

How Environmental Impacts Affect MNE Location Choices:

Stakeholder Dynamics in the DHL Europe Case

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Abstract

In 2003, the Germany-based multinational enterprise (MNE) DHL announced its planned *regional hub* project, to be located at Brussels National Airport, Belgium. The project's purpose was to restructure European operations, and to end up with a single, large-scale hub for the entire continent that would be linked with the firm's regional hubs in North-America and Asia, and would also be connected with several continental "spokes", i.e. more minor DHL operations in Europe. During the ten months following DHL's announcement, the societal debate on this expansion project metamorphosed into a trial of strength between DHL and various stakeholder groups in Belgium, ultimately leading to DHL's decision to locate its new European hub elsewhere, namely in Leipzig (former East Germany). Stakeholder dynamics appeared critical to the MNE's decision to relocate its new hub project. We assess changes in stakeholder salience attributes such as power, legitimacy and urgency, and the effects thereof on the MNE's project relocation decision.

1. Introduction

Firm-level success in terms of survival, profitability and growth depends, at least partially, upon successful stakeholder management. In some cases, the key stakeholders include only equity providers, employees and consumers. Increasingly, however, multinational enterprises (MNEs) pursuing the implementation of large-scale investment projects need to take into account a much broader set of stakeholder groups, many of these operating in local contexts and having the potential to affect the firm's operations, see Clarkson (1995: 106). Rather peripheral stakeholders may in extreme cases even affect the firm's license to operate, especially if its activities have a strong societal impact.

Given the above context, we explore the dynamic process of stakeholder salience and its effect on MNE strategy. Here, we advance the effects of stakeholders on MNE decision such as entry and exit into a new, dynamic venture.

In the *next section*, we describe the DHL case. We collected information on this case through our involvement in a study on the economic benefits of the DHL hub project in Brussels. This data gathering exercise included desk research, analysis of press announcements, the conduct of expert interviews and participant observation. In the *third section*, we discuss core insights from the stakeholder management literature, with a focus on how stakeholder groups can affect MNE location decisions. We assess stakeholder dynamics building upon the Mitchell, Agle & Wood (1997) typology. This typology uses the constructs of power, legitimacy and urgency as instrumental to salience. We suggest that the levels of these attributes may vary over time, thereby affecting stakeholder salience. In the context of this paper, we view DHL's project relocation decision as the equivalent of an MNE (forced) exit choice, somewhat in line with Stafford and Watts (1990) and Stafford (1991), and heavily influenced by stakeholder dynamics.

In the *fourth section*, we analyze DHL's evolving strategy during the negotiation process with government, and describe how stakeholder dynamics affected DHL's project relocation decision. This potentially helps us to understand better why MNEs may favor project relocation. We *conclude* with a number of managerial implications.

2. Case description: the 'DHL super-hub location choice'

The case description, findings and input included in this paper originate from a comprehensive research study on the social, economic and strategic impact of the DHL hub in Zaventem, conducted by the authors of the present paper. The DHL interviews were carried out with the regulatory affairs officer (corporate level) as well as the Belgian country manager (country level) at the Brussels headquarters, who prepared and assisted the top management's negotiations with the Belgian Government and who were also responsible for external communication regarding the project. Throughout the study, several meetings and information exchanges took place with these individuals. The authors also conducted interviews, meetings and workshops with representatives of the airport operator (including individuals at the senior VP business development level and the corporate strategy office). These individuals had participated in all task force meetings between the airport operator, DHL and the Federal Government. The ex post analysis was based on extensive research of media reports during the decision making process and in the aftermath of the exit decision.

In the course of 2003, the multinational logistics provider DHL announced its plans to concentrate all its intercontinental air cargo and express flights, including its large set of night flights, in one European location. DHL provided two main reasons for this concentration strategy.

First, in 2003 DHL was the only large, multinational express courier company (the other large MNEs being UPS, TNT and Federal Express) working with a system of several sub-regional hubs, dispersed throughout Europe. DHL viewed the regional concentration of activities in a single European super-hub as critical to generating substantial logistical cost savings, thereby improving competitiveness. Second, the handling capacity at Brussels National Airport (BNA), which served as the main hub in the regional system, was expected to reach its saturation level in 2007, thereby imposing substantial new investments in handling capacity. Therefore, DHL sent a formal request for capacity expansion proposals to several European airports, including BNA.

Deutsche Post had recently acquired DHL, and some discussion was taking place within the firm on the optimal location of both DHL's European hub activities and its head office in Zaventem. Ex post, it has become clear that the hub activities relocation was independent of the DHL head office location, since the latter has been maintained in Zaventem.

Interviews with company representatives revealed that three airports were finally shortlisted by DHL for its expansion plans. *First*, there was BNA, which already served as the firm's main hub at the outset of this decision process. DHL has been historically present in this airport, the main location advantages being the excellent weather conditions (BNA has one of the lowest number of closing days per year due to bad weather), the proximity to the market and the highly skilled and productive workforce. BNA's main location disadvantage was the growing stakeholder opposition from local communities through action committees and NGOs, as well as local and regional governments to the perceived negative externalities from the courier activities, especially the noise externalities resulting from flights during the night. BNA is located close to a densely populated area, meaning a strong case could be made to restrict night flights. As a result, various stakeholder groups felt that a "hard ceiling" had to be placed on the number of allowed night flights per year to be organized by DHL at BNA.

Second, DHL considered Vatry airport in the Champagne region in the North-East of France, located approximately 300 kilometres south of BNA. The main location advantages of this airport were the unlimited use of capacity at night and the proximity to the market from a European perspective, although the airport itself is physically located in one of the less densely populated areas in Europe. The main location disadvantages were the required closure of the airport for an average of 20 days per year due to fog as well as the unfavorable social climate, including the potential difficulty to find qualified labour.

Third, DHL also considered Leipzig airport in former East Germany as a credible location for the project. The main location advantages were the absence of stringent restrictions on night flights, the presence of a large workforce (though substantially less skilled and productive than the Brussels' workforce) given the relatively high unemployment rate in the region, and a favourable institutional context including the possibility to receive grants and subsidies from several government agencies. The main location disadvantage of Leipzig was the remoteness of the site, far removed from the present centre of economic activity in Europe. As a result, the distances to be covered by air and land transport to link this hub with various continental spokes in Europe would increase substantially.

After a first round of extensive negotiations, DHL eliminated the Vatry alternative and the choice became one between BNA and Leipzig, with an initial stated preference from DHL to negotiate with BNA, so as to extend its existing hub.

If the Pan-European super-hub were to be located at BNA, this would imply a dramatic increase in night flights (from about 13,000 DHL night flights a year in 2003 to approximately 25,000 - 35,000 in the future, depending on the growth scenario). The national press in Belgium initially

provided a favourable assessment of DHL's request to build new capacity at BNA, given high unemployment numbers in the country, low economic growth figures and a downsizing trend in firms. The DHL expansion project would create a large number of new jobs in the wider region around Brussels (Sleuwaegen et al, 2003), according to the firm itself and the airport infrastructure manager (BIAC – Brussels International Airport Company). Immediately after the public announcement of the planned extension, various public agencies started reflecting on the expected societal costs (increasing number of night flights) and benefits (employment and value added) of such a development. Due to a prior, fragile political agreement reached on the night flights schedule (in terms of allowed number of flights and their routes), just months before DHL announced its extension plan, the planned expansion received substantial media attention. At the same time, pockets of resistance against the DHL expansion arose in the local communities surrounding the airport, based on the alleged negative effects of night flights on human health, and the alleged expected increase in healthcare costs and lower worker productivity caused by a lack of peaceful sleep.

In January 2004, the Belgian Federal Government announced that it would respond to DHL's request for capacity expansion in Brussels by September 2004. This response was supposed to include, in principle, a feasible extension plan at BNA. In case a capacity expansion at BNA would not be possible, an alternative location on Belgian territory would be proposed. This latter option quickly disappeared however, as various feasibility analyses demonstrated that the costs to build a new airport or to transform existing regional or military airports were too high. In addition, the administrative hurdles to overcome in order to allow DHL to function effectively in one of these alternative locations on Belgian territory were considered excessive in each case.

A capacity extension at BNA proved to be the only feasible location in Belgium. However, such an extension also meant that the environmental permit given to the airport operator BIAC, set at

maximum 25,000 night movements per year, would need to be renegotiated with the Flemish regional government, responsible for delivering environmental permits, in order to allow for more night flights. Furthermore, the Brussels regional government also needed to be involved, as each regional government in Belgium determines the maximum noise levels tolerated on, or above, its territory. Though BNA is physically located on the territory of the Flemish Region, the airplane flight paths penetrate the Brussels Region, and a substantial number of night flights cross Brussels territory. As a result, the noise levels set by the Brussels Government would determine to a large extent the feasibility of the extension at BNA. The above suggests the need for a policy approach by the Federal Government that would include explicitly the two other regional governments involved. In fact, the Federal Government acted as the sole political negotiator with DHL, and insufficiently took into account that each decision it would take would also need to be approved and implemented by the Regional Governments involved (see the next sections). Here, substantial decision making power was actually held by the Regional Governments, namely the Brussels Government in terms of setting the maximum noise levels and determining the maximum number of night movements above the Brussels region, and the Flemish Government, responsible for delivering the airport environmental permit.

The above decision-making complexities meant that in the time span of a few months, a number of important, interrelated decisions with long-term impacts had to be taken by different governments. Here, a number of partially conflicting objectives could be observed among the two focal organizations (DHL and the Federal government), and the various stakeholder groups involved, namely:

- DHL's objective, as the first focal organization considered in this paper, was to function within the context of a stable regulatory framework. Such a framework would allow the company to organize a sufficient number of night flights, as required by its business plan,

thereby ensuring long-term growth, especially given the important capital investments in infrastructure to be undertaken by the company.

- The Federal Government's objective, as the second focal organization considered in this paper, was to use the DHL project as a signalling device, to show its effectiveness in attracting foreign direct investment, and in creating value added and employment at a difficult economic time.
- The airport operating company's (BIAC) objective was to achieve the same, stable regulatory framework as desired by DHL, and to use the extended DHL-hub as a tool to signal the airport's location advantages to new cargo and passenger operators.
- The local community's objective was to limit or eliminate entirely the DHL night flights, given the alleged health costs associated with night flights. The local community was represented by action committees, as well as elected representatives in the local municipal councils.
- The objectives of the different regional Governments involved included a variety of policy objectives, including ecological elements.

In order to support the decision process, the Province of Flemish Brabant, responsible for giving advice to the Flemish Government on the environmental permit for the airport activity, commissioned two studies:

- A study on the social, economic and strategic benefits of the extension project (conducted by the authors of the present study);
- A study on the health effects (including health costs) of the extension project.

Both studies led to the identification of a number of benefit and cost categories, including both quantifiable and non-quantifiable impacts. The parameters considered relevant and important

were different for each stakeholder group, thereby imposing a stakeholder based evaluation process. The project was highly controversial and there was a clear perception that decisions would not be accepted if stakeholders were not involved. In practical terms, the study required stakeholder input from DHL itself, from the airport operator BIAC, and from the 'Government'. The complexity of the Belgian institutional model, with several governmental levels involved, turned out to be a key issue in this process.

In sum, during the ten-month period following the DHL announcement of its planned extension at BNA (December 2003), the debate metamorphosed into a trial of strength between a large MNE (DHL) and a wide variety of stakeholder groups, including government agencies at various levels, and several pressure groups.

On October 20th, 2004, DHL announced publicly that its BNA extension plan had to be canceled, due to a lack of government support. This cancellation also implied DHL's exit from BNA, at least as far as hub activities were concerned. This exit was expected to lead to a direct loss of 1,700 jobs by 2008, as opposed to a gain of 1,400 direct jobs with the extension. A few weeks later, DHL announced that the planned extension would - instead - take place at the airport of Leipzig, Germany, with 3,500 new jobs being foreseen. Leipzig would also receive the status of European hub.

The issue of expanding airport related activities must be assessed in the context of rapid, worldwide air traffic increase and the challenge to find suitable locations for the sustainable growth of the related activities in airport hubs. Public policy makers, as the guardians of the principles of sustainable development, must carefully weigh the various socio-economic and larger societal impacts of such location decisions. They must also attempt to achieve at least some consensus among all stakeholder groups involved, so as to avoid subsequent problems in the

implementation stage of the MNE's (adapted) project. However, in the DHL case, the dynamics of the interaction process between the MNE and the various stakeholders involved, ultimately led to the project's relocation and a complete exit of hub activities from Brussels. Importantly, in this case a number of government agencies switched from an initial position of favoring expansion to a preference for non-implementation, while DHL consistently favored the extension at BNA, until the political unfeasibility thereof had become clear. Considering the various stakeholders involved and the change in preferences observed during the stakeholder interaction process, it is interesting to discuss this issue from a conceptual perspective, see the next section.

3. Conceptual perspectives on stakeholder dynamics and MNE relocation/exit strategies

Stakeholder theory

In the DHL case, a stakeholder perspective is particularly interesting as the case involved several stakeholders with a variety of conflicting objectives.

Drawing on the seminal book "Strategic Management: A Stakeholder Approach" of Edward Freeman (1984) and on Donaldson and Preston (1995), stakeholders can be narrowly defined as any group or person that has a stake in the organization. Other actors, such as the media, might influence the organization, but do not have a direct stake in it (Donaldson and Preston, 1995). A narrow perspective on stakeholders - as opposed to a broad one (for example Freeman, 1984 and Starik, 1994) – enables organizations, to concentrate on just a few critical stakeholders. However, a stakeholder management approach is ultimately only useful to decision makers if it

provides better insight into who can influence decision making processes and organizational outcomes in a substantive fashion, meaning that it is important to adopt a broad approach as to whom should be included as relevant stakeholders.

In this paper, we build primarily upon Mitchell, Agle and Wood (1997), who analyzed the salience of external stakeholders using the constructs of power, urgency and legitimacy. In their paper, these authors describe how stakeholders can be prioritized in terms of their ability to influence the actions of an organization (*power*), the degree to which stakeholder claims call for immediate attention (*urgency*) and in terms of their social acceptance and their expected structures and behavior (*legitimacy*) (Mitchell et.al., 1997). These three concepts enable the analysis of stakeholder salience or determining which stakeholders should get most attention from decision makers in the organization. Any high score on only a single one of these attributes does not imply high salience of a stakeholder. Mitchell et.al. (1997) note that these attributes are subjective and may therefore not always give rise to expected behavior. Importantly, this subjectivity and behavior may also change over time, suggesting that from a dynamic perspective stakeholders can gain or lose salience to decision makers in a focal organization.²

Firm exit literature

Exit decisions in the product and geographic sphere, including relocation choices, occur continuously in most firms facing a dynamic environment. Surprisingly, despite the importance and endemic character of exit/relocation decisions (see Boddewyn, 1979; Chow and Hamilton, 1993 and Benito, 1997 for examples), the literature on firm growth is vastly larger and more

² Although Mitchell et.al. (1997) recognize some possible dynamism in the attributes of stakeholders, the authors of this paper believe they did at least not fully recognize the important effects of those dynamics. The Mitchell and Sonnenfeld (1999) empirical application based on the paper is for example a static analysis. In addition, for a valid managerial application of the model, dynamic aspects are salient. Phillips (2003) and Friendman and Miles (2006) did explicitly recognize this gap in the literature on the importance of the dynamic process of the attributes.

diverse. This lack of attention is especially unfortunate given the fuzziness of the concept: firm exit can mean anything from the decision to exit a product market to the bankruptcy of the firm. In addition, the concept is known under various names and has been studied in various disciplines, which makes drawing general conclusions all the harder³. Below, we provide a short overview of the literature on firm exit, whereby we focus especially on the concept's meaning. Van den Bulcke (1979) argued that firm exit should be understood as 1) a process that 2) involves a reduction in activity, ownership or a combination thereof by a firm (see also, Simões, 2005). As we deal with 'exit as a process' in our discussion regarding exit barriers below, we continue with the second observation of exit as a reduction in activity and/or ownership. This insight was recently re-articulated by Simões (2005) and explained in [Figure 1](#).

 Insert Figure 1 about here

In quadrant 1, the firm maintains both the activity and its degree of ownership, and as such represents the baseline scenario of no change. Quadrants 2, 3 and 4 thus represent firm exit with 4 representing the extreme scenario of bankruptcy or closure or liquidation. In quadrant 2, the firm reduces its ownership but the activity is carried out by third parties. It should be noted that this quadrant represents a whole spectrum of firm exit cases, from voluntarily selling a business unit through a management buy-out due to a lack of strategic fit to sudden nationalization or expropriation of the firm without compensation. Obviously, these cases are widely divergent in virtually all respects, but a discussion of each is beyond the scope of this paper. Finally, quadrant 3 represents cases whereby the activity is reduced, as in cases of relocation, but ownership is maintained, which is the topic of this paper. In fact, we focus here on the so-called 'type 2' exit according to Stafford and Watts' (1990) and Stafford's (1991) classification of exit types. A 'type

³ Firm exit is otherwise known as restructuring, downsizing, reconfiguring, refocusing, withdrawal, divesture, divestment, disinvestment and outsourcing.

2' exit occurs when specific plants within the firm network are closed but the activity is relocated towards other sites (whether new or existing).

Having established that firm exit can be conceptualized as a reduction in ownership and/or activity, we now turn to the determinants of firm exit. Essentially, firm exit has four rationales which may but need not occur simultaneously: financial, strategic, organizational and forced exit. According to Boddewyn (1979), financial considerations are most important when dealing with firm exit, which may occur to divest unprofitable business or to obtain funds for new investment (see also Karakaya, 2000; Dewitt, 1998). This rationale thus groups all firm-level exit types aimed at reducing financial losses, or at obtaining funds that could be allocated more profitably elsewhere. The second rationale groups all firm-level exit types associated with strategic considerations, i.e. in case of a lack of internal fit among the various activities a firm carries out (Haynes, Thompson and Wright, 2003). Such lack of fit may be due to various reasons, ranging from previous unchecked empire building by senior management (Jensen, 1986) to the sale of unwanted activities obtained through a recent acquisition. A third reason is organizational, whereby firm-level exit is due to a firm becoming too large to manage (Boddewyn, 1979). Finally, firms may exit a certain activity if they are forced to, for example due to government action which can range from expropriation or nationalization to competition policy. Although the extant literature on this topic has focused primarily on events occurring in the 1970's (Kobrin, 1984; Minor, 1994), recent nationalizations in countries as diverse as Venezuela and Russia demonstrate that nationalizations are still of some relevance today. Competition policy is another form of government action that may induce divestment either through the break-up of the firm as was the case with American Telephone and Telegraph Company in 1984, or through the requirement to sell parts of a newly acquired business.

It should be noted that in the situation described in this paper, DHL engaged simultaneously in partial exit from Belgium and entry/relocation into Germany, as far as the regional hub activities are concerned, a possibility not fully captured in Figure 1 above, solely focused on firm exit⁴, without considering the potential simultaneity of investments in the exact same activities elsewhere. In fact, DHL's exit from Belgium would not have occurred if no alternative were available. We should therefore consider the two decisions (exit from Belgium and expansion in Germany) as inter-dependent relocation choices. Again, however, the extant literature does not allow for a proper modeling of this kind of strategic action, or only limitedly so. For example, crucial in the literature that considers the MNE as a network is the notion of uncertainty (Kogut and Kulatilaka, 1994). Although strategic flexibility allows a firm to shift resources and thus simultaneously enter or exit markets, forced divestment as in our case cannot be considered as the source of a conventional source of uncertainty that could have yielded a benefit. More specifically, rather than benefiting from an option, the firm in our case does not only lack a strategic option to shift resources, but it is actually forced to consider relocation. To our knowledge, Stafford and Watts (1990) represents the only scholarly analysis focused on how a firm's local environment can have some impact when considering selective closure, whereby an MNE chooses among similar plants those that are to be divested. However, even those authors find that environmental factors such as poor labor relations are not dominant when considering the top 10 differences between closed and surviving plants, while the parameter 'unfavorable local government attitudes' did not even feature as a factor in this top 10. In this context, the authors state that "it is important to reiterate that the approach ... did not ask managers to identify factors they considered in deciding which plant to close" (Stafford and Watts, 1990: 437).

Despite various reasons fostering exit, firms seldom (if ever) exit a market as soon as problems occur, except in the case of nationalizations. The primary reason for this observation is that firm

⁴ Although especially a financial motivation for divestment is very likely to result in future investment.

exit is not a singular action but rather a process, as noted above (Boddeyn, 1983; Duhaime and Schwenk, 1985; Clark and Wrigley, 1997; and Pauwels and Matthyssens, 2003). Exit is generally viewed as a sequential set of interrelated strategic decisions made by a firm. As a result, firm exit is the last remaining step after various other options have been tried and have met no success (Clark and Wrigley, 1997).

Exit from a stakeholder perspective

Mitchell et. al. (1997) did explicitly suggest that the attributes power, legitimacy and urgency may be variable or transitory. If the “value” of the attributes power, urgency and legitimacy changes during the course of a specific period, this may affect stakeholder salience. If a decision-maker, whether in the focal firm or the focal government, fails to recognize the changing dynamics when applying the typology of Mitchell et. al. (1997), this may result in, for example, the underestimation of the power or urgency of a critical stakeholder. In this case, the stakeholder may believe that his expectations are no longer met and, as a result, he may well withdraw his support for a firm’s project. This could lead to a divestment or exit decision by the firm (Clarkson, 1995). Indeed, Clarkson (1995, p. 112) argues that when a firm fails to achieve the balance in meeting stakeholder expectations and fulfilling its responsibilities to its primary stakeholder groups, this may result in the withdrawal of support of a stakeholder group and ultimately threaten the firm’s survival. Here, Clarkson suggests that when an imbalance between stakeholder and shareholder preferences is persistent, this can lead to corporate closure. Whereas the traditional exit strategy literature points to the firm as the most common decision maker as regards a divestment or exit strategy (based on for example sunk costs, see Rosenbaum and Lamort, 1992; Clark and Wrigley, 1997), stakeholder theory (Freeman, 1984; Clarkson, 1995; Wartick, 1994; Wood, 1994; Mitchell, Agle and Wood 1997) suggests that the pressure or lack of support from a critical stakeholder, may – at least in some cases – better explain why firms

engage in closing plants or engage in divesting activities. Exit decisions are traditionally linked with financial, corporate governance or transaction cost arguments (such as described in Haynes, Thompson and Wright, 2003). But Haynes, Thompson and Wright (2003) also suggest that further empirical research may be required to explore the impact of the environment, rather than focusing on governance mechanisms to explain corporate restructuring, though both are undoubtedly interrelated. We argue in this paper that stakeholder theory may complement transaction cost theory in explaining firm's exit decisions. Although a few scholarly articles have recognized the need to interpret exit strategies using insights from stakeholder management models (for example Haynes, Thompson and Wright, 2003), no empirical research actually recognizes the dynamics of stakeholder management, and the effects thereof on MNE exit decisions.

4. Stakeholder dynamics explaining exit: a case-based analysis

In the DHL case, we described in section 2, the dynamics of the interaction process between the MNE and the various stakeholders involved ultimately led to a full-fledged exit/relocation decision. Why and how did this happen?

Importantly, in this case a number of government agencies switched from an initial 'entry' preference (i.e. favoring expansion) to an 'exit' preference (i.e. favoring relocation, and the related loss of hub status for BNA), while DHL consistently favored the 'entry' approach until the political unfeasibility thereof had become clear.

In order to explain the shift in preference and the final exit decision, we developed a framework consisting of two dimensions, namely (1) the strategy of the MNE as one focal organization, which can be one favoring entry (expansion) or exit/relocation and (2) the strategy of a government agency, as another focal organization, which could also build upon an entry (expansion) or exit preference. As a result, a two by two matrix with four quadrants is created (see [Figure 2](#)).

Quadrant 1 represents a rather straightforward case whereby both actors share a preference for entry (expansion). This is particularly the case e.g. in emerging countries, where governments actively try to attract large industrial activities to support their economic development (e.g. through favourable tax regimes, infrastructure development) and multinational companies try to enter stimulated by the presence of favourable markets or factor conditions (such as cheap labour, the presence of natural resources, etc.).

Quadrant 2 shows a situation whereby the MNE pursues entry (or expansion if the MNE is already active in the country), but with government strategy favouring exit or non expansion (e.g., in case it does not want a foreign MNE to increase investments). This could be the case, e.g., when government refuses to grant a license to operate (e.g. environmental or other permits) to an MNE with investment plans in the country. Various reasons could underlie such a situation, such as (1) the activity of the MNE causes negative environmental externalities and the investment project or existing activity of the MNE does not show sufficient effort to reduce the externalities (2) the activity of the MNE harms the development of host country firms from a market perspective, and government wants to protect these firms from bankruptcy. Other examples include a situation whereby the MNE is active in a sector which suddenly becomes of national strategic importance for the host country (e.g. services or technology linked to national security issues, energy or transport) and whereby government wants to be in control of the sector

or at least keep it in national hands. In these cases, exit or non entry from the viewpoint of the MNE is non voluntary and leads in most cases to a loss of efficiency at the micro-level.

From the viewpoint of governments in advanced economies, this situation in quadrant 2 has become increasingly unrealistic, as economic policies are strongly oriented towards the creation of employment. This normally results in a favourable attitude of governments towards foreign investors, with most countries competing with each other to attract these footloose investment projects. This attitude is confirmed by quadrant 3, where the MNE pursues an exit strategy process, and government wants to prevent this exit and adopts an entry strategy (or non exit). This is a very familiar case in Western economies, in particular in industrial sectors such as textiles and automotive. Announcements of MNEs downsizing plans in Western economies (which can be part of a relocation strategy towards emerging economies) are in most cases immediately followed by government action to maintain the activity in the short term by e.g. by making more flexible labour and fiscal regulations (e.g. Belgium changed labour and fiscal laws concerning team labour to prevent the exit of automotive firms), giving direct subsidies and grants and/or financing infrastructure that benefits the firm, reviewing environmental permits in favour of the MNE, etc..

Finally, quadrant 4 shows a rather specific situation with both parties simultaneously pursuing an exit strategy process. This could happen if the MNE wants to exit from a specific region or country (e.g. for market and/or financial reasons) and the concerned governments see the opportunity to develop local firms and/or attract other foreign investors.

Insert Figure 2 about here

To gain insight into the process of exit in the DHL case, we apply the framework presented in Figure 2. To perform this analysis, we analyzed all publicly available press releases, spanning the period between the moment in time when DHL and the government first expressed they favoured the entry option (December 2003) and the moment when both parties almost simultaneously announced the exit of DHL at separate press conferences. We also gathered inside information during our involvement in a socio-economic evaluation study for the Province of Flemish Brabant, where we were able to work with representatives from government agencies, the firm DHL and BNA representatives.

Our analysis led to the conclusion that between December 2003 and September 2004 the situation of quadrant 1 applied, as the Belgian Federal Government had examined the request of DHL and engaged itself to create the conditions to realize the project. In turn, DHL examined the possibility to grow at BNA reviewing its forecasts and participating in a large number of joint workshops with BNA and government representatives. A special negotiator was assigned by the Federal Government to lead the workshops and different taskforces. A final decision was to be reached by the 1st of September 2004. During the period preceding this deadline, a technical agreement between the negotiators was reached, but this was not made public, as it appeared difficult to reach a political agreement (in fact, the existence of this technical agreement was only confirmed end of October 2004). The difficulties to reach a political agreement were apparently caused by the election results of June 2004, whereby powers shifted in the regional governments, leading to different political coalitions governing on the federal level and the regional level. As the Regional Governments needed to approve the environmental permit and set the noise regulations, they became important decision makers. The asymmetry of political coalitions started to play its role as it was apparent that the tradition of loyalty of the regional level towards the federal level for dossiers of national economic significance was vanishing. Although there is no solid factual information that this election and its consequences played such an important role,

it is noteworthy that the deadline of the 1st of September, mentioned above, elapsed though a technical agreement negotiated by Federal Government representatives existed. DHL declared that it wanted a decision in the short run (with no deadline), but that it remained confident that an agreement could be reached.

Three governments were directly involved in this dossier, of which two – the Federal Government and the Flemish Regional Government - gave their approval to the technical agreement for expansion on the 7th of September. The 11th of September, the Brussels Regional Government declared, however, that it would not approve the expansion, even if this meant that the creation of jobs for the large pool of unemployed workers in the Brussels region would not take place, as the regional coalition agreement did not allow for an increase of night flights. This meant that all additional negative externalities would de facto be concentrated above (and on) Flemish regional territory. Almost immediately after the decision of the Brussels Regional Government, a number of Flemish Government Ministers expressed their view that an exit scenario was now a possibility. At this point, Government (in this case seen as the sum of different governmental levels with decision power) altered its position from a preference for entry (expansion) towards exit. DHL confirmed its continued preference for expansion in Belgium but also stated that a decision was urgent. As a result, the situation in this stage became consistent with quadrant 2 in Figure 2.

During the period between 20 and 27 September, the three governmental levels negotiated but were not able to reach an agreement, which implied that the entry preference strategy of Government (as the sum of the three Governments) did not hold anymore, as the Brussels Regional Government explicitly decided in favour of exit, further confirming a quadrant 2 situation had been reached. A final blow to the project came when the Governments claimed that a technical detail, i.e. the number of flights to be allowed with a specific type of noisy plane

(MD-11), was not clear in the agreement, and disagreement on this issue was voiced between the number proposed by government and the number proposed by DHL. This resulted in a demand from all governments to DHL to further examine the use of the MD-11 (which at the time, had no substitute for intercontinental cargo flights). Two observations are important: (1) there were no public declarations from any party involved during the first two weeks of October, whereas the project had featured prominently in the national media almost every day in September and (2) suddenly, the three Governments acted as one actor with one voice. Several negotiators declared ex-post that they had the feeling that the issue of noisy MD-11's had been misused to allow the Governments and the firm to gain time and prepare a joint exit strategy which would lead to (1) salvaging the Federal Government's reputation/credibility, as the prime minister had linked his mandate to success in the DHL expansion case, and (2) limiting the negative fall-out on the image of the firm DHL. These observations suggest that both parties simultaneously started to pursue exit from that point on.

On October 15th, the (Federal Government's) Prime Minister publicly said that an expansion scenario would be "difficult" to implement, meaning that the Federal Government, the initial sponsor of the project, had also shifted towards a preference for exit. Media silence at DHL also suggested that the MNE had shifted towards an exit strategy and started preparations to implement this decision. On October 20th, a press conference with the three leaders of the different Governments was held, explaining that all government levels considered the project as non-feasible and as a result, would not create the conditions for an expansion. Simultaneously, DHL held a press conference to announce that an expansion in Brussels had no societal acceptance, and that the European Enterprise Council had in the meanwhile decided not to expand in Brussels. On November 9th, the firm announced the move of the intercontinental hub to Leipzig from 2008 on.

Insert Figure 3 about here

First, the analysis of the process shows that the position of both the MNE and government in terms of entry or exit strategy is in some cases difficult to determine and subject to change during a negotiation on the realisation of a foreign direct investment project. The case study suggests that both parties moved their preferences from quadrant 1 to quadrant 4 via a short period in quadrant 2, see [Figure 3](#). As suggested earlier, quadrant 4 is a specific situation, which occurs rather rarely in international business, but which we expect to gain importance in the future, as e.g. external stakeholders such as NGOs and other interest groups put pressure on governments and MNEs to adopt environmental standards and regulation, which are incompatible with the efficiency of commercial or industrial activities.

Second, the application of the framework to the DHL case at Brussels National Airport confirms the insights from the extant literature that firm exit is not a singular action but rather a process (Boddeyn, 1983; Duhaime and Schwenk, 1985; Clark and Wrigley, 1997; and Pauwels and Matthyssens, 2003) and that exit is generally viewed as a sequential set of interrelated strategic decisions made by a firm. As a result, firm exit is the last remaining step after various other options have been tried and have met no success (Clark and Wrigley, 1997). The behavior of DHL clearly points in this direction as the firm started with an open request for proposals addressed to several airports, brought the long list down to a shortlist, and continued with one preferred partner (BNA) and with one alternative option (Leipzig). Evidence from the process in this case shows that the exit decision came rather late and that substantial resources were invested to examine the different options at BNA. The fact that the expiration of the 1st September deadline did not lead to an immediate exit decision (despite a technical agreement) and that negotiations were held until the beginning of October, shows that the firm considered exit the last remaining option.

Third, the case also strongly supports the argument that stakeholder theory (Freeman, 1984; Clarkson, 1995; Wartick, 1994; Wood, 1994; Mitchell, Agle and Wood 1997), or the pressure or lack of support of a critical stakeholder, may better – or as a complement to other exit drivers such as sunk costs - explain why firms engage in closing plants or even impose divestment. Here, the exit decision was to a large extent based on the lack of support from Government due to the environmental and health effects of night flights. During the negotiation process, the existence of health effects was continuously and strongly communicated to the different governments and media by several NGOs as well as local community interest groups and this communication strategy clearly influenced and put pressure on all political parties as well as key politicians, as the constituencies of some Ministers were located within noisy areas around the airport.

Complementary evidence that stakeholder elements play an important role to understand the dynamics of the exit process, can be found in the application of the typology of Mitchell et. al. (1997) to the DHL exit case.

In order to apply this framework, we first need to acknowledge that there are in fact two focal organizations in this case, namely the MNE DHL and government. We then need to make a distinction between two types of dynamic aspects that can play a role. First, during the process, a stakeholder can lose or gain with respect to certain attributes of the Mitchell et. al. (1997) framework, as perceived by the focal organization. We call this a type 1 dynamic aspect. Second, there can be a gap between how a specific stakeholder is expected to behave by the focal organization, or in other words, which attributes of this stakeholder are expected to show up in a particular decision making process on the one hand, and the behavior or attributes the stakeholder exhibits in reality on the other hand. This gap then calls for an adaptation of stakeholder

management by the focal organization. We call this a type 2 dynamic aspect. The difference between the two dynamic aspects is that in the first case, something changes during the process (the importance of certain attributes of a stakeholder changes), whereas in the second case, expected attributes of a stakeholder are not present and/or unexpected attributes are present. The implication for decision-makers involved in complex projects is to try to gain insight ex-ante into the likelihood and consequences of the occurrence of such dynamic aspects.

Insert Figure 4 about here

With regard to the type 1 dynamic aspects, two examples can be identified in the DHL case. With regard to DHL as a stakeholder, with government being the focal organization, it can be argued that at the beginning of the project, the attributes power and legitimacy were present, whereas urgency was less present, defining DHL as a dominant stakeholder from the government's perspective. It is clear that DHL could influence the behavior of Government and BIAC as both committed substantial resources to examine the possibility of an expansion on the Belgian territory. In terms of urgency, though both Government and BIAC took immediate action, DHL did not explicitly set or impose deadlines on other stakeholders and allowed other parties to take their time in the process (for example the installation of task forces to reach a technical agreement and the deadline of September 1st, 9 months after the announcement). This attribute changed on September 1st, when no decision was taken by Government and DHL called for a short term solution. Also, DHL's power decreased as an increasing number of government members publicly declared they did not believe in the project and that government should develop plans to grow and support other activities. As a result, DHL moved towards being a dependent stakeholder from the perspective of government as the focal organization.

The second example concerns Government as a stakeholder, with DHL as the focal organization. The government initially exhibited all attributes of a salient stakeholder. The government exhibited power, as it would ultimately decide on the environmental permit, which eventually would have made the project feasible. The urgency was present as the objective of the government was the creation of 200,000 jobs during its legislation, and the DHL project was considered as a symbol of that objective. As a result, Government called other stakeholders (e.g. BIAC) and the different government agencies to immediate action. Legitimacy was present, as it was initially agreed by all political parties and governments that the Federal Government would be the unique partner and decision maker in the negotiation. As a result, Government was a definitive stakeholder from the perspective of DHL as the focal organization. This changed after the deadline of September 1st and certainly after the failed inter-governmental negotiation of end of September 2004. First, legitimacy was lost after the unified governmental front was breached by the Brussels Regional Government, and again when during the course of events, a growing number of government representatives questioned the expansion and moved from a preference for expansion to exit. Second, the attribute of urgency was also lost after the failure of inter-governmental negotiations as the three governments considered the letter with the demand for information as the last action and did not put forward a deadline any more. As a result, government changed from being a definitive stakeholder to a dormant stakeholder from the perspective of DHL as the focal organization.

The dynamics of the process and the changing attributes show that DHL and the Government, the two main decision makers in the negotiation, changed from respectively a dominant and a definitive stakeholder towards a dependent and a dormant stakeholder, in each case from the perspective of the other party as the focal organization. These changing attributes contributed to dynamic relation between the parties: besides a reversal in terms of urgency, one stakeholder lost the attribute of power (DHL) and another stakeholder legitimacy (the Government, as it did not

speak with one voice any more). Without these changes in attributes, both parties would probably have stayed in quadrant 1 and entry would have been a possible outcome.

With regard to type 2 dynamic aspects, two examples can be identified. First, local community interest groups (to a lesser extent NGOs) are normally expected to be demanding stakeholders, irrespective of whether government or DHL is the focal organization. The urgency attribute was present since a few years, because these interest groups help and encourage their members to continuously file lawsuits, imposing government to devote immediate attention. The legitimacy of local community interest groups was expected to be low as in this case, they did not represent a large number of the total population and sometimes even file lawsuits against each other's interests (especially on the issue of geographic dispersion of flights). However, it turned out that these interest groups had strong legitimacy in this case as they (1) spoke in univocal terms against the expansion plans of DHL, (2) they used modern communication means and the media very effectively (e.g. e-mails to politicians, lots of media presence) and (3) they were able to mobilize experts (doctors, engineers, lawyers, etc.) for their case as spokespersons. The power attribute is normally not present, because the interest groups involved had not been able to influence directly the actions of Government in the past (e.g. regarding flight dispersion plans). However, in this case, their pressure on government members led to a strong focus of the governmental discussion on environmental and noise impacts, and less on the positive impact of employment.

We can add a second example of type 2 dynamics. Trade unions, again whether viewed from the perspective of the firm or government as the focal organization, usually play a definitive role as stakeholder in such cases; they define the social climate, are a partner in negotiations for changes in social law and labor conditions and can call for immediate action through strikes. Furthermore, their representatives are considered legitimate because they are elected through social elections, and they are invited to collective bargaining. In this case, with several thousand

of jobs at stake, the trade unions showed discretionary stakeholder behavior because both urgency and power were not present. Only at the beginning of October, when a concrete threat of exit became apparent, relatively small protests were held in the centre of Brussels. Only after the exit decision was announced, the trade unions were invited by Government, but mainly to guide the social consequences of the exit process. Whereas the local community interest groups had been continuously active since the negotiations started, the trade unions only surged when the deadline of September 1st passed and signs of a potential exit of DHL became apparent. Under normal circumstances, the trade unions would have been expected to balance the discussion between ecological and economic objectives. In fact, their influence on Government was expected to be larger as they were legitimate actors in the process, and had strong means to create urgency (strikes usually create more “urgency” than lawsuits).

In this case, the gap between expected behavior and actual, realized behavior of external stakeholders involved in the decision process, such as local communities and trade unions also pushed the Government more towards exit. This process towards exit was reinforced as a traditionally less powerful and less legitimate stakeholder actually exhibited these attributes (the local community) and vice versa (the trade unions which lost power and urgency). Table 1 provides a summary of the above analysis.

Insert Table 1 about here

The overall conclusion of this case study is that managers involved in complex projects, in particular entry and exit processes of MNEs, should not only take into account static stakeholder theory, as articulated by Mitchell et al. (1997), but also the often complex and dynamic aspects associated with stakeholder behavior, both related to the changing nature or importance of

salience attributes and to the potential gap between expected and real behavior as regards power, urgency and legitimacy.

We also expect the type of situation explained in the case-study, i.e., MNE projects with substantial positive employment effects being rejected and leading to exit of the MNE activity, to become more common in the future due to external stakeholders imposing or influencing Governments to setting increasingly strict operating conditions on large firms that will often be irreconcilable with efficient commercial and industrial activities. In such cases, this will simply mean MNE activity relocation in geographic space to more favorable jurisdictions where stakeholders are less concerned with perceived negative externalities.

5. Conclusions

In this paper, we have shown that the observed levels of power, legitimacy and urgency exhibited by various stakeholders, i.e., the key inputs for modern stakeholder management as articulated by Mitchell et al. (1997), are subject to change over time. In other words, an analysis of dynamic aspects of stakeholder salience attributes appears required. In the DHL case some of these attributes indeed appeared unstable, sometimes even within short time periods such as a few weeks or months. In other words, modern stakeholder management analysis should move beyond trying to identify static scores allegedly exhibited by various stakeholders for salience attributes, and take into account dynamic elements.

More importantly, our analysis suggests that in complex business – government negotiations, such as the dialogue on large-scale investment projects by foreign MNEs that are associated with

substantial economic and environmental impacts, a dual stakeholder management analysis should be conducted, i.e., from the perspective of the two main focal organizations (government and the MNE involved). The need for such dynamic, dual stakeholder management analysis will clearly become more critical, as an increasing number of stakeholders external to the two focal organizations exhibit salience attributes, thereby increasing their ability to influence decision-making so as to pursue their narrow interests. The critical point here is that the salience of these external stakeholders may be different from the perspective of each of the two focal organizations, and this asymmetry may in turn alter the outcome of the dialogue between the two focal organizations. In the case of DHL, a joint preference for MNE expansion in Belgium was ultimately transformed into a joint preference for exit.

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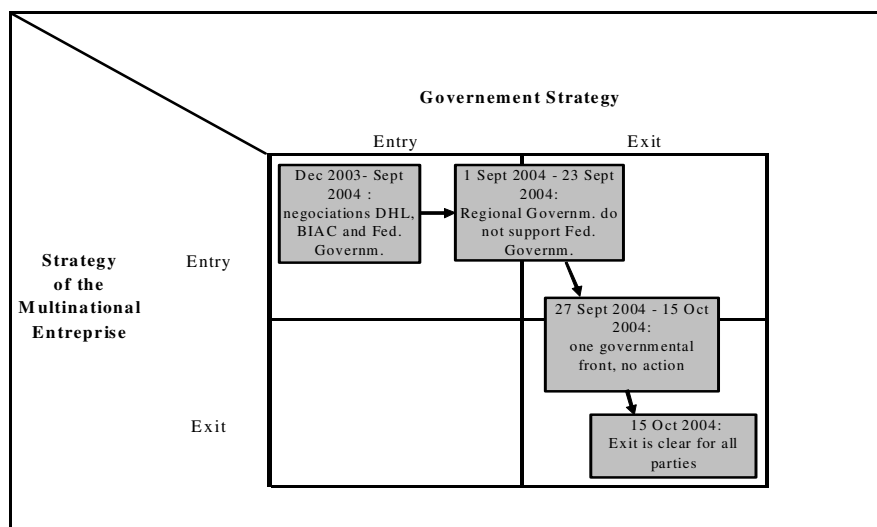
FIGURE 1
Typology of Divestment Decisions

Source: Simões, V.C., (2005) 'Disinvestment by foreign-owned firms: Fact in search of framework', in L. Cuyver and F. De Beule (eds.), *Transnational corporations and economic development: From internationalisation to globalisation*, Palgrave Macmillan.

FIGURE 2**Potential MNE and government preferences on investment project relocation**

		Government Strategy	
		Entry	Exit
Strategy of the Multinational Enterprise	Entry	1	2
	Exit	3	4

Source: Dooms, M., A. Verbeke, C. Macharis and R. S'Jegers (2006) *De zaak DHL*. Garant Publishers, Leuven, Belgium.

FIGURE 3**Dynamic perspective on the DHL project relocation decision**

Source: Dooms, M., A. Verbeke, C. Macharis and R. S'Jegers (2006) *De zaak DHL*. Garant Publishers, Leuven, Belgium.

FIGURE 4**Stakeholder typology: one, two, or three attributes present**

Source: Mitchell, R.K., Agle, B.R. & Wood, D.J. 1997. Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. *Academy of Management Review*, 22(4): p. 874.

TABLE 1**Summary of dynamic stakeholder aspects as applied to the DHL case**

Stakeholder	Power	Urgency	Legitimacy
DHL (government as focal org.)	From High to Low	Low to High	High
Brussels International Airport Company	High	Low	High

Government (DHL as focal org.)	High	From High to Low	High to Low
Local Communities and NGOs	<i>Low</i> (High)	<i>High</i> (High)	<i>Low</i> (High)
Trade Unions	<i>High</i> (Low)	<i>High</i> (Low)	<i>High</i> (High)

In italics: expected attributes

Between brackets: actual/realized attributes