Organisational Paths: How History Matters in a Publishing Organisation

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Whilst the notion of path dependence features quite prominently in organisation and business history literature, its actual meaning and logic have remained vague and ambiguous. In order to advance a more precise understanding of the underlying logic we present a theoretical framework explaining how organisations become path-dependent. At its core are the dynamics of self-reinforcing mechanisms, which are likely to lead an organisation into a lock-in. The process of an organisation – or some of its subsystems – becoming path-dependent is conceptualised along three distinct stages. The conceptual model is then used to investigate a German book club that has become path-dependent and, finally, locked-in.

The notion of path dependence has become so popular that it is almost a common place to describe the development of organisations as being path-dependent. With its increasing popularity, however, the notion of path dependence has progressively lost a specific meaning, especially in management and organisation studies, where arguably the analytical potential of the concept has hardly been made full use of. Most often, it is merely used as a metaphor accentuating the fact that history matters when explaining cultural artefacts. This is all the more regrettable as problems of path dependence seem to trouble an increasing number of organisations. As a result of this tendency, the analytical power of (concepts from) the theory of path dependence, by and large, remains underutilised. It is the aim of this paper to demonstrate that explanations of persistence and rigidity can profit a lot from a re-sharpened concept of path dependence building on the ideas originally put forward by Paul David and W. Brian Arthur in their economic investigation of the diffusion of technologies, the QWERTY keyboard layout being their most prominent example.

We suggest a framework of organisational path dependence to contribute to a better understanding of strategic persistence and organisational inertia by referring to the theory of path dependence in a more rigorous manner and to unpack the often hidden dynamics underlying path-dependent processes. Though this is a mainly conceptual paper, we refer in some depth in the empirical part to results from a study on a German media conglomerate that has become path-dependent and, finally, locked-in in one of its businesses. Based upon the theoretical framework and the empirical case study we draw some conclusions and point out some directions for managerial practice and future research.

By presenting a theoretical framework and an empirical case that highlights the analytical power of path-dependence thought, we picture one, but by no means the only aspect of how history may matter in organisations.

Organisational Path Dependence: Theoretical Framework

The basic point of any path-dependence argument provided so far stresses the importance of past events for future action or, more precisely, of foregoing decisions for current and future decision-making. Although this insight has certainly advanced the building of a time-sensitive understanding of organisational phenomena and helped to overcome the a-historical and unbounded view of rational choice thought, it is too vague a perspective. Path dependence means more than a mere ‘past-dependence’, as such, an all-embracing understanding of path dependence does not enable us to comprehend better the specific dynamics of locked 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, a sequence of events narrowing the scope of action eventually resulting in a state of persistence or inertia. Valuable insights into the dynamic nature of entrapping or locking processes have been provided by studies from evolutionary economics. In these accounts, decisions taken in the past can *increasingly* restrain future choices. The decision pattern used repeatedly in the past 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 which are likely to accumulate in a specific path of action. The inherent self-reinforcing dynamics are usually beyond the control of the individual actor; the regime takes the lead and potentially renders the process into a non-reversible state of inflexibility or even ‘lock-in’.

This brief illustration already highlights the fact that the process of path evolvement cannot be characterised by the same structural properties at any point in time in the process. The initial situation differs completely from the final situation. Therefore, we suggest subdividing the whole process into different stages governed by basically different regimes. We propose distinguishing three phases in the process of bringing about path dependence:

1. **Phase I** – the Preformation Phase – can be characterised by a broad scope of action, where choices taken cannot be predicted by prior events or initial conditions. Up to a certain degree, however, the first phase is also influenced by the past. Thus, Phase I should build conceptually on historically framed and ‘imprinted’ contingency and not on completely unrestricted choice. Once a decision is made – on whatsoever basis – this choice may turn out to be a ‘small event’ (or better: critical event). If so, this ‘innocent’ decision sets into motion self-reinforcing processes (see the shadow in Phase I in Figure 1). The moment of entering into the dynamics of a self-reinforcing process can be conceived of as a ‘critical juncture’.

2. In **Phase II** – the Formation Phase – the range of options increasingly narrows and it becomes progressively difficult to reverse the initial choices, despite any attempts to powerfully intervene into the process. In other words: a path is evolving. In this at the beginning possibly quite contested phase of path-building a new regime takes the lead: the dynamics of self-reinforcing processes. Arthur elaborates on these driving forces, conceiving them as increasing returns. The notions of increasing returns or positive feedback indicate self-reinforcing processes with growing benefits, which are likely to culminate in a patterned dynamic, overriding even powerful interventions. 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, i.e. whilst essentially constrained, choices are still possible.

The empirical studies that have provided ample evidence for the existence of self-reinforcing and non-reversible dynamics have been primarily conducted in the field of technology development and diffusion. In economic and institutional studies six types of self-reinforcing dynamics have been identified: economies of scale, (direct and indirect) network externalities, learning effects, adaptive expectations, coordination effects, and complementarities. Examining the economic effects in more detail reveals, however, that they develop under special conditions only, namely if the decision to reproduce a particular option is suggested by a utility calculus. Without excluding this case, it seems too restrictive a starting point for an explanation of organisational paths. As is well-known from a long-standing research tradition, there are other potentially salient self-reinforcing patterns in organisations, for instance based on emotional reactions, cognitive biases, political processes, and so forth. These dimensions have to be included in order to understand the 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.
The organisational studies mentioned above also urge the adoption of a broader perspective beyond individual decision-making, which accounts 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, etc.) provides, indirectly and inadvertently, the drivers of self-reinforcing loops.\(^{15}\)

The transition from this second phase to Phase III – the Lock-in Phase – 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 gains a quasi-deterministic character. Further processing is fully bound to a 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. The problem of a lock-in becomes particularly obvious in cases where a more efficient alternative appears but a switch is no longer possible. The result is actual or potential inefficiency.

Considering organisational paths, the context seems to require also a somewhat modified conception of lock-in. Due to their social character organisational processes are more complex and ambiguous in nature.\(^{16}\) They are not likely to amount to a concrete monopolistic solution, which excludes any further choices. Rather, they are likely 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 we must not forget the power of knowledgeable agents to act otherwise.\(^{17}\) For these reasons, we should refrain from reifying paths and attributing them an objective quality. Instead of a fully determined lock-in, no matter whether of a cognitive, normative or resource-based kind, 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.\(^{18}\) 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 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 to indicate this corridor).

In sum, the proposed theory – as shown in Figure 1 – conceptualises an organisational path as a social process that is initially, in Phase I, shaped by contingent choices leading to a critical juncture which are triggered by a critical event. Phase II, the true 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 cognitive, normative or resource-based lock-in, in terms of a pattern underlying actions and/or practices.

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**Figure 1: The Constitution of an Organisational Path**\(^{19}\)

![Diagram of organisational path phases](image-url)
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 upon (concepts from) the theory of path dependence as originally developed by David and Arthur and later modified by social scientists. All explanations of institutional and organisational persistence provided so far point to critical features and have their merits. What they are missing, however, is a theoretical clarification of the process of becoming persistent. What are the underlying dynamics and why do organisational members not resist institutional rigidifying? In which cases do organisations get locked into their behavioural patterns and in which not? Are there major driving forces?

**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 ten years. The firm tried repeatedly to change the business model, but did not succeed in doing so. It even considered selling its traditional business, but up to now the company’s history proved too strong a path.

**Methodology**

The book club division offered the opportunity to study a single embedded case over a long period of time at different points in time. The time span covered the years from 1945-2007. Our analysis is based upon data from two main sources. Our primary source was thousands of pages of archival materials, including annual reports, strategic reports to the board, minutes of board and executive meetings, correspondence with external agents, press releases, book club catalogues, advertising materials, website, and articles in newspapers and industry journals. The analysis of the archival material was supplemented with interview data. In all, 11 face-to-face semi-structured interviews with current and former executives in charge of the book club as well as with industry experts were conducted. The interviews lasted from one to three hours, and were recorded and transcribed. Using multiple sources of evidence allowed for data triangulation and improving 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 3-stage development, focussed attention on certain events and governed our analytical choices. The analysis of the data was assisted by computer tools, in particular by the pre-packaged software Atlas.ti. 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.

**Findings**

Bertelsmann’s book club (‘Lesering. Das Bertelsmann Buch’) was founded in 1950 by Bertelsmann publishing company. At that time, when looking for an effective channel of distribution with access to the mass market, Bertelsmann chose direct selling as the most promising way. The strategic guideline was: mass circulation, solid books at moderate prices! Bertelsmann organised the direct selling in the form of a book club. They built their clientele in a decentralised way: the publishing house cooperated with independent distributing agencies (which were in many cases established book stores). These agencies
drummed up customers and administered the distribution. In a way, that was an early franchise system, which allowed the publisher to grow rapidly without capital consuming investment in distribution facilities. The book club set up the program, produced the catalogue and printed the books. The independent agencies managed the distribution. The book club soon became a company on its own, detached from the printing house and the publishing company. The ‘Lesering’ not only grew rapidly, it also turned out to be a highly profitable business. As early as 1962 it went international and founded subsidiaries in Spain, Austria, Switzerland, Belgium, France, etc.

In the 1970s, operating under the new brand name ‘Bertelsmann Buchclub’, many competitors were acquired and Bertelsmann became the absolute market leader in the 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 success. However, in the 1980s the membership stagnated and began dropping progressively afterwards (though there was a considerable short-term peak after re-unification). In 2007 the number of members had dropped to the level of 1962 (see Figure 2).

**Figure 2: Membership Development of Bertelsmann’s Book Club**

In the 1990s the economic situation of the book club changed dramatically, since 1999 the company has even suffered losses year after year. The estimated cumulative loss by 2007 was €110 million. In response, the company started various strategic renewal programs but none succeeded. Actually, in most cases they stopped the changes after 2 or 3 years and returned to the established business model. Also, the owners replaced the top manager twelve times since 1990, but no one has been able to effectuate a structural change so far. As a matter of fact, a puzzlingly strong strategic persistency has developed over the time; the company seems to be frozen. A closer look at the case in fact reveals strong indicators pointing to organisational path dependence.
Phase I: The initial situation right after the World War II was characterised by some imprints from the past, but nevertheless there was a broad scope of strategic alternatives. The company decided to re-start with producing and selling entertaining books at low prices. 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. The employment of these agencies turned out to be the critical event, the major trigger and driver for the evolvement of the path. The agencies were extremely successful in acquiring book club members and they kept the administrative load of the book club low. Other early decisions that proved to be of critical importance were (1) to produce representative hardcover books at a low or at least moderate price, (2) to offer only a small range of books, and (3) to offer ‘suggested reads’, i.e. every three months the club selects and sends a book.

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 which contributed decisively to path building. The first and major self-reinforcing mechanism which could be identified was economies of scale. The Bertelsmann book club model implied a focus on some few 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. In the 1960s and 70s the average edition of fiction books in Germany was some 5,000 copies; by contrast to that Bertelsmann could sell at least some 100,000 copies per title and thereby realise tremendous economies of scale. Of course, they did not take the full difference, they sold the books at lower prices than book stores, but there was still a remarkable profit span. Particularly successful were the so-called suggested reads which in 1955 sold on average as many as 725,000 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 evermore members.

In addition, there proved to be a second self-reinforcing dynamic at work: 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. The management decided to expand the printing facilities of the corporation considerably and founded a printing company which also served the then separate Bertelsmann publishing company. 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. There were also complementarities between the publishing house and the book club. In many cases the book club bought licenses from the publishing house and produced a special book club edition of the same book. As a result, all other Bertelsmann affiliates profited a lot from the growth of the book club and in order to earn economies of scale the Bertelsmann group pushed the expansion of complementing 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.

Phase III: The analysis revealed that in the 1970s first weak signals already indicated that the book club idea might no longer fascinate so many Germans as it had in the years before. As a result, the Bertelsmann book club membership (and that of all other German book clubs) stagnated. Despite many acquisitions, there was no stopping the decline of book club membership. In 2007, the number of members dropped to the level of 1962 (and the number has continued to drop since then). In 1999, the economic situation
came to a turning point and the book club showed a loss for the first time since its foundation – and has not recovered since then. Responding to the upcoming crisis, the management developed a lot of strategic restructuring initiatives, but surprisingly enough, all the initiatives up to now have failed. The book club never actually assimilated the new ideas, the old pattern proved so dominant that the new initiatives bounced off. Concurrently, the strategy to exchange key managers failed, too. The owners have replaced top management several times. But so far all the new top managers 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 for at least ten years 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 attempted changes of the situation have not been realisable – despite all efforts.

Conclusions and Directions

The case of the Bertelsmann book club demonstrates the narrowing character of the entire process. At its very beginning the strategic situation was open; though, contrary to the assumption of technological path dependence theory, history already mattered in this initial phase of the process. Moreover, the case shows that the formation of organisational path dependence was triggered by accidental critical events or decisions: producing a small program only and relying on freelancing distribution agencies. The path came into being through self-reinforcing dynamics consisting of a combination of economies of scale and complementarity effects. Eventually, in the final phase, the whole process has become locked, other more efficient alternatives are no longer realisable, and significant economic losses are the result. Even more importantly, it seems to be difficult if not impossible to escape or break the organisational path even though powerful actors will certainly have again the chance and try to intervene into the process.

Applying the proposed theory of organisational path dependence to an in-depth case study goes well beyond most former efforts, which have either 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 the NASA or leading research organisations. The major limitation of the present study results most obviously from the fact that only one embedded case has been investigated – though one which we could study extensively and over a very long period of time. Future studies of organisational path dependence, nevertheless, should adopt a multi-case design 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 case. It may well be that major developments in the field of book publishing and distribution prevented Bertelsmann from turning away from its book club business in Germany or from renewing it in a way that was feasible as in France and Spain. Finally, future studies of organisational path dependence should be even more precise in unpacking the interdependencies between the self-reinforcing feedback processes that are at the core of the theory of path dependence in general and of organisational path dependence in particular.

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