Legitimacy defense during post-merger integration: Between coupling and compartmentalization

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Abstract

During post-merger integration, the realization of the benefits of potential synergies depends on managing the legitimacy of the merger. However, we still know little about how threats that change stakeholders' assessments of a merger's legitimacy are managed. This study is based on the merger case of Air New Zealand's trans-national acquisition of Ansett Australia where a delegitimizing event occurred at Ansett relatively early after the integration had started. The study builds a framework of an evolving legitimation process depicting the oscillation between legitimation responses that maintain the coupling between the two organizations and a compartmentalization response used to manage diverse stakeholders' legitimacy demands and illegitimacy spillover concerns. We explain how these legitimation responses can create an unproductive oscillation where stakeholder assessments of illegitimacy build up and ultimately become unresolvable. Our processual framework provides novel insights regarding when attempts to defend legitimacy can prove self-defeating, demonstrating how previous responses emphasizing integration or separation can affect the success of subsequent swings back to coupling or compartmentalization.

This paper seeks to extend our understanding of merger legitimacy, particularly with regards to defending legitimacy during post-merger integration. Mergers have long been of central interest to strategy scholars (Jemison and Sitkin, 1986; Lubatkin, 1983) with a variety of value creating motives seen to drive merger decisions (Schweizer, 2005; Trautwein, 1990; Zollo and Singh, 2004). Many mergers are pursued to capture integrative benefits through creating efficiencies via economies of scale and/or scope, by leveraging shared resources, increasing revenue from joint market expansion, as well as by improving competitiveness of the merged firm (Cording et al., 2008; Graebner, 2004; Zollo and Singh, 2004). However, efforts at realizing benefits can be difficult and even unsuccessful as the implementation of the integration process can face significant challenges as part of post-merger dynamics

(Haspeslagh and Jemison, 1991; Lubatkin et al., 1998; Stahl and Voigt, 2008). In addressing this issue, it has been argued that legitimation, as "an essential pre-requisite for the concerted action needed to reap the benefits of potential synergies", requires more consideration (Vaara and Monin, 2010: 3). In particular, events can change stakeholders' assessments of the legitimacy of the merger (Burgelman and McKinney, 2006; Desai, 2011), while legitimation responses can build support for the implementation of the integration or alternatively delegitimize that merger, halting integration efforts (Vaara and Monin, 2010). In this paper, we specifically advance the understanding of legitimacy dynamics when a delegitimizing event occurs at one of the parties during post-merger integration.

We build on the work of scholars who have turned to legitimacy theory (Suchman, 1995) to understand mergers (Demers et al., 2003; Vaara et al., 2006; Vaara and Tienari, 2011) and post-merger integration challenges specifically (Vaara and Monin, 2010). Legitimacy assessments are social judgments of the desirability and appropriateness of an organization or its actions (Bitektine, 2011; Suchman, 1995; Tost, 2011). By providing a contrasting approach to rationalist explanations of merger success and failure (Trautwein, 1990), the merger literature drawing on legitimacy theory argues that assessments of legitimacy by stakeholders associated with mergers, and the organizational responses to 'manage' such assessments, are central to understanding the social dynamics informing the merger process. Nonetheless, despite their importance, legitimation dynamics during post-merger integration are only beginning to be understood (Vaara and Monin, 2010).

We address this deficit by analyzing the merger case of Air New Zealand's (Air NZ) trans-national acquisition of Ansett Australia (Ansett), where a delegitimizing event at Ansett occurred soon after integration began. Based on the findings from this case, we build a framework to better understand the legitimation process depicting it as involving an

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oscillation between legitimacy responses of coupling and compartmentalization, which relate to the core post-merger dynamics of integration and separation (Haspeslagh and Jemison, 1991; Nahavandi and Malekzadeh, 1988). By compartmentalization, we mean legitimacy strategies focused generally on separation, whereby an organization retains separation of itself into parts to relate to various constituents independently or in different ways (Binder, 2009; Greenwood et al., 2011; Kraatz and Block, 2008). This can be done, for example, through temporal separation or creating separate structural units and initiatives (Kraatz and Block, 2008). One specific means of attaining such separation, and the focus of the majority of the literature, is a form of compartmentalization labeled decoupling (Greenwood et al., 2011), whereby an organization separates ceremonial commitment to demands (to attain legitimacy) from their 'core' substantive practices (Meyer and Rowan, 1977). This literature has usefully shown how legitimacy strategies such as these enable firms to separate illegitimate actions or structures from legitimate ones (Elsbach and Sutton, 1992), including through distancing one part of the organization from another within media statements (Lamin and Zaheer, 2011). We build on this notion of compartmentalization as a means to manage legitimacy in the face of delegitimizing events, in our case within merger contexts. Conversely, coupling strategies signify the opposite of this: the basis for legitimation is that the various components of an organization, including their substantive and symbolic actions, are more 'tightly linked' (Hallett, 2010) and not acting independently (Orton and Weick, 1990). An example might be for legitimacy strategies to be communicated in a consistent and coordinated manner by all parts of an organization and to all stakeholders in response to a crisis (Massey, 2001), rather than having separate legitimacy efforts by various sub-units (Binder, 2010).

Our case analysis allows us to contribute in the following way to the literature on merger legitimation. First, we add to the understanding of legitimation dynamics during post-merger integration. Through exploring how a merger's legitimacy is defended over time following an initial challenge, we extend what legitimation entails in post-merger integration, as Vaara and Monin (2010) advocate. Specifically, we develop a process framework that identifies an evolving series of legitimacy responses, including compartmentalization, and thus contributes to our understanding of this form of legitimacy response in the contexts of mergers for the first time. Exploring this legitimacy response, with its focus on separation, is particularly interesting in the context of merger integration dynamics where some degree of synthesis is usually simultaneously being sought (Haspeslagh and Jemison, 1991; Vaara and Monin, 2010). In developing a novel processual perspective through our findings and framework, we identify the drivers and consequences of the interaction between coupling and compartmentalization responses to explain how such oscillation can reflect the struggles over 'integration' and 'separation' that characterize legitimation efforts in mergers (Vaara and Monin, 2010). Thus, we develop insights into the dynamics beneath this struggle which lies at the heart of merger integration studies (Cartwright and Cooper, 1993; Haspeslagh and Jemison, 1991; Marks and Mirvis, 2001; Nahavandi and Malekzadeh, 1988). Second, within this merger context, we address the infrequently explored question of compartmentalization's limitations over time (Boxenbaum and Jonsson, 2008; Greenwood et al., 2011; MacLean and Behnam, 2010; Tilcsik, 2010). Here, we explain how the process of defending merger legitimacy can fail due to the accumulation of divergent demands (Denis et al., 2007) and the demonstration of inconsistent commitment to merger integration. In this sense, we provide novel insights regarding how attempts to defend the legitimacy of a merger through compartmentalization can prove to be self-defeating (Vaara and Monin, 2010).

We structure the remainder of the paper around these issues. We begin by considering legitimacy in the context of mergers and the types of stakeholder assessments on which it rests. Next, we review the literature on the legitimation dynamics in mergers prior to problematizing how legitimacy of the merger integration can be defended in the face of challenges. We then introduce our contextual case the Air NZ-Ansett merger and our textual data. In our findings, we demonstrate the evolving legitimation process and the oscillation between coupling and compartmentalization responses used when attempting to defend the merger's legitimacy in the face of diverse stakeholders' legitimacy demands and concerns. Finally, we discuss and explain how oscillation, signifying inconsistent commitment to merger integration, can result in escalating assessments of illegitimacy from stakeholders. We conclude with theoretical implications of these legitimacy dynamics for the merger literature.

Theoretical background

Legitimacy and mergers

Legitimacy is viewed as a generalized perception of organizational actions being "desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions" (Suchman, 1995: 574). As such, legitimacy is a conferred status (Ashforth and Gibbs, 1990; Dowling and Pfeffer, 1975) and resides in the judgments made by multiple internal and external audiences or stakeholder groups (Bitektine, 2011; Deephouse and Suchman, 2008; Drori and Honig, 2013; Kostova and Zaheer, 1999; Tost, 2011). The strategy literature has long recognized the link between such judgments of legitimacy and the provision of physical, human, financial or reputation capital to an organization (Ashforth and Gibbs, 1990; Dowling and Pfeffer, 1975; Oliver, 1991) as well as the connection between legitimacy assessments and organizational survival (Hamilton, 2006; Singh et al., 1986) including the case of mergers (Vaara and Monin, 2010).

For explicating what these social judgments or assessments consist of, the most frequently used theoretical framework outlining different dimensions of organizational legitimacy is Suchman's (1995) typology (Bitektine, 2011; Deephouse and Suchman, 2008). This framework differentiates between pragmatic legitimacy, based on audiences' self-interest, which in the context of mergers can be the fulfillment of short-term benefits for shareholders or shareholder concerns regarding share price following the merger (Schweizer, 2005; Zollo and Singh, 2004); moral legitimacy, based on normative approval, such as fairness and justice during the merger's integration process (Monin et al., 2013); and cognitive forms of legitimacy, based on the taken-for-grantedness or inevitability of that merger (Vaara and Monin, 2010).

Previous merger studies have shown that legitimation and the associated legitimacy assessments are audience specific and that they are critical in explaining how mergers are contested (Vaara et al., 2006), resisted (Brown and Humphreys, 2006), and implemented (Monin et al., 2013; Vaara, 2003) or reversed (Vaara and Monin, 2010). For instance, research has shown how legitimacy is built through merger announcements (Demers et al., 2003); as part of preparation for a merger (Brown and Humphreys, 2006; Vaara, 2003); in the perpetuation of merger fads (Comtois, et al., 2004; Kitchener, 2002); and in the storytelling utilized during cross-border mergers (Vaara and Tienari, 2011). Other studies have identified specific discourses that legitimize or delegitimize cross-border mergers (Vaara et al., 2006; Zhu and McKenna, 2012) and explained the use of discursive strategies for legitimation such as naturalization, rationalization, moralization by organizational actors (Vaara and Monin, 2010; Vaara and Tienari, 2002) or as part of political dynamics when particular stakeholders seek to further their own interest (Tienari et al., 2003; Vaara, 2003).

Two central elements stand out in these studies on merger legitimation. First, the research

infrequently adopts a process perspective, and thus legitimation phenomena that may explain merger dynamics would not have been viewed as emerging, changing and unfolding over time (Langley et al., 2013). Instead, legitimation has often been portrayed as one step in merging two organizations (e.g., the impact of merger announcements, Demers et al., 2003) rather than "an inherent part of the unfolding merger processes" (Vaara and Monin, 2010: 3). Other studies have prioritized a thematic analysis which has identified distinct legitimation strategy themes (Vaara et al., 2006; Vaara and Tienari, 2002). This means that there few examples of how specific legitimation strategies may be tied to the ebb and flow of the merger itself (exceptions include: Kitchener, 2002; Monin et al., 2013; Vaara and Monin, 2010). Second, the potential of other legitimacy theory frameworks and strategies proposed within organizational theory (Ashforth and Gibbs, 1990; Elsbach and Sutton, 1992; Kraatz and Block, 2008; Suchman, 1995) has not yet been explored in the context of mergers.

Legitimation in the context of post-merger integration challenges

The pragmatic legitimacy of many mergers, including for horizontal mergers between firms in same industry, is closely tied to achieving synergistic benefits associated with integration (Cording et al., 2008; Graebner, 2004; Larsson and Finkelstein, 1999; Zollo and Singh, 2004). Management's ability to integrate units becomes crucial (Cartwright and Cooper, 1993) and announcing this desired end state (Marks and Mirvis, 2001) sets the scene for the multilevel (complex) and multistage (dynamic) integration process to follow (Schweizer, 2005). While horizontal mergers entail "combining similar processes, coordinating business units that share common resources, and centralizing support activities" (Hitt, Harrison and Ireland, 2001: 86), integration difficulties are still relatively frequent (Haspeslagh and Jemison, 1991). Given the importance of integration and the associated difficulties, much of the merger literature has focused on exploring and categorizing the different forms and levels of integration (e.g., Cartwright and Cooper, 1993; Marks and Mirvis, 2001; Nahavandi and

Malekzadeh, 1988).

Post-merger integration holds "considerable potential for culture collisions and fragmentation" (Cartwright and Cooper, 1993: 66). For example, culture clashes (Cartwright and Cooper, 1993; Stahl and Voigt, 2005), politicking (Graebner; 2004; Riad, 2005; Vaara, 2003), a sense of injustice (Monin et al., 2013) and framings in the local media (Hellgren et al., 2002; Vaara and Tienari, 2011) are known to have the potential to delegitimize the rationalistic 'integration' discourse (Vaara and Tienari, 2002; Zhu and McKenna, 2012). Research suggests that unfavorable judgments can build from the differences in organization culture (Riad, 2005; Stahl and Voigt, 2008), national culture (Lubatkin et al., 1998) as well as due to the construction of us vs. them identities between the merging parties (Maguire and Phillips, 2008). As a result, the integration required to reap potential synergies (Birkinshaw et al., 2000; Larsson and Finkelstein, 1999) can become contested and resisted as illegitimate (Buono and Bowditch, 2003; Vaara and Monin, 2010).

Furthermore, changes within the organizations or their operating environments, such as jolts (Desai, 2011), associated with delegitimizing events such as shifts in markets or, business models or technologies (Burgelman and McKinney, 2006) or crises (Elsbach, 1994) at either firm, can reduce the perceived appropriateness of the integration and result in revised interpretations of the legitimacy of the merger (Vaara and Monin, 2010). In such instances, the merits of continued integration can be brought into question if challenges to the legitimacy of one of the merging parties threaten to spill over to affect the other (Kostova and Zaheer, 1999). The merger literature has, however, not adequately studied how organizations defend themselves against the audience-specific and, therefore, potentially divergent legitimacy concerns that such jolts and legitimacy challenges during post-merger integration

present.

The broader legitimacy literature (Ashforth and Gibbs, 1990; Desai, 2011; Elsbach and Sutton, 1992; Lamin and Zaheer, 2012; Suchman, 1995), though, provides an understanding of two active approaches for defending legitimacy against threats that mirror the challenges highlighted within the post-merger context. First, are responses that seek to preserve legitimacy "through reassuring stakeholders regarding a contested practice" (Desai, 2011: 264), in this case merger integration. Examples include the use of impression management techniques such as 'justifications' and 'enhancements' aiming to decrease the negativeness or increase the positiveness of the event and the organization (Elsbach and Sutton, 1992: 709) or conversely, dismiss the allegation through 'denial' strategies (Elsbach, 1994; Lamin and Zaheer, 2012).

The second approach, involves efforts to 'avoid association' (Desai, 2011: 265) rather than actively seeking to manipulate the situation as in the response above (Oliver, 1991). This can allow firms (or some of their parts) to distance themselves from the source of the problem by separating the threatening revelation from larger assessments of the organizations or restructuring so as to symbolically distance the organization from bad influences (Suchman, 1995). Typically, such separation represents an important means to defend legitimacy in moments of crisis or disruption (Elsbach and Sutton, 1992), including through discursively distancing one part of the organization from another within media statements (Lamin and Zaheer, 2011). We use the term 'compartmentalization' (Greenwood et al., 2011; Kraatz and Block, 2008) to encapsulate such notions of separation as a way of attaining legitimation (e.g., Binder, 2007). Kraatz and Block (2008: 250), for example, observe that actions demonstrating commitment to multiple audiences can be taken "by sequentially attending to different institutional claims, by creating separate units and initiatives and/or [… through]

merely symbolic, rather than substantive initiatives that demonstrate commitment to the values and beliefs of particular constituencies." Thus, compartmentalization remains a more general category of response that does not focus specifically on the distinction between separating core (and substantive response or structure) and periphery (and symbolic action) (Kraatz and Block, 2008) that Meyer and Rowan's 1977) use of 'decoupling' refers to.

In merger settings, this notion of legitimation through separation might be helpful as it goes to the heart of the concern regarding integration and illegitimacy spillover from one organization to another (Kostova and Zaheer, 1999) or one part of an organization to another (Elsbach and Sutton, 1992; Lamin and Zaheer, 2011). However, in post-merger contexts, a compartmentalization response may also complicate matters due to the co-existence of the pressures for integration (Haspeslagh and Jemison, 1991; Larsson and Finkelstein, 1999). Legitimation using compartmentalization may, then, impact assessments of the merger's legitimacy positively and/or negatively given the extent of inconsistencies between the associated strategies and the intended integration process upon which the value, and thus the legitimacy, of the merger for some stakeholders may rest.

Our research adopts a processual approach to explicate the dynamics during efforts to re-legitimize a merger with its countervailing pressures for integration and separation. Specifically, we ask: what is the process of legitimacy defense during post-merger integration following a delegitimizing event at one of the merging parties? In addition, to what extent do these legitimation responses create inconsistencies that are ultimately delegitimizing within post-merger integration contexts? In the remainder of the paper, we present findings that address this question through a specific merger case between Air New Zealand and Ansett. This merger was selected because it was an illuminating and prominent case (Eisenhardt and Graebner, 2007) of the dynamics associated with post-merger legitimation suggested in

existing frameworks for mergers (including pressures for integration and separation) and legitimacy. These dynamics were exacerbated by a delegitimizing event which made this case particularly salient and a suitable setting from which to extend existing insights on legitimacy dynamics in mergers.

Research Method

Case Background

In 1989, in line with prevalent trends to open 'national assets' to competitive forces, the New Zealand Government privatized its national airline Air New Zealand (Air NZ). Nearly 7 years after, Air NZ took an initial step towards becoming a regional Asia-Pacific player when it acquired 50% of Ansett Holdings, which owned Ansett-Australia (Ansett); at that time, the second largest Australian airline and a direct competitor to the market leader Qantas Airways. While this move allowed Air NZ enhanced access to the Australian market via a network that matched its regional aspirations, it was still unable to fully coordinate operations and schedules because operational control was not achieved. Air NZ's profit levels (at NZ$100-250 million per year), meanwhile, continued to lag behind that of Qantas (its major Australasian competitor often by over 50%), with economies of scale and scope viewed as a key factor. Therefore, in March 2000, when Singapore Airlines (SIA) initiated negotiations to acquire the remaining 50% of Ansett Holdings to improve its market presence, Air NZ leaders exercised their pre-emptive rights to purchase Ansett. In Air NZ's annual report that year, they sought legitimation for the Ansett acquisition based on the expected synergies from the horizontal merger with the proposed integration of the two operations increasing revenue from NZ$3.7 to NZ$7.9 billion and aircraft numbers increasing from 83 to 190. The projected cost savings and benefits included pre-tax profits improving to NZ$350 million per year over the period 2000-2003. The legitimacy gains initially associated with the acquisition

were evident in confirmation of Air NZ's attractiveness as an alliance partner, with the cash rich SIA acquiring a 25% equity stake in Air NZ in August 2000 not long after the full Ansett acquisition had been confirmed.

As part of the planned integration, by September 2000 the newly formed Air NZ-Ansett group had started to reduce top and middle management staff at Ansett and the 21-strong combined management structure retained only 2 Ansett executives (The Dominion, NZ, Aug 11, 2000). Other integration activities included joint procurement, revenue management, rationalization of IT systems and merging of the two operations for maintenance as well as sales and distribution. There were also plans to transfer some of Air NZ's overseas routes to Ansett International. In January 2001, Gary Toomey the former deputy CEO of Qantas was appointed as the new CEO of the Air NZ group – his predecessor having unexpectedly resigned two weeks after the merger (NZ Herald, NZ, Jul 8). With his primary responsibility being completing the integration of the two airlines, Toomey began by merging the in-house magazines and reenergized the plans to swap pilots and cockpit staff between them.

While these planned integration activities continued to be implemented, Ansett's operations faced a legitimacy crisis on April 13 2001. The Australian safety authority (CASA) grounded Ansett's 767 fleet as the planes were deemed unsafe to fly. This event exposed the fact that Ansett "had skipped maintenance protocols" (NZ Herald, NZ, Apr 14), elevating concerns that its entire fleet needed to be replaced in the near future. In Australia, the event was seen as a "priceless opportunity for Ansett's competitors" as it was causing a "phenomenal amount of damage" to its reputation (The Daily Telegraph, Australia, Apr 16). Eventually, as additional negative details about Ansett operations were revealed, the scene became a "horror" and "mess" estimated as costing up to NZ$6.2 million a day for Air NZ (The Evening Post, NZ, Apr 14). These losses eventually put pressure on Air NZ's working capital, with re-financing

proposals suggesting government investment or increasing SIA's ownership stake. This delegitimizing event also resulted in a reassessment of the merger plans and provides the starting point for our analysis of the defense of the merger's legitimacy.

Data collection and analysis

We collected temporal textual data related to the merger, with the purpose of presenting a processual view (Langley, 1999) of the merger's legitimation strategies. Specifically, in our case and in accordance with our research question, our analysis focused on the legitimation efforts following the delegitimizing event at Ansett. Previous research has established media texts as a useful way by which merger events and processes can be accessed and the legitimation process followed (Kitchener, 2002; Comtois et al., 2004; Vaara and Monin, 2010; Vaara et al., 2006; Zhu and McKenna, 2012). Media provides a focal arena for the actors involved to legitimize or delegitimize the merger (Vaara and Monin, 2010) and, conversely, the media's ability to promote or question an issue (Hellgren et al., 2002) and journalists' framing are an essential part of legitimizing mergers (Kuronen et al., 2005). Furthermore, top management's legitimation responses are both apparent in and influenced by media coverage (Vaara and Tienari, 2011). Through such texts we therefore have important access to what managers did and stated publically to legitimize the merger, even if not their inner thinking process behind those ostensive strategies.

The case was developed by collecting a large set of electronically available data in the form of newspaper articles by searching for 'Air New Zealand/NZ' or 'Ansett Australia' in the title. Official material issued by the airline directed towards the public and the financial community and opinions/statements by Air NZ /Ansett union leaders as reported by the media were part of these data with press releases often providing the starting point for articles.Media coverage that focused on the defense of the merger's legitimacy, especially

between the period of April 13, 2001 (when Ansett's planes were grounded) and September 15, 2001 (when the divestment/bankruptcy of Ansett occurred), were selected for in-depth analysis. This sample included 159 full length articles in leading NZ daily newspapers (The Dominion (TD), The NZ Herald (NZH), Sunday Star Times (SST), The Press (TP), The Evening Post (EP) and 302 articles in the Australian dailies (The Sydney Morning Herald (SMH), The Herald Sun (HS), The Australian (TAus), The Age (TA), The Courier Mail (CM), and The Daily Telegraph (DT)). Collecting data from both New Zealand and Australia facilitated greater representation of the multiple stakeholders' broad range of interests (Zhu and McKenna, 2012), the identification of legitimation strategies implemented at both Ansett and Air NZ, and the consideration of the potential differences in top management's defense of the merger's legitimacy in the two environments (Hellgren et al., 2002). In addition, factual data on operational and strategic initiatives undertaken during the period were gathered from the Chairman's and CEO's reports to Annual General Meetings (AGM) for the year 2000-2001. Finally, all stock exchange announcements and briefings to the institutional shareholders were read and the chronology of key strategic changes and events were noted.

As is typical of much qualitative work, our analysis progressed in overlapping stages (Langley, 1999). First, using the factual data to outline the process phases, a thematic content analysis of the media texts was conducted to understand the wider discussion around the merger's legitimacy and the key issues influencing the legitimation process. Next, we read the textual data and identified stakeholders who were directly impacted by the delegitimizing event and others who were specifically targeted by the leaders during the merger's legitimation. The inductively identified list of stakeholders was compared with those mentioned in the merger literature (such as shareholders, investors, customers, suppliers) and other corporate strategy research (e.g., the government and other public communities; Clarkson, 1995) to ensure stakeholder groups were not overlooked. In addition, constant

comparison (Strauss and Corbin, 1990) of the key issues in the two (i.e., NZ and Australian) media coverages helped identify the themes as well as alerted us to the differences between these stakeholders regarding the basis of their assessment of the merger's legitimacy. For example, the NZ media's primary focus was on the damage to Air NZ and the NZ economy rather than Ansett's recovery or the dynamics of the Australian airline industry.

As a second step, the textual data were re-read chronologically and the key passages related to merger legitimation were identified. Following a process of comparison and mutual agreement between the co-authors, each passage was coded into categories for either legitimation strategies or a specific stakeholder's reaction. We maintained the temporal relationships between these themes through continuing to situate them along our chronology as a means to further our understanding of legitimation as a process. The passages coded under stakeholder reactions were then revisited to identify the key concerns and assessments of each identified stakeholders at the two merging firms. From this, it emerged that the key dynamic at play involved pragmatic legitimacy concerns of different stakeholder groups (Suchman, 1995); for example, about the firm's share price on the part of shareholders (see Table 1 stakeholder assessment). We did notice, however, that secondary 'moral' legitimacy concerns became more prevalent towards the end of the merger. Second, the passages coded for legitimation strategies were also re-read and coded for the presence of particular types of impression management strategies; for example, 'denials' (Elsbach, 1994). It was at this point that we became attuned to the differences over time between these strategies with regards to their emphasis on separation or integration between the merged firms, which we were able to match against our chronology. Third, we moved between data and theory to simultaneously analyze three types of passages: a) the legitimacy concerns; b) the company's legitimation strategies (e.g., actions and denials); and c) media and stakeholder reaction to/evaluation of each of these strategies and responses (see Table 1 and Figure 1).

[Insert Table 1 about here]

[Insert Figure 1 about here]

Finally, our sensitivity to the chronology of the case accumulated in 'temporal bracketing strategy' (Langley, 1999) which allowed us to view the legitimation process as 3 phases which contrasted the types of responses used and the dynamics related to the merger's (il)legitimacy (see Figure 1). By returning to the legitimation (e.g., Elsbach and Sutton, 1992) and merger integration (e.g., Vaara and Monin, 2010) literatures, a more interpretive layer of analysis added further understanding of the general temporal patterns revealed in our case and the oscillation with inter-related but shifting emphases across three overarching themes. *Coupling* was the key response used during the first phase immediately following the event, but with a focus on integration this response also increased spillover fears; then there was a shift to *compartmentalization* which, despite its focus on segregation, did not fully ease spillover fears. Finally, a swing back to *re-coupling* was attempted, which despite refocusing on integration did not convince key stakeholders of the merger's ongoing legitimacy and resulted in disinvestment. To explain the outcomes and the key dynamics during each phase we analyzed the organizational accounts and actions for their consistency and uniformity with the previous, concurrent and subsequent responses across the two environments. This was guided by our theoretical understanding of the merger legitimation phenomena (Vaara and Monin, 2010) and our processual view that such a phenomenon would be emergent, changing and unfolding over time (Langley et al., 2013). As the above description suggests, we began to conceptualize the interconnections between the themes we had uncovered (e.g., how legitimacy strategies and stakeholder reactions to these prompted an evolving legitimation response).

We bring this together in a theoretically grounded explanation of the legitimation process where oscillation between the responses of coupling and compartmentalization form a critical

dynamic of the merger's defense following a delegitimizing event. In reporting our findings, we highlight the use of different legitimation responses to construct our narrative (Langley, 1999) of how the merger's legitimacy was defended, how each necessitated an evolving response, and ultimately how the oscillation between legitimation responses became self-defeating. This is articulated in the discussion and our concluding framework.

Findings: A process of attempted merger re-legitimation

Three phases of managing the merger's legitimacy are presented in detail. The first addresses the disruptive event at the acquired entity and how the legitimacy of the merger was challenged, as well as management's initial attempts to defend this. In the second, concerns about possible spillover effects to the acquiring firm's operations called the ongoing integration into question and management responded to protect the acquiring firm. Third, management made a last-ditch attempt in their impression management strategies to entwine the destinies of the two entities and save the merger in the face of rapidly growing calls for complete disinvestment. Complete separation and the bankruptcy of the acquired firm were the ultimate outcomes of the merger process. Details of senior management's evolving legitimation response as well as the stakeholder reactions within each phase are given in Tables 2-4, matching how the critical assessments of the merger's legitimacy unfolded due to increased scrutiny by different stakeholder audiences (Table 1 and Figure 1).

Phase 1: Managing the merger's legitimacy (April 2001) – coupling

In the wake of the grounding of the fleet at Ansett, external assessments of the merger naturally shifted to substantial illegitimacy. However, via denial strategies and optimistic statements, the acquisition decision and the integration actions were defended by Air NZ's leaders. These strategies referenced the legitimation response of coupling and the entanglement of the two entities to reaffirm the rationale for the acquisition and in order to

keep post-merger integration on track (cf. Haspeslagh and Jemison, 1991; Vaara, 2003).

[Insert Table 2 about here]

Legitimation strategies: Denial and optimistic statements

The initial response from Air NZ management was to defend the legitimacy of their post-acquisition integration actions, which Australian stakeholders were arguing had been critical to causing the crisis. Efforts focused on *denying* responsibility for the safety crisis and painting the merger/integration as not being at fault (1A, Table 2, Figure 1). Air NZ group leaders stressed the inherited nature of Ansett's problems:

> Ansett's problems stemmed from systems that had been in place before the takeover (CEO Toomey, NZH, NZ, Apr 16).

> The systemic problem was the pre-existing system that had been in place […] prior to Air NZ getting involved (CEO Toomey, TAus, Australia, Apr 16).

However, this attempt to discredit previous owners, proved self-defeating and was abandoned relatively quickly because, in denying responsibility for the crisis, Air NZ did little to dispel the legitimacy concerns going forward regarding Ansett (via its fleet) and their merger with it (as discussed below when stakeholder responses are detailed).

Subsequently, as various stakeholders in both Australia and New Zealand pushed back, managers used the media to instead promulgate optimistic statements denying the seriousness of the delegitimizing event (1B). The focus shifted to creating a more positive assessment, moving on from the safety crisis at Ansett as well as pointing to the importance and magnitude of the integration as part of rectifying problems. This approach featured prominently in the New Zealand media:

> We always knew there would be some hazards in the major integration process with Ansett, which involves 23,000 people […] and 184 planes…But we have been putting things right. Ansett's situation was very disappointing, but we are repairing it (Air NZ Chairman, SST, NZ, Apr 15).

> [The] costs of the grounding were much lower than previous estimates (CEO Toomey, TP, NZ, Apr 19).

It was also consistently evident in the Australian media where Group CEO Toomey

highlighted that Ansett's fleet replacement would be supported by Air NZ, which had *"numerous options"* to finance it (TA, Australia, Apr 16). Toomey claimed that there was no need to "raise billions of dollars by tomorrow*"* (CM, Australia, Apr 18) and that Ansett would begin "using Air NZ jets" on Australian domestic routes (TAus, Australia, Apr 14). In this sense, this optimism was tied to a shared narrative of the benefits of integration and the management of the two organizations being entwined.

Impact of legitimacy strategies on stakeholders' judgments

The attempt by Air NZ to initially shift blame onto the previous (Ansett) management did not help to improve legitimacy. The reaction was renewed questioning of the merger's legitimacy and it manifested in two different ways among Australian and New Zealand stakeholders (1C). First, Air NZ management faced widespread criticisms from multiple stakeholders in Australia (Ansett engineers, union leaders and the civil aviation authority in Australia) who, in contrast to the denials Air NZ promulgated above, all counter-claimed that the chosen integration implementation had caused Ansett's safety levels to be compromised:

> The takeover […] has had a dramatic destabilizing effect on staff morale, key personnel and experience [have been…] lost, and in several cases inappropriate personnel have been placed in positions of management (Ansett Engineers, TP, NZ, Apr 19).

Air NZ management also faced criticisms from Australian media who argued that the destabilization of Ansett's structure and the delay by "the new management" to invest in upgrading the fleet had caused the crisis event: "Air NZ 'dragged the chain' on replacing the Ansett Boeings" (SMH, Australia, Apr 15). Second, for NZ stakeholders (primarily shareholders and media), the Air NZ leaders' argument that the "problems were inherited" created doubts about the due diligence process that had stamped the investment as appropriate. "Had the leaders fully investigated what they were buying in June 2000?" (Editorial, TP, NZ, Apr 18). Thus, the initial denial strategy quickly proved counter-productive in managing legitimacy perceptions for many stakeholders.

As Air NZ evolved their strategy towards 'statements of optimism', this initially appeared to help mitigate its damaged legitimacy and by also beginning to acknowledge responsibility, this assisted with trying to re-legitimize the merger decision. Some analysts suggested Air NZ could quickly return to growth because corrective actions by CEO Toomey had "imposed a new discipline which will add long-term value" (Macquarie Bank transport analyst, TAus, Australia, Apr 18). Indeed, "a rebound" in Air NZ share price was attributed to Toomey's "efforts" (TD, NZ, Apr 20).

However, these legitimation efforts quickly became viewed as ineffective with NZ stakeholders recognizing the potential that illegitimacy spillovers from Ansett could seriously impact Air NZ (1D). With integration still emphasized, in both NZ and Australia, a common evaluation shifted to the heightened potential for future losses at Air NZ. Such assessments were deeply concerning, particularly for Air NZ shareholders: "Ansett […] is dragging its parent, Air NZ, into the red" (TAus, Australia, Apr 16). Another set of critical stakeholders, the Air NZ engineers, objected to the integrated nature of the engineering business as they felt Air NZ's "reputation could be tarnished by the problems at Ansett" (NZH, NZ, Apr 19), which might affect their jobs in the future. Supporting this evaluation, security analysts in NZ quantified how Ansett's declining market share, losses and now tainted reputation had the potential to negatively impact Air NZ's share price.

> Ansett's reputation for safety has certainly been dented. This will take a huge marketing effort. Air NZ was recently voted the best carrier in the Pacific region. Its own prestige in the Pacific region will be affected by the presence of its subsidiary (Analyst, TP, NZ, Apr 18).

Consequently, management's commitment to an ongoing coupling of the two parties (inherent in the statements of optimism above) was not legitimating for all stakeholders – particularly for those whose primary interest was in the Air NZ brand, reputation and share price.

Summary of Phase 1: Coupling affirmed via a range of legitimating strategies

During this first phase, the overall legitimation response was to couple Ansett's legitimacy with that of Air NZ (as part of the wider integration process) with references to the 'higher purpose' of growth of the merged entity. As described above, Air NZ management remained verbally committed to Ansett, with 'statements of optimism' emphasizing the linked legitimacy of the partially integrated organizations. "It [Ansett] is absolutely imperative for the growth of Air NZ. We had to take Air NZ forward and that is what we are doing on a long-term basis" (Air NZ Board Chairman, TD, NZ, Apr 18). These statements, while focusing on the merger, downplayed the intensity of Ansett's problems and simultaneously coupled the organizations together with the integrative benefits being reiterated. However, during this phase, no actions to specifically protect Air NZ or separate it from the delegitimizing event at Ansett were evident. This meant that the potential for the safety-related performance concerns to spill over to Air NZ's operations remained unmanaged. With the media in New Zealand and Australia as well as internal and external stakeholders jointly questioning the ongoing integration, substantial difficulties for re-legitimation remained for Ansett and the merger, due at least partly to management's commitment to coupling.

Phase 2: Managing illegitimacy spillovers (late April to June 2001) – compartmentalization

By the end of April, the growing concerns regarding Ansett's underperformance and the spillover impact on the legitimacy of Air NZ demanded management action. During this phase, the legitimation response shifted to compartmentalization, with legitimacy strategies directed at adjusting the perceptions of the interconnections and de-escalating the planned integration of the two operations. There was also change in key senior role, with Sir Selwyn Cushing, the key architect of the merger, resigning as Chairman (but not from the board) by

early June. These strategic changes highlighted the extent to which Ansett's operations had not been merged with the parent company (Air NZ) and attempted to separately address the remaining crisis-related legitimacy concerns at Ansett. However, expectations of stakeholders continued to become increasingly fragmented and difficult to manage.

[Insert Table 3 about here]

Legitimation strategies: separation and ongoing denial of crisis

The primary legitimacy management strategy evident in this phase was the attempt to distance the two operations and to allow them to individually leverage their own strengths (2A, see Table 3 and Figure 1). To address the building concerns regarding spillovers (noted in Phase 1), a revised approach to re-legitimation through separation of the brands was evident. This sudden decision to highlight that the brands would not be merged was explained as being due to the strengths (distinctiveness and reputational capital) of both brands. The approaches, though, differed somewhat. In NZ, a change in name that would encompass both brands was simply formally denied. Whereas in Australia, management explained why the two brands would not be interfered with – it was due to the "hidden value" of the Ansett brand:

> I can tell you categorically the Ansett and the Air NZ brands will [both] remain [...]. The support we have had from Ansett customers has been immense. For us to tinker with two strong brands which have quite a resonance would be wrong. It's not something we want to play with. (Senior VP George Frazis, SMH, Australia, May 3).

This explanation countered earlier arguments for merging the brands, and further integration of the two operations consequently did not occur. Instead, as the above indicative quotation suggests, during this phase management's focus was on strengthening both brands; but separately.

As part of focusing on the strength of two distinct brands, there was ongoing and persistent denial that Ansett faced challenges (continuing from Phase 1) (2A). Claims were made that

Ansett had funds to finance an expansion into the low cost market and that Ansett had seen an increase in customer demand. Protests regarding Ansett's safety concerns were labelled: "hyped public" treatment and new strategies such as sponsorship deals conveyed that Ansett had survived and moved on from the crisis. Responding to the declining legitimacy of the investment in Ansett with NZ stakeholders, CEO Toomey denied that Ansett was facing financial crisis: "The notion that we are appealing to the NZ Government […] to keep us going is completely false. Ansett Australia is not strapped for cash" (EP, NZ, May 23).

Separation was also seen in the fact that distinct (and indeed inconsistent) messages began to be promulgated (2B). For example, communications in NZ outlined that the airlines could be separated while in Australia the focus remained with Air NZ's commitment to Ansett. When responding to the contrasting disapprovals for the parent's commitment to the subsidiary in the home and host environments, management created ambiguity around their strategic intent conveying targeted messages that matched the concerns of their respective audiences. In NZ, they declared their commitment was conditional to "Ansett [regaining] market share on its domestic routes" (CEO Toomey, TD, NZ, Jun 16). In contrast, to make their commitment to the Ansett strategy more resounding, in Australia the senior management rhetoric linked Air NZ's best options for growth to Ansett: "The committee of independent directors and the Air NZ Board were unanimous in the airline continuing to own Ansett" (Air NZ group Acting Board Chairman, TDT, Australia, Jun 20). Consequently, an emphasis on compartmentalization as a legitimacy response was evident in both halting the integration process (keeping the brands separate) and then trying to address stakeholder group concerns separately.

Impact of legitimacy strategies on stakeholders' judgments

Despite this compartmentalization response, legitimacy concerns persisted and the

legitimation strategies appeared to have not substantially eased anxieties regarding spillovers or that sufficient attention was being paid to rebuilding Ansett.

First, in Australia the attempt to repair Ansett's legitimacy via the separate rebranding marketing campaign was criticized as being only symbolic rather than a substantive commitment to support Ansett and the merger (2C, see Table 3). Australian media criticized the campaign and labelled it as a "waste of money" and a "bogus spoof" (SMH, Australia, May 31). Doubts remained regarding whether the significant investment and support to rebuild Ansett were being and would be provided. Indeed, ongoing compartmentalization of the operations was sufficient to fuel doubts about Air NZ's commitment or ability to contribute resources to Ansett's recovery.

Second, in NZ, the attempts at compartmentalization were not considered adequate by some analysts, Air NZ shareholders and employees. Increased scrutiny of the group's financial condition was used by the media and security analysts to frame the existing compartmentalization levels as "inadequate to prevent Air NZ losses" (TD, NZ, Jun 11). The rapid decline in Ansett's market share and its losses were highlighted as inevitably overwhelming Air NZ's performance, with fears voiced about the eventuality that Air NZ would (also) report a substantial loss despite a strong NZ-based market position. Demands for more complete separation (i.e., disinvestment) of the two companies emerged, (2D). For example, financial experts labelled Air NZ's current structure and stated commitment to Ansett's recovery as untenable: "Air NZ would have to sell at least 80 per cent, and possibly all of Ansett Australia to survive. Air NZ is clearly unsustainable in its current format" (Transport analyst, TD, NZ, Jun 19).

A prominent example of this dissatisfaction from both NZ and Australian stakeholder groups was when management declared they would be seeking financial aid from the NZ

Government to replace Ansett's fleet. The respective reactions also signified the divergent views and needs of both groups of stakeholders. Air NZ framed the shortfall in funds as a "stop gap arrangement, not a bailout" (Air NZ Chairman, NZH, NZ, May 12). This clarification was viewed negatively by the Government and NZ media who continued to label the decision as using NZ Government funds to bail out an overseas firm. At the same time, Australian media viewed it as a tactic, delaying a substantive recovery, by a weak owner who did not possess enough resources to repair Ansett's legitimacy (see Table 3 2C). Ultimately, this even fuelled demands in Australia for more complete separation between the two merging parties since the revised legitimation strategies had also demonstrated Ansett's independence.

Summary of Phase 2: Attempts to compartmentalize

During this phase, compartmentalization in NZ was aimed at consolidating Air NZ's legitimacy (with stakeholders such as the public, shareholders and staff) as a national carrier. In further examples of compartmentalization, Air NZ announced plans to employ 200 additional engineers as part of an NZ-based joint-venture with an engine manufacturer that sought to leverage Air NZ's reputation for maintenance, as well as signaling a renewed commitment to the NZ market. Plans were also announced to expand Air NZ services to Japan, Hong Kong, and Taipei as well as increased and upgraded domestic services that somewhat opposed its earlier Australasian expansion strategy. Separate plans for Ansett's renewal occurred in Australia.

However, the compartmentalization response was unsuccessful in two ways. First, in NZ it failed to alter stakeholders' assessment of the merged organizations' limited interdependence and hence their respective legitimacies remained entangled. Second, a verbal commitment to Ansett's recovery was maintained; however even the mooted investment in Ansett's recovery

with government funding remained unpopular and faced significant resistance (NZ). In the face of such resistance to substantive action and the compartmentalized response that had emerged, in Australia doubts were fuelled around Air NZ's actual commitment and its ability and willingness to provide the resources necessary for Ansett's recovery.

On one hand, re-asserting that the two companies had remained separate helped avoid some illegitimacy spillovers and had largely curtailed the illegitimacy spreading to Air NZ's operations. On the other hand, there was little real progress towards sufficiently improving the merger's legitimacy to allow integration to be pursued vigorously. Further, the emphasis on compartmentalization between the merged parties meant that the notion of complete separation increasingly appeared as a viable option for both Australian and NZ stakeholders.

Phase three: Recoupling and Disinvestment (Late June to mid-September 2001)

With the NZ Government's reluctance to provide capital for use in Australia, Air NZ sought to attract potential partners to invest the necessary capital for the Ansett's fleet upgrade. This was an attempt to address the criticisms arising from Australian stakeholders, Air NZ's minority shareholders and Ansett customers demanding attention and investments in Ansett be made. Justifying such investments required that the legitimation again turn to a coupling response, whereby the fates of Air NZ and Ansett were once more seen as entwined. One option saw Air NZ's cash-rich partner SIA offer to increase its shareholding up to 49%, whereas Qantas proposed to buy SIA's 25% share of Air NZ and on-sell Ansett to SIA. Statements about the need to pursue scale for survival and profitability continued across the airline industry, either through acquisitions or alliances. Faced with these choices, Air NZ's management oscillated back to a coupling response in revitalizing its commitment to Ansett and arguing against calls by some stakeholders, such as the NZ Government, for further separation. However, as outlined below, the end result was complete disinvestment as

stakeholder assessments of the illegitimacy of the merger continued to escalate.

[Insert Table 4 about here]

Legitimation strategies: Amplification and coercive tactics

Air NZ chose to promote the SIA re-financing offer, as under this proposal Air NZ retained control of Ansett; thus improving its ability to grow as a regional airline (see Table 4). Advocating for this solution renewed management's efforts to entwine the two companies, re-iterating the benefits of an integrated Air NZ-Ansett entity and emphasizing their interdependence.

In promoting the SIA offer as the preferred solution, Air NZ's management reverted to exalting the strengths of an integrated entity, amplifying the legitimacy of the subsidiary (and thus the merger) and declared a standalone parent as less legitimate (3A, see Figure 1 and Table 3). The redirected response sought to rekindle the desire to extend the airline beyond the confines of its NZ-based identity and to link this with Air NZ's survival:

> Without Ansett, Air NZ would be less competitive, would prevent the diversification of risk by being exposed to just one primary market, and the airline would not be able to serve as many tourism markets. What the NZ Government needs to understand is that if Air NZ reverts to where it was without Ansett, then it is so small and so vulnerable it will ultimately become just a regional player in the Western Pacific (CEO Toomey, TD, NZ, Jun 28).

These strategies were supplemented with coercive tactics that explicitly warned stakeholders about standing in the way of the SIA proposal, management's stated preference for supporting integration and Air NZ's stated regional growth aspirations (3B). The Air NZ group CEO challenged resistance of certain stakeholders to the SIA offer through dire warnings about not considering the consequences of Ansett's demise on Air NZ and the local economy:

> What is at stake is the future of Air NZ, not just the future of Ansett. We are talking about how we can sustain jobs for 9000 NZers directly employed by Air NZ, and beyond that, the jobs generated by the $1.1billion we spend purchasing goods and services in NZ each year (TD, NZ, Jul 14).

Furthermore, recognizing potential regulatory resistance in Australia, Ansett threatened to cut

flights in regional Australia if SIA was blocked by the respective governments of NZ and Australia from increasing its stake in Air NZ. However, faced with an absence of support from most stakeholders, Air NZ eventually had to abandon what proved to be the final attempt at re-entwining the destinies of the two companies.

Impact of legitimacy strategies on stakeholders' judgments

Despite the coercive tactics employed above, the SIA proposal was comprehensively delegitimized due to key stakeholders' overlapping concerns and management's inability to generate support from other stakeholders (3C). During this phase, the NZ Government became a key stakeholder due to the requirement of its approval in raising SIA's ownership stake above the 25% threshold. The NZ Government argued that maintaining Air NZ's national airline status was more important than saving Ansett, and that this status would be compromised if the SIA investment was approved. Their statements questioned the legitimacy of the proposed integrative solution and that Air NZ's survival and global reach could not be compromised for the sake of its subsidiary – "The most important outcome for New Zealand is to preserve the Air NZ brand and its global reach and to encourage domestic competition in New Zealand" (NZ Finance Minister Michael Cullen, TD, NZ, Aug 2). The Australian Government also opposed any increase in SIA's shareholding by labelling it as a harmful inequity in the global aviation sector. They pointed out that the SIA proposal if implemented would create a regional "behemoth" (Australian Transport Minister John Anderson, NZH, NZ, Aug 7).

This in turn led to the legitimacy of the merger itself facing renewed and greater challenges by multiple stakeholders. The NZ Government built on the previous segregation of the brands to dis-identify Air NZ from Ansett – a non-NZ brand – when it refused to relax rules that would facilitate SIA's proposal: "How important is Ansett to Air NZ's future? Ansett is not a

NZ brand. We want to expand NZ brands" (NZ Finance Minister Michael Cullen, TD, NZ, Jul 13). Thus, as with other previous attempts at re-legitimation, the earlier strategies to compartmentalize the two operations and not merge the two brands became counterproductive as it was used by government authorities to discount appeals for to support Ansett's survival. With little mitigation of unfavorable stakeholder concerns, this adversely impacted on Air NZ's ability to satisfy the demands of other constituents and institutional investors who were potentially interested in the merged entity. Faced with only limited external support, SIA withdrew its proposal and advised that it was no longer interested in acquiring new equity in Air NZ. With its legitimation strategies exhausted and the Ansett's financial problems spilling over to impact Air NZ's own legitimacy, share price and proposed strategic options, declaring Ansett bankrupt was its only option.

Summary of Phase 3: (attempted) recoupling and disinvestment

This phase saw Air NZ oscillate back to a final attempt at coupling. However, given its inability to affect adverse stakeholder concerns, Air NZ ultimately initiated disinvestment of Ansett – that is, complete separation rather than simply compartmentalization. With this decision, Air NZ conceded to the demands of the NZ Government, who failed to identify with Ansett's difficulties. When Air NZ offered to sell Ansett to Qantas, Geoff Dixon (CEO Qantas) also declined, stating "Ansett's problems are far too great for Qantas to take on" (TD, NZ, Sep, 13). Subsequently, the Australian Government rejected a proposal for it to underwrite Ansett while Air NZ liquidated assets in order for it to re-emerge as a discount airline. Having run out of all commercial options to sell or resurrect Ansett, Air NZ agreed to a NZ Government loan and equity investment that would not cover Ansett losses. Accepting this choice resulted in Ansett being placed in voluntary administration, its eventual bankruptcy with 16,000 jobs lost, cancellation of its 700 daily flights and 47,000 Ansett passengers being stranded. Air NZ declared a loss of NZ$1.425 billion in 2002.

Discussion and Conclusion

Merger legitimation: An oscillation framework

The Air NZ-Ansett Australia merger is a revealing case of shifting legitimation responses in following a delegitimizing event at one of the merging entities. More generally, it demonstrates how attempts to address legitimacy demands and concerns from an array of dissatisfied, self-interested and alert stakeholders (Kostova and Zaheer, 1999) both internal and external (Bitektine, 2011; Deephouse and Suchman, 2008; Drori and Honig, 2013) can result in oscillation between coupling and compartmentalization legitimation responses. Each response seems aligned with satisfying immediate stakeholder legitimacy concerns. However, as stakeholder demands accumulate and diverge (Denis et al. 2007), enough of these stakeholders can remain unsatisfied during each phase so that, over time, the opposite outcome of delegitimation occurs. In addition, inconsistency within these responses (Massey, 2001) would undermine some stakeholders' belief in top management's commitment to the integration process and opens up space for consideration of complete disinvestment by some stakeholders, undermining any subsequent (re)coupling attempts.

Our analysis builds additional understanding in the nascent area of merger (de-)legitimation research, including exploration of the unintended consequences of legitimation (Vaara and Monin, 2010; Zhu and McKenna, 2012). In depicting the interplay of coupling and compartmentalization as essential elements of post-merger legitimation, this oscillation framework (see Figure 2) brings together both the merger integration (Birkinshaw et al., 2000; Monin et al., 2013; Schweizer, 2005) and legitimacy (Elsbach and Sutton, 1992; Kraatz and Block, 2008) literatures. Our analysis shows how these responses may be constructed through phases of legitimation strategies in the media, such as 'denials' and 'statements of optimism' (Ashforth and Gibbs, 1990; Desai, 2011; Elsbach and Sutton, 1992; Elsbach,

1994), that promote either coupling or compartmentalization.

[Insert Figure 2 about here]

A. *Increasing insight into coupling as a legitimation response within mergers*

Through the first phase of the oscillation process, we augment understanding of coupling as a legitimation response during post-merger integration, highlighting it as a double-edge sword (Ashforth and Gibbs, 1990) that can exacerbate stakeholder legitimacy concerns regarding illegitimacy spillover between the merging parties (Kostova and Zaheer, 1999). Ultimately, coupling as a legitimacy response is unlikely to assuage these spillover concerns, rather it can exacerbate them, and thus ultimately can result in a shift towards an alternative response of compartmentalization (Phase 2, discussed below).

Potential synergies and organizational integration are often central in the justification of mergers (Larsson and Finkelstein, 1999). When this is the case, initial attempts at defending the legitimacy of the merger are likely to emphasize coupling to make legitimation efforts consistent with the long-term motive of obtaining synergistic benefits (Cording et al., 2008). Arguably, the ongoing emphasis on integration as part of a coupling response should align with the pragmatic legitimacy concerns of key stakeholders (such as shareholders) given its complementarity with strategic fit (Barkema and Schijven, 2008) and the projection of expected value creation (Schweizer, 2005). A coupling response can therefore be supported by rationalist arguments that highlight these facts (Vaara and Monin, 2010). Our findings illustrate how coupling can be promulgated through impression management techniques (including denials and statements of optimism from both organizations regarding the merger). This phase in the process framework highlights the difficulty of de-escalating the ongoing integration and explains why coupling is likely to be management's first response.

However, our findings also show the limitations of coupling as a legitimation response in

merger contexts and its 'unintended consequences' (Vaara and Monin, 2010). While consistent with the long-term motive of value creation from an integrated single entity, coupling does not address the more immediate illegitimacy spillover concerns (Ashforth and Gibbs, 1990; Kostova and Zaheer, 1999; Lamin and Zaheer, 2012) and the resultant desire to protect at least one of the merging parties. Stakeholders are not a homogenous group (Lamin and Zaheer, 2012; MacLean and Behnam, 2010) and some are particularly sensitive to any negative spillover effect from one firm to another. The coupling response can exacerbate these spillover concerns and generate a 'shunning response' within merger contexts (Jensen, 2006), with the extent of spillover concerns likely associated with the type or level of integration at the time of the delegitimizing event. Less integration, low 'cultural fit' (Barkema and Schijven, 2008; Nahavandi and Malekzadeh, 1988) or limited perceived similarities (Clark et al., 2010) between the merger partners at the time of the event would likely allow more space to deal with the delegitimizing event because of the reduced pressure to manage illegitimacy spillover concerns. In contrast, our findings indicate that spillover concerns can become an important driver for an oscillation to a compartmentalization response in merger settings; a dynamic discussed next.

B. Increasing insight into compartmentalization as a legitimation response in mergers

The second phase of our framework addresses compartmentalization as a legitimation response (Elsbach and Sutton, 1992; Kraatz and Block, 2008). In particular, we consider how it can lead to heightened demands for complete segregation from stakeholders opposed to integration, which in turn appears to influence managers to shift back towards a (re)coupling strategies to reclaim the integrative value and preserve the legitimacy of merging (Phase 3, discussed below).

Our processual analysis illustrates how, as a response to stakeholders' assessments of

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spillover potential, legitimation efforts can shift from coupling toward compartmentalization. We demonstrate how managers may resort to rationalist arguments (Vaara and Monin, 2010) that separate brands and messages to satisfy stakeholders who had begun to curtail their support for integration "to avoid suffering reduced status because of the association" (Ashforth and Gibbs, 1990: 183; Kostova and Zaheer, 1999). Such compartmentalization in merger settings (e.g., separating brands) is somewhat similar to Elsbach and Sutton's (1992) notion of separating illegitimate member actions from legitimate SMO structures. Here, the use of compartmentalization (which ostensibly could meet multiple stakeholders' demands) seemed to be based on a 'short-term motive' of buying time while actions were taken to rectify the illegitimacy at the other organization (Schweizer, 2005).

However, our findings in the merger context are somewhat dissimilar to the benefits outlined in the existing literature (Elsbach and Sutton, 1992; Kraatz and Block, 2008; Lamin and Zaheer, 2012). Compartmentalization can be initially or partially legitimating, but can also readily prove de-legitimating in a merger context. First, implementing compartmentalization within merger contexts appears to primarily protect the value of the acquiring firm and inherently leads to a lack of emphasis on opportunities for value creation through integrating, doing little to bolster the rationales or legitimacy associated with merging. Instead efforts are directed primarily at repairing the legitimacy of the separate(d) operations and thus, compartmentalizing, even as a symbolic response, puts the on-going integration on the back burner. Furthermore, once a foundation of compartmentalization has been laid, stakeholders can view any claims of support for the crisis-affected organization as simply a façade of legitimacy (MacLean and Behnam, 2010). Thus, compartmentalization may invalidate any earlier attempts to downplay illegitimacy of merging and simultaneously prejudice any return to an emphasis on integrating.

Compartmentalization in mergers is, therefore, associated with a delay in the achievement of the long-term goal of creating synergies (Larsson and Finkelstein, 1999). It could exacerbate us vs. them distinctions (Maguire and Phillips, 2008) amongst stakeholders due to recognizable aspects of the organizations being kept deliberately separate. Unrealized synergies due to such a legitimation response can ultimately provide managers with fewer options to advance the legitimacy of the merger as source of (potential) and real synergistic benefits. Such a failure to create additional perceived value from the merger would generate further dissatisfaction and, in absence of successful substantive actions taken to repair the legitimacy of the acquired firm, adds to fears of financial and reputational losses spilling over. Depending on the severity of the legitimacy challenges, compartmentalization can exacerbate or provide a basis for demands from certain stakeholders calling for permanent separation, even though internally management still views the investment as beneficial and legitimate (Drori and Honig, 2013). Such dynamics could prompt an (re)escalation of commitment (Staw, 1980) towards the integration goals and a recoupling response, especially when the reputation of the CEO and board are linked to the success of the merger. We detail this next phase below.

C. Increasing insight into recoupling as a legitimacy response

In the recoupling phase, we demonstrate the accumulative and potentially path dependent dynamics of an oscillation between coupling and compartmentalization and back again. Unless earlier response reduce concerns, stakeholder legitimacy demands can escalate. Inconsistency in responses over time, even while enabling managers to be responsive to immediate pragmatic concerns as outlined above, can ultimately reduce the capacity of managers to respond to these concerns and successfully defend the legitimacy of the merger (Massey, 2001). Indeed, this escalation of demands is observable in our case in that moral legitimacy concerns (Suchman, 1995) began to be aired by stakeholders, joining the

pragmatic legitimacy concerns that had been and remained predominant. This means the reintroduction of a coupling response by managers can fail to avert complete segregation between the merging parties.

Oscillation back to a coupling response to re-legitimate the merger was evident in the strategies adopted by managers. In again promoting the need for integration, they attempted to halt calls for complete separation that had escalated due to compartmentalization and recapture the synergistic value of the merger, attempting to tie the future of the two companies together. However, amplified rationalizations of merger legitimacy through recoupling were somewhat counter-productive and viewed as 'exaggeration' or 'insincere' (Ashforth and Gibbs, 1990) by those capable of providing resources or by those demanding resources needed for recovery. In particular, the inconsistency in the messages over time is likely to become more evident if these moves to emphasize integration follow legitimacy strategies that emphasized separateness. Thus, when the legitimation response requires a strong swing towards compartmentalization, the argument that the expected value of the merger is in fact illusionary is bolstered, and separation becomes more inevitable – in fact, it provided an argument for stakeholders opposing the merger.

While recoupling is often difficult (Hallett, 2010), there are however other conceivable outcomes that we believe merger legitimation scholars should remain open to and explore (as suggested in the dotted line in our framework). Here we can only suggest this alternative outcome since our data did not cover this explicitly. Drawing on the literature, though, Hallett (2010) describes recoupling as coupling previously disparate symbolic and substantive responses. His study of school shows how difficult, at a personal level, undergoing this change can be for some stakeholders. He also notes how it can be achieved, albeit at some cost, if it has the support of powerful internal actors; or those he labels "agents who believe in

it" and "good soldiers" who can drive home the necessary change with the support of powerful external stakeholders (in that particular case the local school council). This suggests that in a situation with different stakeholder dynamics to those present in our case, likely including stronger external support for integration, recoupling may be possible. Furthermore, in the merger integration literature, it is clear that different types or levels of integration can be sought within mergers (Haspeslagh and Jamison, 1991; Nahavandi & Malekzadeh, 1998). It is likely that when a lower level of integration is initially sought, this would reduce spillover concerns, meaning that any subsequent oscillation would be less exaggerated and thus recoupling after compartmentalization would be more possible. Similarly, if only limited compartmentalization occurs during the oscillation process (perhaps because spillover concerns could be addressed), then a subsequent shift back (likely following stabilization of the separate organizations' legitimacy) to a recoupling response could prove successful in re-establishing the legitimacy of merging the organizations. Nonetheless, more research is needed with regards to recoupling generally (Hallett, 2010) and to understand the potential for utilizing it successfully in merger integration contexts more specifically.

The oscillation dynamic in post-merger legitimation

The above insights and associated framework extend understanding of post-merger integration legitimation, highlighting the relationships and interactions between the contrasting responses over time and elaborating on how legitimation strategies can have unintended consequences (Vaara and Monin, 2010). By depicting an oscillation dynamic between coupling and compartmentalization legitimation responses, Figure 2 illustrates how an initial coupling response, to affirm integration, is simultaneously insufficient to reduce (and indeed exacerbates) illegitimacy spillover fears, precipitating a swing towards compartmentalization. While compartmentalization may address some of these spillover fears, it provides those in favor of disinvestment with evidence that separateness remains and

that there is a lack of realized synergies, allowing them to argue for even greater separation. In an attempt to deescalate this trend and recapture the synergistic value of the merger, managers can turn to a (re)coupling response. Attempts at recoupling can however be difficult as the preceding compartmentalization puts into question the commitment of managers to the merger and ongoing integration. While each of these responses seeks to satisfy immediate stakeholder legitimacy concerns, as stakeholder demands diverge enough of them will remain unsatisfied during each phase, meaning that merger illegitimacy will actually escalate. Further, the accumulative result of the oscillation between legitimation responses tends to be increasing inconsistency, so that each oscillation undermines those responses that follow (Massey, 2001).

Oscillation appears somewhat inherent to mergers which typically face pressures for both some amount of integration and separation (Haspeslagh and Jemison, 1991). In our case, demands for separation built up over time, with the oscillation between legitimation responses ultimately proving self-defeating. This dynamic augments Clark et al.'s (2010) findings, who argue that a merger will not be opposed when survival of both firms is viewed as dependent on successful integration. Here, management did not (or perhaps could not) successfully present this argument and ongoing integration became increasingly contested, partly due to the earlier legitimation responses vacillating between contradictory stakeholder demands.

Concluding remarks

Oscillation in legitimation responses between coupling and compartmentalization depicts a process through which a merger can lose legitimacy; and when initiated in response to a delegitimizing event potentially results in the eventual death of either/both of the separated organizations (Hamilton, 2006; Singh et al., 1986). Highlighting this dynamic contributes to

the existing literature on merger legitimation (Clark et al., 2010; Monin et al., 2013; Vaara and Monin, 2010) in a number of ways. First, it provides a processual view of how post-integration legitimation attempts can become increasingly ineffective following a delegitimizing event at one of the merger parties. It adds to the literature that suggests legitimation processes are the missing link in our understanding of merger failure (Zhu and McKenna, 2012; Vaara and Monin, 2010) through a novel depiction of inherent pressures for oscillation between integration and separation that shape merger contexts. Overall, through surfacing this oscillation, our processual analysis exemplified that in contrast to the planned characterization of the merger integration processes (Marks and Mirvis, 2001), a legitimation process following a crisis is likely to be emergent and changeable (Langley et al., 2013) and can have unintended side-effects (Vaara and Monin, 2010). Delegitimation, in particular, can result from the accumulated effect across these evolving legitimation efforts over time and the shifting legitimacy assessments by often self-interested stakeholders.

Second, our findings and associated framework extend existing knowledge about legitimation during post-merger integration (Vaara and Tienari, 2002; Vaara et al., 2006) through deepening the understanding of integration and separation actions/outcomes as part of legitimation. While legitimation discourses are known to play a role in merger failure (Vaara and Monin, 2010), we have added another lens by focusing closely on coupling and compartmentalization as legitimation responses and demonstrating that the degree of separateness/integration sought at any point in time can affect the eventual integrative outcome (Haspeslagh & Jemison, 1991). In particular, we show a dynamic unfolding relationship between legitimacy strategies implemented by managers and the actual level of integration achieved. . Through looking at these as part of the oscillation framework outlined above, we have demonstrated how they interrelate and also highlight some of the attendant limitations of oscillation. Thus, we also address the calls in the legitimacy literature for

research on the ability of compartmentalization to address legitimacy concerns in various contexts (Boxenbaum and Jonsson, 2008; Greenwood et al., 2011).

For managers, our findings provide novel insights into legitimation processes during post-merger integration settings, in particular following a delegitimizing event at one of the merging parties. An oscillation from coupling to compartmentalization (or vice versa) can try to present conformity with the immediate legitimacy demands being faced during the adjacent phases. However, such swings can also mean that stakeholders' dissatisfaction builds especially when managerial rhetoric and action fail to meet stakeholder expectations for sufficient or threshold levels of concurrent, cross-temporal and spatial consistency. Therefore, for defending merger legitimacy, a strategy that is predominantly proactive, consistent and employs congruent communication and action is likely to prove more successful in assuaging stakeholder concerns (Massey, 2001). Where oscillation occurs, greater swings between coupling and compartmentalization seem inclined to push inevitably toward separation because the oscillation fuels arguments against integration. If the evolving managerial legitimation responses can dampen these swings, the potential to continue with merger integration after stabilizing the compartmentalized organizational legitimacies seems more feasible.

Boundary conditions and future research

We believe the framework outlined here offers fundamental insights into the dynamic between integration and separation relevant for understanding merger (de-)legitimation generally. The framework is particularly relevant following a delegitimizing event, because of the potential for spillovers from one of the merged organizations to the other. However, pressures for oscillation are likely in mergers more generally whenever there are competing benefits from integration and separation (Haspeslagh & Jemison, 1991; Larsson and

Finkelstein, 1999). These competing influences underlie many of the merger typologies (e.g., Cartwright and Cooper, 1993; Marks and Mirvis, 2001), from preservation where ongoing separateness between the merging parties is emphasized to symbiotic mergers where synergies pursued via integration are pursued (Haspeslagh & Jemison, 1991). Nonetheless, research is needed to explore the relationship between the legitimacy strategies suggested here and merger integration dynamics, including the extent to which particular legitimation strategies are associated with the different modes of integration in the existing merger literature, such as absorption, preservation and symbiotic approaches (e.g., Haspeslagh & Jemison, 1991). It is likely that the oscillation dynamic we outline here is most prevalent in those mergers seeking at least some degree of synergy and integration between the two entities as a source of merger value. Building on this point that mergers often wrestle with the competing demands for integration and separateness often stemming from various stakeholders, the dynamic embedded in our framework also can illuminate the management of legitimacy in relation to contradictory demands from different stakeholders in post-merger contexts. Generally, the oscillation dynamic is also likely to be more evident when merging the organizations creates a range of competing pressures for integration and separation. Such situations could include having distinct, established or favorable reputations or well-established brands that provide rationales for separateness as well as negative consequences should spillovers occur, or when top management's self-interests are closely tied to the success of the merger (Sinha et al., 2012) which escalates a drive for continued integration.

While we view the framework as having some breadth of generalizability, there are some unique aspects of the airline industry case and the data on which we have based this on that should be acknowledged as potentially influential. The volume of publically available media coverage in relation to the Air NZ-Ansett merger case was a central strength of our case and informed our case selection. However, due to of the lack of primary data, our analysis was at

times unable to infer management's strategic intent with respect to the legitimation strategies attempted and so focused on the strategies as they appeared and unfolded in public domain at the time. Furthermore, industry regulation, the national prominence of the brands (often as flag carriers), and significant resultant media scrutiny were specific to this case and may have been important to both the dynamics and stakeholder outcomes described here (e.g., in reducing the options of the managers during the final phase and forcing disinvestment) Additionally, as noted above, the type of merger (i.e., level of integration sought), and the level of organizational slack/resource constraints may also have an effect on the extent to which substantial oscillation is necessary and whether it is ultimately (de-)legitimating. Future research can therefore helpfully tease out whether and how swings between coupling and compartmentalization occur in other merger contexts, including situations where external stakeholders (such as the NZ Government in our case) are a less powerful influence. In particular, it will be interesting for such research to explore whether situations exist where compartmentalization was used and yet the oscillation proved ultimately legitimating for the merger. This might cover the outcome observed by Clark et al. (2010) where coupling was not opposed because the survival of both organizations depended on integration continuing. In drawing on a single case study, such alternative legitimation outcomes could not be analyzed and, thus, remain less fully theorized in our framework. In extending existing consideration of legitimation processes in mergers, we have sought to develop a framework that provides a useful platform for future research to extend analysis and understanding of managerial choices and strategies in this context.

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Table 1. Assessments of critical audiences explaining legitimacy of Air NZ-Ansett merger throughout the legitimation process

Phase/response	Key stakeholders during phase	Stakeholder legitimacy concerns/demands
Phase 1 Coupling	Air NZ staff (e.g., engineers)	Concern at being coupled with Ansett (spillover) and thus having their own skills questioned
	Air NZ shareholders	Lack of due diligence (acquisition) and value damage (integration)
	New Zealand media, security analysts	Spillover concerns (damaging Air NZ) due to linkages
	Australian media, security analysts	Crisis handling, restructuring issues and recovery
	Ansett engineers	Funding cuts departments merged
	Civil aviation authority	Maintenance lapses (Ansett)
	Manufacturing union (Australia)	Staffing cuts, morale low
	Ansett customers (domestic)	Safety reputation
Phase 2 Compartmentalization	Air NZ customers	Satisfaction due to brand separation and domestic focus
	Air NZ shareholders	Losses due to Ansett underperformance and absence of synergies
	NZ Media	Compare performance and damage to Air NZ
	Ansett stakeholders (Australian managers, employees, customers)	Absence of substantive action towards recovery
	Australian media	Lack of investment, weak owner
	Ansett customers	Marketing campaign is considered "bogus"
Phase 3 (attempted) Recoupling	NZ Government (part shareholder)	Air NZ shareholding ownership structure
	Australian Government	Australian aviation industry competitiveness
	Singapore airline (existing part shareholder of Air NZ, considering investing in Ansett)	Air NZ merger and synergies
	Qantas (competitor)	Air NZ and SIA dominance
	Ansett customers	Ansett recovery and flights
	Ansett employees	Ansett recovery and jobs

Table 2. Phase 1: Managing the Merger's legitimacy (April 2001) – coupling

Legitimation dynamics		Representative data
Legitimation strategies	**1A. Denial: Problems not the fault of merger** Air NZ paints problems as inherited	• "The problems had been caused by the former management, and the new people were all about ... fixing up and putting in place a more robust system" (Ansett Senior VP Operations, TAus, Australia, Apr 16). • "We at Air NZ are not to blame" (Air NZ Board Chairman Cushing, SST, NZ, Apr 15).
	1B. Denial: Statements of optimism (emphasizing the acquired firm's legitimacy)	• "Our [Ansett] aircraft are airworthy and we can prove that. We will come out of this as a stronger airline" (Ansett Senior Vice-President Operations, HS, Australia, Apr 13). • Since the grounding of Ansett planes on Thursday, the airline's bookings were only down 1 per cent compared to the previous year, and before this they were showing double-digit growth (CEO Toomey, TAus, Australia, Apr 18). • Ansett would again emerge as a world leader in aviation safety. The flight renewal plan would be put to the Ansett Air NZ board in July, and a bid for new aircraft put to Boeing or Airbus later in the year (CEO Toomey, NZH, NZ, Apr 23). • It was the safest 767-200 in the world (Ansett spokesperson, TA, Australia, Apr 21).
Stakeholder reactions	**1C. Initial questioning of legitimacy of merger** (Australian stakeholders) delegitimize post-acquisition restructurings and Air NZ reluctance to invest in Ansett upgrade	• "When Air New Zealand took over, it crunched 30 managers from both airlines into 17 for the combined operation. The upshot has been that practically every manager listed in the last published annual report, June 1999, has been cleared out. [The] old Ansett management, and therefore […] all the corporate knowledge, left" (Chris Moller, CEO CASA, TAus, Australia, Apr 16). • "When Air New Zealand and Ansett merged their maintenance operations, the people that really had the skills and understood how the Ansett maintenance systems worked were retrenched, leaving the whole operation dangerously short of skills at the top" (transport analyst, TAus, Australia, Apr 18). • "Competitive pressures mean they cut corners, they do maintenance less often, they wait for things to start to go wrong before they fix them" (Ansett union president Julie Ross, NZH, NZ, Apr 16).
	1C. Initial questioning of legitimacy of merger (NZ Stakeholders) Questions about the merger's due-diligence	• "The bewildering thing is they […] have had a very good notion of what the value of it was […] despite the inside knowledge of the airline, they do appear to have significantly overpaid" (journalist, TD, NZ, Apr 16). • "The board of directors headed by Sir Selwyn Cushing deserves unrelenting criticism. Clearly due diligence in the takeover process for Ansett Australia appears very defective" (disgruntled shareholder, TP, NZ, Apr 29).
	1D. Concern over spillover stakeholders begin to question the linkages	• [Ansett crisis] a very difficult time for Air NZ shares (headline SST, NZ, Apr 15) • "Air New Zealand shares dipped to a 10-year low yesterday after the latest grounding pratfall from problem child Ansett Australia. […] and in a double whammy, investors have been warned not to expect any dividends from the company for the foreseeable future" (journalist, NZH, NZ, Apr 11).
Overarching response (linked to legitimation strategies above)	Coupling, associated with optimism, 1B above; ongoing 'integration' of two businesses is defended, and synergies projected	• **Link to denials of that problem was with merger:** "At the top level there was no need for two chief engineers, when there was only one engineering business" (Air NZ spokesperson, TD, NZ, Apr 10) • **Link to statements of optimism:** "The merger between the two airlines is bedding down and the company is starting to capture some of the synergistic benefits. Think where Air Zealand would be without Ansett's domestic market reach - and 33 per cent of its critical international inbound and 53 per cent of all its outbound traffic moving between Australia and New Zealand" (CEO Toomey, NZH, NZ, Apr 23).

Table 3. Phase 2: Managing illegitimacy spillover, (late April to June 2001) – compartmentalization

Legitimation dynamics		Representative data
Legitimation strategies (inherent to compart-mentalization)	**2A. Separation of brands** Management keeps the Ansett and Air NZ brands separate	• Explanation for maintaining separate brands: "We have learnt more about the value of the Ansett brand. We already knew the Air NZ brand was very powerful but we have really found the support of the Ansett brand, which has probably been a bit of hidden value" (CEO Toomey, TA, Australia, Apr 23). • "We will not change our name to 'Pacific Star' to encompass both Air NZ and Ansett brands" (CEO Toomey, TD, NZ, Jun 23).
	2A. Ongoing denial and optimism about Ansett as standalone brand	• "[Ansett] has seen an increase in customer demand, and Qantas was not winning its customers" (Ansett spokesperson, TAus, Australia, May 10). • "Despite the latest gloom-and-doom scenarios of some ill-informed commentators, Ansett's losses this year haven't suddenly ballooned to $400 million" (CEO Toomey, DT, Australia, Jun 13).
	2B. Targeted (differentiated) messages and actions Management matches legitimation with stakeholders' interest	• Focusing on NZ-centric (domestic) strategy: "Air NZ will spend $4 million promoting the domestic service enhancements, which appear focused in particular on high-yield business travelers" (journalist, TD, NZ, May 8). • Focusing on Australian stakeholders ideals in Australia (Ansett brand specific): The Australian Cricket Board and Ansett Australia yesterday announced a five year, multi-million dollar sponsorship of domestic test match cricket (TA, Australia, May 23).
Stakeholder reactions	**2C. Investment delay** Australian stakeholders (e.g., media) question delay in substantive investment and waste of money on symbolic actions	• Air NZ has postponed the fleet replacement program, due to be presented to the board in July, until August or September (SMH, Australia, May 15). • Air NZ CEO Gary Toomey will not appoint a deputy in Australia to handle Ansett crisis (TCM, Australia, May 4). • Ansett's advertising campaign is widely criticized within the marketing arena, labelled by some as a waste of money while sparking bogus spoofs of the campaign via emails. Some posters have also attracted graffiti ridiculing the 'Absolutely' tagline (SMH, Australia, May 31).
	2D. Ongoing legitimacy spillover concerns; possibility of disinvestment arises	• The rapid decline in Ansett's market share and pending $NZ500 million-plus loss when compared with Air NZ's "planes running at capacity" draws attention to the fact that Air NZ group would (also) report a loss of $NZ300M "despite a buoyant market" (journalist, TD, NZ, Jun 11). • "Ansett's air safety problems and a sharp fall in its market share mean that it will drag Air NZ deep into the red this financial year and probably next year as well" (journalist, TAus, Australia, May 30). • "Air NZ will struggle to recover the value of Ansett. A clean exit from Ansett at a good value and the synergy benefits from merging with Qantas is potentially a far better option" (security analyst, SMH, Australia, May 31).
Overarching response (linked to legitimation strategies above)	**Compartmentalization** (versus ongoing integration) emphasized	• **Focusing on AUS-centric (domestic) strategy in Australia:** "[In response to Qantas-Impulse merger] Ansett has been developing plans for a competitive response drawing on our own resources, and a commercial response, which could involve our association with another carrier in the Australian market" (Ansett Spokesperson, TAus, Australia, May 19). • **Focusing on NZ-centric (domestic) strategy in NZ:** CEO Toomey stressed New Zealand was still a very important market for Air NZ, and said the airline would offer 'robust' competition to any new entrants. "We are not going to concede ground in this market." (TP, NZ, May 8).

Table 4. Phase 3: Re-affirming need for merger integration (late June to mid-September 2001) – attempted re-coupling

Legitimation dynamics		Representative data
Legitimation strategies	**3A. Amplifying legitimacy** (of integrative solution); exaggerating the synergistic benefits effects on the parent	• "New Zealand and Australia's national interests will be hurt if Air New Zealand is cut off from Ansett, its only option for growth" (CEO Toomey, SMH, Australia, Jun 29). • "The alternative proposal that Air New Zealand should sell off Ansett Australia is not the best solution. All that would do is leave our national carrier smaller and more vulnerable to the whims of a volatile global air travel market" (Jenny Shipley, NZ leader opposition party, TD, NZ, Jun 29). • "Without Ansett, Air New Zealand would become unprofitable and commercially impotent, outflanked and over-flown by its bigger international and regional competitors" (Air NZ Board Chairman Farmer, SST, NZ, Sep 9).
	3B. Coercive tactics. Management warned or threatened stakeholders standing in the way of the SIA investment (the route to ongoing integration)	• "While we fix the Air NZ problem short term [by selling Ansett], I think it becomes ultimately a possibility or reason for [Air NZ's] demise medium term.' Air NZ could eventually fail if the Government did not allow Singapore Airlines to lift its ownership of the airline. A healthier airline group would cover competition worries, And on the issue of landing rights there were several precedents of 49% foreign ownership" (CEO Toomey, TD, NZ, Jun 28). • "I am surprised [at the Australian Government]. Ansett in Australia employs around 15,000 people involved directly or 20,000 indirectly in supply to the company. So there are a lot of Australians involved in this company and we would like to think the [Australian] Government was taking their position into account as well" (CEO Toomey, DT, Australia, Aug 13).
Stakeholder reactions	**3C. Questioning legitimation attempts** Multiple stakeholders frame proposed action to re-legitimate the merger as illegitimate	• Singapore Airlines' proposal was a 'backdoor' attempt to control the aviation industry in Australia and New Zealand. "It would be unprecedented for the Singapore Government to control its own airline, Singapore Airlines, as well as Air NZ, Ansett Australia and Ansett International" (Qantas CEO, Geoff Dixon, TAus, Australia, Jun 21). • "[We] are concerned that its current proposal could produce an unhealthy balance in the global, regional and Australian aviation markets" (Australian Deputy Prime Minister John Anderson, TAus, Australia, Aug 2).
	3D. Challenging legitimacy of the merged organization Stakeholders fail to identify with the merger or think of the two entities as combined	• "The bottom line is Air New Zealand as the national carrier has to be kept flying. Life without Air New Zealand is unthinkable" (NZ Prime Minister Helen Clark, SST, NZ, Sep 9). • "If somebody increased their stake in Air NZ that would help it. But if somebody else came along and put some more capital into Ansett, that would be a more direct way of helping the business of Ansett and its employees. You could only get a new investor in Ansett if Air NZ were to withdraw" (Australian Treasurer Peter Costello, TA, Australia, Sep 10).
Overall response: initial attempt at **re-coupling** then **disinvestment**	Attempts to link the survival and fates of the both airlines, negotiating, failing and self-serving action	• **Initial attempt at re-coupling (as in 3A)**; additional example: "Ansett gave Air NZ the critical mass needed to maintain a market presence as a significant global carrier. Without it Air NZ risked reverting to little more than a regional airline player" (CEO Toomey, DT, Australia, Jun 26). • **Initial attempt at re-coupling (as in 3A)**; additional example: "Air New Zealand carries around five million passengers each year, while Ansett Australia carries 14 million. Those figures alone show the importance of Ansett if Air New Zealand is to remain a strong regional player with a global reach" (Director and future Air NZ CEO Ralph Norris, SST, NZ, Jul 8). • **Examples of disinvestment:** "Without the disinvestment of Ansett Australia, and the availability of a loan facility, Air New Zealand could not survive" (Minister State-Owned Enterprises Mark Burton, NZ Parliament press release, Sep 15).

Figure 1. Data structure: Phases of legitimation responses and stakeholder reactions
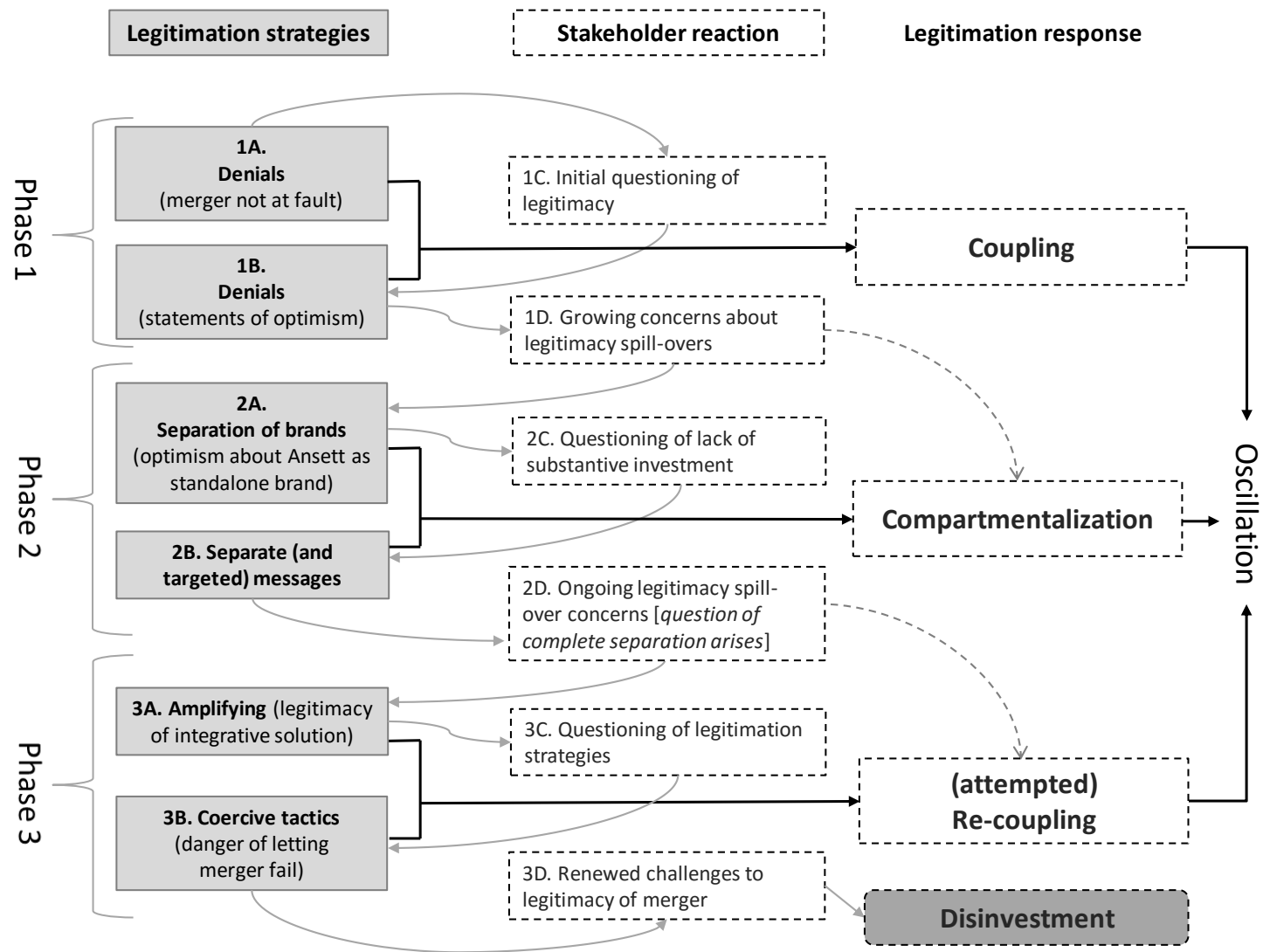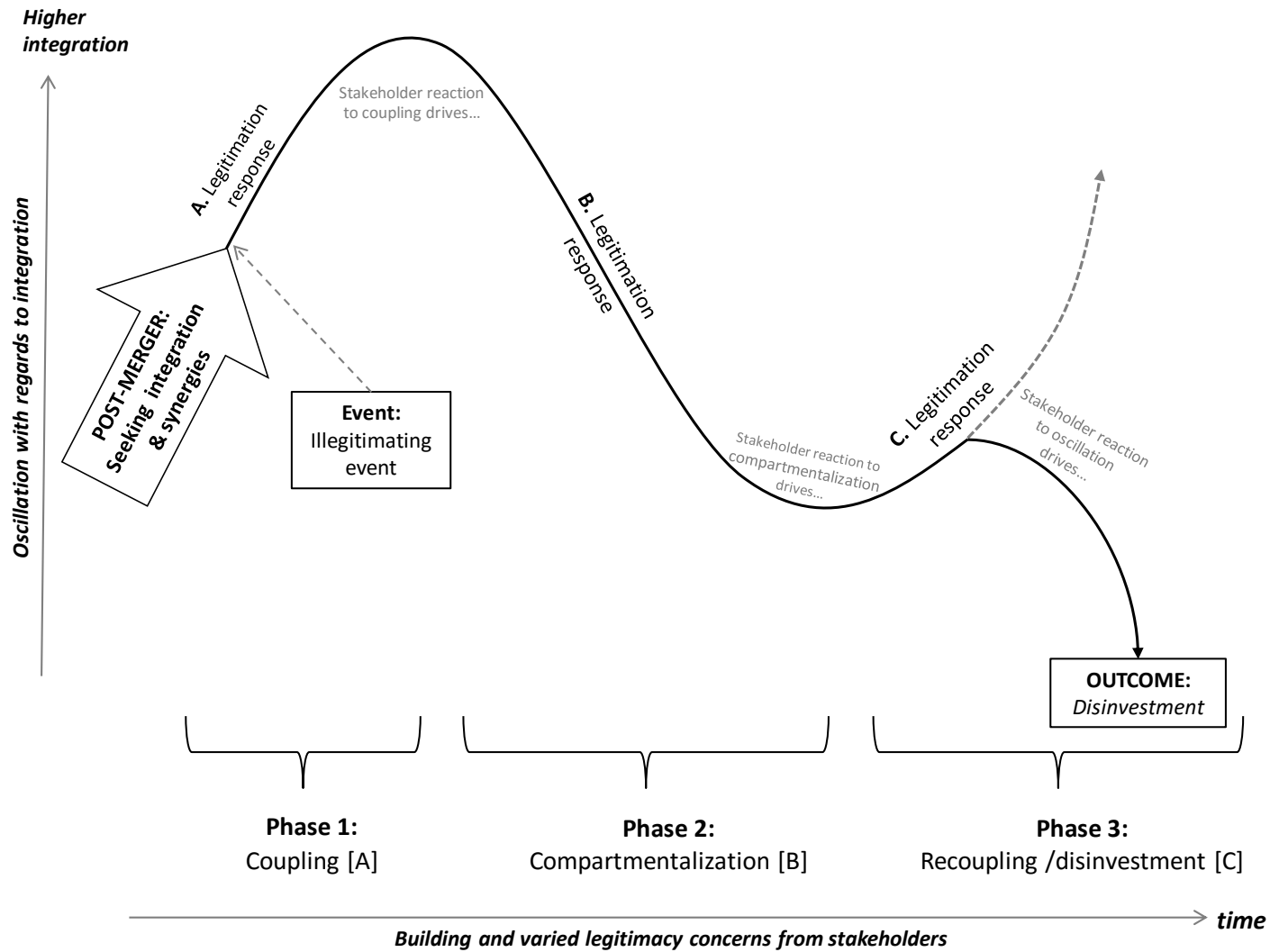
Figure 2: Oscillation framework of merger legitimacy defense

Higher integration

Oscillation with regards to integration

Stakeholder reaction to coupling drives…

A. Legitimation response

B. Legitimation response

C. Legitimation response

Stakeholder reaction to compartmentalization drives…

Stakeholder reaction to oscillation drives…

POST-MERGER: Seeking integration & synergies

Event: Illegitimating event

OUTCOME: *Disinvestment*

Phase 1: Coupling [A]

Phase 2: Compartmentalization [B]

Phase 3: Recoupling /disinvestment [C]

Building and varied legitimacy concerns from stakeholders

time

Acknowledgements

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