpretation in the firm to include this, we seek to deepen our understanding of how firm behaviour is constructed and undertaken.

Based on the preceding discussion, this work is thus guided by three principal research questions: How does CPA affect strategic decision-making and firm performance? What are the effects of strategic homophily in organizations if they continue to prosecute it beyond the initial formation of a venture? How can socio-historic analysis, alongside cognitive analyses of strategic decision-making, inform a more nuanced understanding of the development of organizational path dependence?

### **Research Process**

In 1991, Barrett and Srivastval noted in this journal the importance to the understanding of organizations of, 'historicity and continuity of organizational life, and the contingencies and decisions made through time' (p.231). Alvesson and Kärreman argue historical approaches and archival research provide an opportunity to better explore the nexus of 'encounters between theoretical assumptions and empirical impressions that involve breakdowns' (2007, p.1266). We stress the contribution of historical methods and perspective to appreciating the value of changing context and contingencies to understanding the complexity of strategic decision-making and organizational culture, specifically through analysing context, change over time, causality, contingency, and complexity (Andrews and Burke, 2007; Perchard et al, 2017). By

combining organizational studies with historical method and perspectives (Maclean et al, 2016), we seek to illustrate a deeper understanding of the relational aspects between organizations and their social milieus. The intention here is to moderate theory ('history *in* theory'), to elicit 'evidence to develop, modify or test theories' ('history *to* theory'), and provide real 'historical cognizance' (integrating historical context and contingency) (Kipping and Üsdiken, 2014, p535) in understanding how organizations engage and relate to their changing external contexts and how the latter impacts upon the former over time.

This article uses historical methods to analyze government and company archives, company magazines, newspaper reports, and biographies. In doing so, it draws principally on company records from the British Alcan (the successor to BACo) collection at the Glasgow University Archives Service (GUAS) (Glasgow, UK), along with those of the Reynolds Metals Company at the Virginia Historical Society (VHS) (Richmond, VA, USA), Aluminium Pechiney at the Institut pour l'histoire de l'aluminium (Paris, France), historical government documents predominantly from the National Archives (TNA) (Kew, London, UK) and National Records of Scotland (NRS) (Edinburgh, UK), and the personal papers of BACo chairman (1953-1959), Viscount Portal (Christ Church College (CCC), University of Oxford, UK). We were aided by archivists in the identification of materials relating to the company's interactions with government, its organizational structure and personnel, and strategic decision-making (gleaned from board minutes, communications between departments, and exchanges with government). Further details on managing-directors and chairman was also collected from newspapers and *Who's Who* to build biographies. These archival materials are freely available and accessible to researchers by contacting the archives. The references to each document used are cited in the bibliography, identifying the location for access.

Archival research relies on a combination of intuitive reasoning, ‘reading sources against the grain’ (Jordanova, 2000; Perchard et al., 2017), and recognition of the dualism of approaches (Rowlinson et al., 2014). Identification of the significance of silences, and studied sensitivity to changing historical context, can be allied with a degree of serendipity in the availability of archival collections, as well as completeness, composition and context of collections (Decker, 2013). As Decker argues, ‘historians put great emphasis on source triangulation and frequently highlight the need to work with more than one archive, as this facilitates not only the ‘filling of gaps’, but also the identification of bias and silences in sets of records’ (p.163). To make sense of the complex interactions we explore in this article we have used multiple sources in order to provide a holistic perspective and fill in any such gaps, addressing silences, and mitigating biases accordingly. In this case the nomothetic value arising from the single case analysis aligned to the wider context (Eisenhardt, 1989; Ginzberg et al, 1993; Holt and Popp, 2013), is illustrated by the explicit recognition ‘that change is multifaceted involving political, cultural, incremental, environmental, and structural, as well as rational dimensions’ (Pettigrew, 1990, p.268) in exploring the relationship between the organizational culture, managerial behaviour, and the interplay with contextual and institutional shifts.

The source materials provide differing perspectives on events and the roles of key actors, relationships, and their motivations, within given contexts over time. Used in conjunction with company reports, these analyses provide insights, through the choice of language, into the culture and ethos of the organization. This provides understanding of how ‘strategic homophily’ both perpetuated, and transmitted, characteristic behaviours through an embedded ethos and culture, inculcated through a ‘cultural circuit’ (the interplay of individual and collective narrative), within a multinational organization over the length of its existence 1894-1982 (Thomson, 1995). In so doing, we seek, like process studies, to ‘address questions about how and why things emerge, develop, grow, or terminate over time’ (Langley et al., 2013, p.1).

### **Temporal bracketing: periodizing British Aluminium Co.**

We present the following periodization of the organization's development stages over the longer term, illustrating the changing historical context to BACo's 'strategic homophily' arising from its CPA, and emergent behaviour and ultimately growing 'organizational path dependence' (figure 1). This recognizes Pettigrew's observation that (1979, p.570): 'The point of studying a sequence of social dramas longitudinally is that they provide a transparent look at the growth, evolution, transformation, and, conceivably, decay of an organization over time.' In ordering this we deploy 'temporal bracketing' (Langley et al, 2013) 'to enable the identification of specific theoretical mechanisms recurring over time' (p.7) by building on Sydow et al. proposal for a three-stage framework to explain organizational path dependence.

*Figure 1: Context and critical event timeline – British Aluminium Ltd.*

### **INSERT FIGURE 1 HERE**

The organizational analysis of BACo is set against a shifting international and institutional context within the wider aluminum industry. The periodization and focus on particular incidents in the industry that follow demonstrate strategic homophily in action arising from BACo's CPA and the behavioural consequences of constrained contingency ultimately resulting in path dependence. Whilst homophily continued to act as a means of introduction and social lubricant for the company, after World War I, BACo as part of its CPA embraced strategic homophily by recruiting senior military officers and civil servants in the belief that this would give them privileged access to government ministers and officials to unlock contracts and investment. Whilst this was partially successful, increasingly this approach led to a reliance on government, the blurring of distinctions between policy priorities and the commercial strategy of the firm, leading ultimately to path dependence. In this we detect a hindsight bias, selective perception and the illusion of control (Schwenk, 1988); principles arising from a form of behavioural homogeneity (Powell et al., 2011; Apfelbaum et al., 2014)

arising from strategic homophily. Here we also illustrate the contingent paths open to competitor firms, Alcan and Reynolds, whose successful arms-length pursuit of CPA was distinguishable from BACo's.

### *Pre-formation stage*

BACo was formed in May 1894, formed and led by Italian engineer Emmanuel Ristori, holding the rights for Britain and the empire. Ristori knew that the British War Office and the Admiralty had been conducting tests with the metal from the 1860s but prior to the discovery of the Hall-Hérault process (in 1886) the cost of aluminium was prohibitive. BACo's other founding director, Roger William Wallace, was a socially well-connected and prominent barrister with an expertise in patent law, whose clients included Hiram Maxim and Alfred Nobel, who became acquainted with the metal through its use in armaments. At this stage, the TMT exhibited homophilic tendencies in terms of the social selection of directors, but not strategic homophily.

The antecedents of BACo's shift towards strategic homophily was evident in its lobbying of government for increased military use of aluminium. Initially struggling for domestic markets, senior BACo figures sought to pressurize the British government to find military uses for the metal, exploiting concerns about British military preparedness after the second Anglo-Boer war (1899-1902) and European armament drives. In their sales brochure for 1908, the company stated:

The advent of aluminium now places a cheaper and a lighter material at the service of the War Office... sooner or later the British War Office will follow the example [of the Germans and Swiss], and Tommy Atkins will then have cause to thank the light, bright,

clean, rustless metal for its share in diminishing the burden (if not the heat) of the day.

(BACo, 1908)

By 1909, British military uses of the metal had also increased because of security concerns and scientific advances in the alloying of the metal (Graham, 1988). Notwithstanding the growth in military applications, BACo's outlay in large capital projects (constructing its upstream smelting capacity and hydro-electricity capacity in the Scottish Highlands) and shortage of other domestic markets led to the financial restructuring of the company, led by Andrew Tait (Perchard, 2012). At this stage, BACo were starting to recognize the potential benefits of military contracts as a means of reducing uncertainty. However, at this stage, BACo had not adopted strategic homophilic behaviours in terms of the appointment of senior military officers or civil servants to access government ministers and officials. The context did not allow for the company exploiting those activities on a grand scale at that stage, but markets were starting to open up for aluminium within metropolitan Britain and the Empire, and BACo would in due course have other options.

The period between 1894 and 1914 constituted a pre-formation stage where the company exhibited its use of homophilic tendencies. The additional appointments in April 1910 of Robert William Cooper and Stephen Hungerford Pollen continued this trend. Both Cooper and Pollen had significant cultural and social capital arising from their own milieus. Cooper (who was a Ferranti director) was a 'well-connected businessman' (Wilson, 1988; 111). Both Cooper and Pollen embodied the homophily that had come to characterize the company and formed the antecedence to the strategic homophily that would become clear after 1915. As for many British businesses, World War I transformed BACo's relationship with the state, and provided the foundations for its subsequent path to dependence. In this pre-formation stage, BACo's

fortunes were still not predictable and a range of options were open to them. Nevertheless, it had limited markets for its products.

*Formation: Conflict and the forging the relationship, 1915 – 1935*

For BACo, WWI marked a watershed in their CPA; providing it with immediate opportunities to expand its business, smelting capacity, and eliminate competition. This followed the reorganization of Britain's wartime administration after 1915, which brought senior BACo officers (and other business leaders) into positions of influence within government, helping the company realise its earlier ambitions of encouraging military use of the metal. BACo's chairman, Andrew Tait, and general manager, William Murray Morrison, used their membership of key governmental committees and access to ministers to secure initial political patronage, and state financial and political support for BACo, both before and after the War.

Tait and Morrison used their contact with ministers and membership of committees to ensure that the industry (which dominated British Aluminium production) was assured of 'key industry' status and was promised preferred treatment; this provided them with the positive feedback necessary to encourage their continued proximity to government (HMSO, 1917; TNA, 1918, 1919). The company's wartime and immediate postwar experience of working within government thus fomented BACo's strategy of recruiting senior military officers to aid its competitive advantage. However, it also presaged the problems to come; with that influence came both a reliance on government and the understanding that they would support certain policies, which led to unforeseen and commercially non-viable investments within the British Empire. A case in point being the reluctant decision of BACo to buy bauxite (the ore from which aluminium is derived) reserves in the then British colony of British Guiana (TNA, 1920, 1926). This was not a commercially advantageous investment for the company but they

secured them at the behest of a metropolitan British government concerned about security of supply issues to indicate their alignment with state priorities. The ministerial assurances, given during wartime and immediately after, which reinforced the benefits of proximity to government, were given under very different circumstances (Perchard, 2012, 2013). Not for the last time in their history, BACo failed to recognize the acuity of policy change, which came by the late-1920s when in a different political climate, Whitehall government departments embraced a policy of financial orthodoxy, which effectively negated any wartime assurances that the company had secured.

This stage therefore marks out the key historical phase in which the context of wartime cemented the proximity to government and established both the pattern of ‘strategic homophily’ in the attempt to align for advantage and behavioural bias. This was to be manifested in the form of ‘hindsight bias’, ‘selective perception’, and the ‘illusion of control’ (Schwenk, 1988), specifically the assumptions that were made about the static state of relations with government based on experiences during wartime service and immediately afterwards when closeness had leveraged advantages. This dependence on government was evident in utterances of leading company officials, such as those of managing-director Robert Cooper to shareholders in 1934 in which he referred to BACo as a ‘key’ national industry. He further continued:

We, on our part, have entered into onerous commitments to our Government so as to ensure a national supply of aluminium, but under existing conditions it is increasingly difficult for us to fulfil those obligations... I cannot refrain from observing that a greater measure of support and encouragement from our Government is what our national industries await and require (*The Times*, 28 March 1934).

BACo’s concurrent recruitment of Lt Gen Sir Ronald Charles in 1934 (a senior military officer

with unrivalled knowledge of central military planning and procurement) (see appendix), and their subsequent deployment of him to access government supply contracts and Treasury loans, signaled the company's move to strategic homophily in key appointments to sustain the firm. It also marked a period of convergence between strategic homophily and the formation of organizational path dependence, with the portents of this evident through the purchase of Guyanese bauxite reserves.

*Lock-in, 1935-1982:*

By the mid-1930s BACo's organizational path dependence, arising from their CPA, was complete, inculcated by a strategic homophily which in turn narrowed their strategic vision and choices. Overtime, the strategic selection of new directors shifted from senior former military officers to retired prominent civil servants reflecting the changing context and state priorities. In this case, 'board capital' initially served to provide the firm with some security but increasingly led to greater uncertainty and ultimately on several occasions threatened its survival. This is evident in the key events that follow: the negotiations over loans in the 1930s and 1940s; BACo's takeover (1958-9); and the Invergordon smelter debacle (1967-82).

Government loans, 1930s and 1940s

The change in political climate, and BACo's path dependence, were illustrated by the company's approach to the UK government for supply contracts and secured loans in the mid-1930s. These also illustrated the effects of 'strategic homophily' in their attempts to deploy 'board capital' to gain influence within government and capital investment. Seeking to further expand its main aluminium smelter in the Scottish Highlands, BACo approached the Treasury for a loan, using their newly appointed director, Lt. Gen. Sir Ronald Charles on the basis that as a former senior military commander he would carry more weight with his audience. BACo

used Charles to further press their case for Government contracts and finance for expanding smelting capacity before the Supply Board of Committee on Imperial Defence, Principal Supply Officers Committee in April 1935. Unlike other committees, this was heavily composed of senior staff officers from all the branches of the armed services. They thus felt that Charles would carry more weight with this audience.

Charles's appointment and deployment in BACo's dealings with government epitomizes BACo's strategic homophily manifested in its CPA. The Company assumed that Charles's preceding posts as one of the most senior British interwar military planners – as the Commandant of the military arsenal (1924-6), the Director of Military Operations and Intelligence (1926-31), and the Master-General of Ordnance (1931-4) – would afford them privileged access to procurement processes and government funding (GUAS, 1933). Despite this, BACo were rejected (TNA, 1935) with one of the Treasury's most senior officials Sir Frederick Phillips considering the company to be far too much of a liability and counselling against the loan (TNA, 1936a-c). BACo's proximity to government meant they lacked acuity of the changes around them in relation to government supply priorities. This speaks to Vaara and Lamberg's (2016) identification of the value of historical embeddedness in explaining the socio-historical context in which strategic decisions are made.

The extent of BACo's lock-in was evident from wartime correspondence between Treasury and the Ministry of Aircraft Production (MAP) (TNA, 1944a) on the back of a complaint lodged by BACo's Managing-Director, Sir William Murray Morrison:

...a British aluminium producer should not be expected to operate on terms less favourable than those accorded to a Canadian aluminium producer. But... we were dealing with a Company not under our own jurisdiction and not, therefore, amenable to the influences that we can frequently bring to bear upon one of our own contractors.

Morrison's indignation had been sparked by the revelation that Alcan, its chief competitor within UK fabrication markets, had received more favourable loan rates than BACo from the British government. When BACo discovered this anomaly in 1944, through one of their directors, the Hon. Geoffrey Cunliffe, who had been seconded to MAP for the duration of the Second World War, they were incensed and demanded an explanation (TNA, 1944a).

The overriding logic behind the decision was that government could exercise greater influence over BACo as a domestic producer close to government, than they could over Alcan as a globally competitive operator. BACo felt the injustice given that Alcan and Norwegian producers could produce aluminium ingot at one-third the price that it could in its Scottish smelters, due to greater hydro-electric capacity at their disposal. Also the Canadians and Norwegians benefitted from favourable import agreements for aluminum from the early 1930s onwards (Perchard, 2012). The Treasury's final response was to conclude that it felt little sympathy for the Company and that they had been treated "very favourably" (TNA, 1944b).

These exchanges with government in the 1930s and 1940s illustrate the growing extent of BACo's path dependence arising from their strategic homophily. Having become locked into their relationship with government, BACo's strategic options were now limited, affecting its ability to escape its path. That formative path dependence would become further embedded as would the continued deliberate practice of hiring from 'birds of a feather', as witnessed by the recruitment of successive BACo chairman between 1953 and 1959; Viscount Portal and Cunliffe, as successors to Pollen and Cooper. The wartime proximity to government was also evident in other headquarters staff who had served in various official capacities in government (*The BA News*, January-February 1949). This continuity of elite association was also perpetuated through the organization's culture – with its catechism of loyalty, service and patriotism – and selection of management education. In contrast, Alcan's distinct CPA in their

successful prosecution of an arms-length relationships with the British, Canadian and US governments illustrated a less constrained contingent path (Perchard, 2012).

#### Reynolds-TI Takeover, 1958-59

In the winter of 1958-9 BACo became embroiled in a highly contentious and bitterly fought takeover battle with the UK company Tube Investments (TI) and the US aluminium producer Reynolds Metals (Cailluet, 2001; Perchard, 2012). Reynolds's astuteness in political maneuvering transformed it (in less than twenty years) from a non-entity within global aluminium to a major player in an industry that was characterized by its 'country club atmosphere' and high degree of oligopolization (Perchard, 2019). The mishandling of the takeover battle by BACo's leaders and 'pre-eminently establishment figures' (Roberts, 1992: 193), Portal (as Chairman) and Cunliffe (as Managing Director), encapsulated the weaknesses of the selection of strategic homophily in its recruitment of socially well-connected former military officers and officials who were too close to government, and commercially inept, in an increasingly competitive global industry. Portal's fellow directors at Barclays DCO, for example, observed that he was out of his depth in the commercial world preferring sporting magazines to financial papers (Richards, 1977).

The takeover battle exposed BACo's reliance on government, and failure to read the changed political environment. In particular, BACo ignored: (a) the Macmillan government's support for US takeovers of British companies to improve competitiveness; (b) the government's vulnerability to claims by the opposition that they were poor stewards of the economy; and (c) a lack of appetite on the part of key ministers to oppose the takeover. Portal had expected that his connections with ministers, and particularly the Prime Minister Harold Macmillan (whom he initially approached about the takeover at a shooting party in November 1958), could be

used to BACo's advantage. He deployed these to demand a meeting with the Prime Minister Harold Macmillan after framing the takeover in terms of economic nationalism (TNA, 1959a).

Portal's meeting did not go well. Macmillan had already informed Portal that he could not personally intervene the preceding November and did not like Portal's emotional display. Portal and Cunliffe had also approached Reynolds' competitor, Alcoa, with a view to them buying a majority share in BACo, which they had kept secret from shareholders, undermining any arguments around the government adopting a protectionist position and showing Portal to be duplicitous. Further, had Portal and Cunliffe paid attention to the political climate, they would have noted that the opposition Labour Party was making political capital out of the failure of Macmillan's administration to modernize the British economy in the run up to a General Election. A Cabinet memo discussing the BACo takeover noted, 'political and commercial factors had made it hard to adjudicate expressly in favour of one or other of the proposals' (TNA, 1959b). While Macmillan was privately supportive of US takeovers of British firms, he was opposed to the deal with Alcoa, declaring 'it seems in effect American control – and not only of the Company but of all the ancillary services, shipping, etc.' Portal's connections did little to change BACo's fortunes in this respect (TNA, 1958).

The takeover demonstrated how strategic homophily arising out of BACo's CPA resulted in organizational path dependence; Portal and Cunliffe assumed that their connections with government and the Prime Minister would protect the Company from takeover but were blind to the changing political context. These illustrate a perceptible selectiveness and illusion of control (Schwenk, 1988) within BACo TMT's behaviours. Alluding to the culture within BACo (as an analogy for Macmillan's cabinet), Shadow Chancellor of Exchequer Harold Wilson described Portal and Cunliffe as examples of the, 'hereditary squirearchy... honest

chaps, whispering, all of them, the sweet enchantments of a bygone age, good husbands and fathers, no doubt, but entirely out of touch with modern industrial society' (Hansard, 1959). That narrowness of vision and limited perception was evident in Portal's private attempts to marshal his elite networks to build public opposition to the TI-Reynolds bid. Portal comported himself as BACo chairman as he had as a British military leader and subsequently in his postwar government service, manifesting a Weberian moral 'vocation' for the company as indistinguishable as service to the state (Weber, 1994), arguing against short-termism within shareholder capitalism as distasteful in a letter to the prominent British industrialist and aviator, Sir Thomas Sopwith (CCC, 1958).

In contrast, TI-Reynolds had a different outlook. In the aftermath of their winning of the takeover battle their spokesperson observed of BACo board's conduct (especially Portal and Cunliffe): 'If you ask me what mistake they made, I'd reply in one word: arrogance. Their kind applauds the rules and practices of capitalism only when it suits them' (Perchard, 2012). After the takeover, a TI-Reynolds observer stated: 'I believe that B.A. is over-departmentalised and civil service minded' (VHS, 1959). In contrast, Reynolds' successful CPA in Washington DC in the 1940s and 1950s bought them considerable competitive advantage, centred on their investment in organizational capabilities in their acquisition of a sophisticated public affairs machinery (composed of former politicians and officials) that did not tie them to government (Perchard, 2019).

After the TI-Reynolds takeover, the Treasury insisted on a 51:49 split with Reynolds in a minority shareholding to ensure BACo stayed British controlled and Reynolds did not wish to be seen to be taking too central a role; equally the TI chairman Sir Ivan Stedeford (a former WWI fighter pilot who chaired the 1963 advisory committee on the state of British transport)

was very much an establishment figure. The strategic homophily within BACo continued with the appointment of the senior career civil servant Sir Edwin Plowden as chairman between 1959-61, then his replacement as BACo chairman, Sir William Strath, another senior career civil servant (see appendix).

Both were establishment figures who did not initiate a change in culture in the BACo boardroom, but whom were appointed on the basis of their social milieu, strong government contacts, and their intimate knowledge of defence and civil procurement procedures. Crucially both men had been party to the shortcomings of Britain's civil nuclear power programme, including the new Advanced Gas-cooled Reactor (AGR), and Plowden had backed the AGR programme, which was to lead to BACo's disastrous Invergordon deal (Perchard, 2012; MacKenzie, 2012). Much like Charles, Portal and Cunliffe, this was a case of strategic homophilic practice designed to use 'board capital' to align BACo politically for competitive advantage. As the political context had changed, the skills identified for selection of TMT members changed principally from military officers to senior civil officials. A representative of leading French aluminium producer, Pechiney, reporting back to his offices in Paris recorded the palpable air of stagnation in BACo's London offices just three years after the takeover, noting that headquarters staff were utterly demoralised and the company lacked a strategy (IHA, 1962).

#### Invergordon, 1967-82

The Invergordon aluminium smelter was a top-down initiative catalyzed by Prime Minister Harold Wilson's government in 1967 to establish a smelter powered by the AGR nuclear reactor power station to provide a competitive advantage against international competitors in Canada and Norway who were powered by extensive natural hydro power. After the

announcement of the government's intention to commission two new smelters, three bids were received from BACo, Alcan, and a consortium led by RTZ at the BoT's request in October 1967 (MacKenzie, 2012). BACo proposed a smelter producing 120,000 tonnes of aluminium per year, as well as an associated alumina plant costing a total of £30m to construct (TNA, 1966). This was identified as the most attractive proposal tendered on the basis that it provided the greatest benefit to the balance of payments problem, had the lowest cost of production, and the company's terms for the contract arrangement were the most favourable (RTZ's proposal was the other one selected) (TNA, 1968).

BACo's status as 'British-controlled' was important in its selection as a preferred operator. Its parent company TI was also close to the UK government – its former employee Fred Catherwood was the former Director General of the National Economic Development Council before later becoming Chief Industrial Advisor to the Labour government in the Department of Economic Affairs (MacKenzie, 2012). This was another illustration, alongside Plowden at TI and Strath at BACo, of the blurring of interests and the strategic homophily within BACo, which would be reflected in the decisions over the smelter contracts.

Negotiations for the smelter were convoluted and time-consuming (NRS, 1973). BACo wanted guarantees on the price for the smelter from the electricity board it had to negotiate with for power which would initially be drawn from more expensive coal-fired electricity, before the intended cheaper electricity could be provided by the newly nuclear power station to be constructed. The government assured that any delay in construction of the nuclear power station was unlikely to cause problems between the company and the electricity boards and that they should agree a contract without any protection or guarantees (TNA, 1973).

BACo were very unhappy with this and sought assurance from President of the BoT, Edmund Dell, that in the event of any aspect of change in the design of the new nuclear power station affecting the price BACo had agreed to pay, the government would concede to alter the agreement accordingly so that the company would not be wholly responsible for the extra costs as a result. Dell accepted this, but it was not written into the contract, instead taking the form of a letter written by Dell to BACo's chairman Sir William Strath (NRS, 1968). This was to be known as the 'fair clause' (NRS, 1977), but was not legally binding in any form. BACo, as a result of their historic closeness to the UK government, ultimately trusted the word of government experts on the cost and completion time of the new nuclear power station.

The smelter opened in 1971 but delays in the construction and opening of the nuclear power station resulted in the smelter having to rely on expensive coal fired supply. This resulted in a deficit growing substantially and quickly in the smelter's operations and concerns over its viability as a commercial concern. Consequently, BACo invoked the 'fair clause' side letter in March 1973 arguing that there had been a substantive change in the circumstances surrounding the smelter (the aforementioned delays) and the original contract should be renegotiated. It took until 1976 before an agreement was made to reconcile the smelter's deficit and BACo's responsibility with an Act of Parliament to make the payment, totalling £113m, in 1976 followed by a further £57m in 1977 (MacKenzie, 2012). However, the changes in government left BACo exposed without any contractual protection against the rising power cost, delays in construction of the nuclear power plant and a volatile global aluminium price.

BACo's willingness to rely on the word of government was naïve – the 'fair clause' was not legally binding, nor did it obligate successor governments to act. The result of this was the eventual closure of the smelter in 1981 with the total cost of the smelter coming to £381.1m with the vast majority of the amount attributable to the smelter deficit account (Scott and

Cuthbert, 1985). BACo was then taken over by Alcan shortly after, having been mortally wounded by its Highland misadventure. It exhibited once again their organizational path dependence arising from a strategic homophily inured by decades of proximity to government with disastrous consequences for the firm's performance and long-term survival.

### **The case for strategic homophily.**

BACo's TMT exuded social privilege from its formation. Many of those who graced the company's board throughout its first two decades were drawn from elite backgrounds, mainly a mixture of scientists, city speculators, industrialists, with shared social networks, club memberships and landed pastimes. This was captured in the personage of the company's first scientific adviser and pre-eminent man of Victorian science, Lord Kelvin (Sir William Thomson). BACo embraced homophily. This also fostered a patrician culture, stressing values of loyalty and service, which reinforced such behaviours. The *pater familias* of BACo, William (later Sir) Murray Morrison was a former student of Lord Kelvin's, illustrating the long history of homophily based on narrow social selection in the company.

Struggling to find markets and faced with financial difficulties, the company recognised the potential value of growing military uses of the metal before World War I. However, the conditions did not yet afford the opportunity to influence government. The experience of World War I, especially after 1915 and the recruitment of businessmen into the wartime administration (including BACo's Morrison and Tait), marked a watershed; Tait and Morrison were able to leverage advantages for the company through their proximity to ministers and membership of advisory committees gaining the state assurances of protection ('key industry' status) and political patronage. That provided positive reinforcement that encouraged aligning with government for advantage. It prompted the company's embrace of strategic homophily as

a means of leveraging the benefits of specific ‘board capital’ to eliminate uncertainty and enhance firm performance as integral to their CPA. Strategic homophily within the company was epitomised through the recruitment of former senior military officers and civil servants with close familiarity and connections within the military, and subsequently civil, procurement processes and links to ministers, serving military personnel and civil servants to the TMT, seen through a long line of key figures like Lt Gen Sir Ronald Charles, Viscount Portal, the Honourable Geoffrey Cunliffe, Sir Edwin Plowden and Sir William Strath.

The persistence of this strategic homophily was also reflected after World War II in the decision of BACo to subscribe to and educate its senior management at the Administrative Staff College (ASC), Henley (a former RAF staff college) that educated senior civil servants, and the leaders of nationalised industries, alongside those of prominent British companies (Dimock, 1956). The ASC’s founders made it ‘a meeting place of the two main categories of administrators – the officers of the private and of the public services’ (*The Times*, 7 November 1945). The strategic homophily evident in the selection of the BACo board after World War One, and its proximity to government demonstrably limited their strategic choices. Portends of this could be seen in the formative stage of path dependence, such as in episodes like BACo’s acquisition of bauxite reserves in British Guiana against its commercial interest but in alignment with the British government’s strategic priorities. The company’s lock-in was glaringly demonstrated through the negotiations over government loans in the 1930s and 1940s, the takeover in the 1950s and 60s, and eventually the disastrous Invergordon decision in the 1970s and 80s. We develop these into an analytical model of the temporal stages and board actions in figure 2:

*Figure 2: Longitudinal self-reinforcing mechanisms of organizational path dependence*

**INSERT FIGURE 2 HERE**

## **Discussion**

This article seeks to address the recent call by Mellahi et al. (2016) for more business history to better understand the links between nonmarket strategy and firm performance, which they suggest ‘remains elusive’ (p.147). This responds to a long-standing focus on the link between CPA and competitive advantage (Hillman et al, 2004; Lawton et al., 2013), specifically through the exploration of RDT. In contrast with the majority of the literature in this area, which underlines the positive effects of ‘board capital’ deployment on firm performance, this demonstrates how strategic homophily associated with CPA can lead to path dependence. CPA deployed by BACo initially had a positive effect of legitimising the business and providing some security, before in time locking it into a path which it found increasingly difficult to break despite the changing expertise of appointments in its TMT. Work by Lawton et al (2014) has suggested that political priorities are aligned more with market ones at a strategic level in organizations – our findings here suggest that caution must be exercised so as to ensure it does not become the *raison d’être* for strategy-making and TMT recruitment in organizations.

Path theorists have identified the challenges in understanding the ‘self-reinforcing mechanisms’ that lead to path dependence in organizations (Sydow et al, 2009). Our multi-level organizational historical analysis illustrates strategic homophily as one such mechanism that in conjunction with the micro (individual contingency), meso (organizational), and macro (political economic context) factors conflated to lead to its organizational lock-in. The output of BACo’s strategic homophily approach to TMT composition and related CPA was a homogeneity in its strategic thinking (Apfelbaum et al, 2014), reflected in the firm’s principles for action (Ocasio, 1997), selective perception in its continual return to government, conservatism in its unwillingness to change tack, and the illusion of control in terms of its willingness to approach government as a perceived equal in commercial deals when the

opposite was apparent. This was equally predicated on a hindsight bias that assumed a predictability based on past events (Schwenk, 1988). Strategic homophily beget each of these behaviours leading to organizational lock-in.

Our findings illustrate the value of historical research in understanding CPA, strategic homophily, and organizational path dependence, in testing, modifying and bringing historical integrity to that process (Kipping and Üsdiken, 2014; Bucheli and Kim, 2014; Mellahi et al, 2016). We demonstrate this through the temporal bracketing of social dramas in BACo's history illustrating how *pace* Sydow et al (2009) historical events can be elevated into self-reinforcing dynamics culminating in organizational lock-in. We also provide vital insights into the 'strategic use of homophily' that Phillips et al. (2013) identified, which 'may inhibit the functioning of a venture' (p.149). Understanding the context, contingency and complexities of the flux of the environment informing that is imperative (Pettigrew, 1990; Alvensson and Kärreman, 2007; Perchard et al, 2017; MacKenzie, 2018) to that explanation. The deliberate decision to align with government and strategic homophilic tendencies through the recruitment of senior military officers and civil servants after World War I limited their acuity of political change, narrowed strategic vision and ossified the organizational culture. Their shared elite networks compounded this. This study offers potentially valuable further lines of future investigation into elite networking and organizational decision-making, and as a subset of this the effects of CPA on board membership and strategic performance specifically around resource dependency theory, as well as board diversity.

Our methodological approach contributes what Maclean et al (2016) identified as: 'organizational research that draws extensively on historical data, methods and knowledge, embedding organizing and organizations in their socio-historical context to generate

historically informed theoretical narratives attentive to both disciplines' (p.7). Our study of BACo's culture and decision-making provides an illustration of what Vaara and Lamberg (2016) have identified as the value of historical embeddedness in explaining the socio-historical context in which strategic decisions are made. Here we extend that to include the political economic context also. The CPA strategy literature, while recognizing the importance of history, has demonstrated tendencies to use history selectively as contextual padding as those of the main business and management row subjects identified by Perchard et al (2017).

We maintain that careful consideration of history is crucial to TMT environmental scanning. That proximity to government during and after the First World War (and the arising strategic homophily) initially leveraged advantages but increasingly hampered strategic decision-making in the firm and locked it into organizational path dependence. Our analysis shows how the political economic and socio-historic context were crucial to understanding BACo's adoption of strategic homophily and ultimately its organizational path dependence. Whilst we focus the analysis of strategic decision-making within BACo around a TMT, as identifiable both by hierarchy within the company and by attributes in their role in adapting to external organizations and events (Hambrick, 2010), we recognize the sensitivities in doing this within a historical study of organizations. This is reflected in the demonstrable characteristics of strategic homophily within BACo's TMT as it sought to adapt to changing externalities.

We acknowledge a number of limitations present in this work. The most obvious is that it is a single case study of an organization that ultimately failed. Nevertheless, there is value in understanding BACo's failure, not least due to the findings of Mellahi et al. (2016) who assert that the majority of articles on nonmarket strategies report positive outcomes of such associations, despite the elusiveness of the nature of such engagements. An in-depth single

case study analysis allows for a more detailed understanding of the nature of such engagements. A second limitation is that we have only focused on TMT, and not the levels below in the organization. This was partly a result of the availability of data and the constraints of article length. We cover a period of 80 plus years and overtly focused on the strategic choices made by the firm over this period, which necessarily required analysis of the TMT level. Nevertheless, we know that strategy is enacted below TMT levels and acknowledge that we have not been able to address how. Future work on this may consider how the effects of strategic homophily and CPA impact on the organizational structure and everyday activities of organizations, both of which remain relatively less well-understood.

## **Conclusion**

This article demonstrates the long-term effects of strategic homophily arising from CPA, offering insights into how the social and official background of TMTs in organizations can be detrimental to their longer-term survivability, even if they can initially help provide legitimacy and leverage advantages. By engaging in CPA and the strategic homophilous recruitment of directors with key military and civil service backgrounds, BACo felt it was aligning itself for competitive advantage with UK government priorities. However, by not remaining acute to the changing context, it was in fact aligning for disadvantage by locking itself into a path which eventually led to its demise. This provides a different perspective on the effects of ‘board capital’ on firm performance in contrast with more sanguine appraisals of market and political strategic alignment (Hillman and Dalziel; Hillman et al; Lawton et al, 2014; Mellahi et al). Extending the extant literature positing the positive attributes of strategic homophily on the initial formation of the firm (McPherson et al.; Borgatti and Foster; Ruef et al.; Ozcan and Eisenhardt; Phillips et al.), we show how in the case of BACo the deliberate selective strategic homophilous recruitment of the Company’s board, integral to its CPA, constrained strategic

decision-making and ultimately embedded organizational path dependence. In so doing, we address Sydow et al's (2009) call to explain some of the organizational causes behind path dependence.

## INSERT APPENDIX 1 HERE

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