

## Fuzzy Acquisition Boundaries: A Success Model of Regulatory Stakeholder Interests

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**Abstract:** The purpose of this paper is to describe how powerful regulatory stakeholder interests succeed in a business relationship due to what we refer to as “fuzzy acquisition boundaries”. In the case described in this article, the city of Seattle, Washington lost their National Basketball Association (NBA) championship team, the Seattle Supersonics, due to combination of legitimate strategic deception, legal disputation power and low minority stakeholder salience by the city of Seattle. We postulate that these three conditions as well as a close relationship with NBA leadership provided the framework that enabled Oklahoma City People’s Basketball Club to sever the tenuous but valued partnership between the city of Seattle and the Supersonics. While secondary source data is used as a basis for this case, we apply a stakeholder, institutional and transaction cost theoretical lens to provide insights for understanding how and why this NBA team was acquired and moved. Relevant literature and practical applications to strategic research are also discussed.

**Key words:** stakeholder success; strategic deception; acquisition and firm boundaries

**JEL codes:** L2, L5, Z2

### 1. Introduction

Scholars have discussed various events to explain why a merger or acquisition fails or succeeds (Bruner, 2005; Bruner & Levitt, 2009; Finkelstein, 2003; Gulati, 1998; McCarter, Mahoney & Northcraft, 2011; Marks & Mirvis, 2001; Straub, 2007). Research questions along these lines can be difficult to evaluate, however, since information untainted by historical bias that predicts success in mergers and acquisitions is not always available. This is especially true in cases where strategic deception is used as a primary tactic in the acquisition process. Our paper explores such an acquisition through a case study approach to achieve theory elaboration as suggested by Graebner (2009) and Lee, Mitchell and Sablinski (1999) to provide a valuable theoretical framework. The case study methodology itself was chosen since it is “particularly well suited for research areas where existing theory seems inadequate” (Eisenhardt, 1989, p. 548).

We propose that firms acquiring other organizations experience what we call “fuzzy acquisition boundaries” due to legitimate strategic deception, legal disputation power and low minority stakeholder salience. Fuzzy acquisition boundaries are legally nebulous arrangements (among two or more organizations) primarily based on

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tacit agreements that control the resources, products, services, and technologies of participating firms. While members of an acquired firm (sellers) may not know what will happen to them, they do know that the organization will change. Some acquired firms are shuttered completely (Santos & Eisenhardt, 2009) while others simply experience unwelcome practices and strategies (Jemison & Sitkin, 1986). The potential to “rip out their technology” (Graebner, 2009) exists, however, thereby de-motivating seller stakeholders about plans. Acquired firms experience a lack of stable boundaries and their stakeholders have little knowledge about how or if firms will integrate resources. Thus, fuzzy acquisition boundaries fulfill the interests of buyers because as Graebner (2009, p. 446) states, “in the course of the acquisition, sellers lose power while buyers gain power.”

The purpose of this paper is to investigate how a powerful buyer and regulatory stakeholder shaped the transaction between two National Basketball Association (NBA) ownership groups and their respective municipal governments. The seller in this transaction, the city of Seattle and the NBA ownership group led by Howard Schultz, lost its championship professional basketball team (the Supersonics) despite open public resentment. The buyer in this transaction, the Oklahoma City People’s Basketball Club (PBC) led by Clay Bennett, used a combination of legitimate strategic deception, legal disputation power and low minority stakeholder salience to gain a foothold in acquiring a professional basketball franchise. After the transaction, the NBA gained a lucrative new business partner in a city favorable to its interests.

While we use an abundance of robust secondary source data as the basis for this case, this method does not diminish the lessons learned that have the potential to add to our understanding of how strategic deception affects stakeholder interests. Using a stakeholder, institutional and transaction cost theoretical lens to shape our discussion responds to a call from previous research for studying other types of acquisitions during the study of deception (Graebner, 2009; Mitchell, Agle & Wood, 1997; Wanasika & Adler, 2011). In addition to the development of a new model to understand acquisition boundaries in the context of strategic deception, several propositions for further research are also proposed.

## **2. Fuzzy Acquisition Boundaries**

Organizational boundaries have been a fundamental discussion for decades (Akerlof, 1970; Gentile & Samuelson, 2005; Santos & Eisenhardt, 2009; Williamson, 1975, 1985). These are but a few of the scholars who have addressed the issue of defining where an organization begins and ends. For instance, transaction cost logic as proposed by Williamson (1975) suggests that an organization’s boundary is formed by the degree of transaction costs involved to carry out the multitude of activities required by an organization. If transaction costs become too expensive for an activity then a firm would seek to accumulate the resources required to govern that activity and move them in-house, thus providing more cost control. If transaction costs were relatively less expensive outside of the organization, the firm would remain in the market since it would be more efficient and cost effective. What happens, however, when transaction costs are not apparent, not well defined, and possibly even surreptitious? It is at that point that transaction cost logic breaks down in terms of explaining a firm’s boundaries relative to the market.

The term “fuzzy acquisition boundaries” is used to describe the opaque nature of the purchasing firms’ interest and complex governance structures that can be used to blur the lines between stakeholder interests at the time of the transaction. The legally nebulous arrangements, or “fuzzy acquisition boundaries”, are demonstrated in this case by the influence of the NBA on the Supersonic transaction that set terms and conditions for the team to

remain in Seattle or move elsewhere. Are the Supersonics an independent basketball club or are the boundaries of the club much more inclusive? Where do the boundaries of the NBA and the teams that make up its league begin and end? Is this a typical problem of any business franchise? To answer these questions, we need to address the influence of the NBA first.

The NBA's former chief legal counsel, Mr. David Stern, spearheaded tight control over NBA teams in the league. A lawyer by profession, he became the fourth NBA Commissioner in 1984. His goal of modernizing arenas was a national phenomenon that was fought locally, particularly in the case of Seattle Supersonics fans and their city government. The influence of the NBA as an organization over NBA teams is confusing however. Where does one begin and one end? Williamson (1985) relates something similar in his discussion of specialized forms of governance that have characteristics of both market and hierarchy. Williamson (1985, p. 60) states, "The benefits of specialized governance structures are greatest for transactions supported by considerable investment in transaction-specific assets." Since players and requisite basketball-related resources are generic, or non-specific (i.e., gym, weight rooms, physical therapy, etc.), any NBA team could be uprooted based on the whims of the NBA front office. With regard to the Supersonics in Seattle, there was nothing unique about their assets that could keep them in Seattle.

Is this a typical franchising problem? The answer to that question is most likely "yes", as NBA teams appear to function like a McDonalds or other franchise businesses. The major exception to this analogy, however, is that NBA teams compete for the "NBA World Championship" which drives legions of fans and other minority stakeholders to the business. The NBA is a strange mix of sports competition that drives a business model based on athletes, who are the focus of fans, while simultaneously managing teams from a cost-revenue basis. A major challenge lies with stakeholders (i.e., fans, cities, or municipalities) over-identifying with their teams and athletes to the point where they lose focus on what sustains most teams — profits for the owners. Williamson (1985, p. 310) warns, "Communities that make investments in support of a firm should therefore scrutinize the character of the investments that the firm itself makes." In that vein, Howard Schultz's Basketball Club of Seattle should have done more due diligence in scrutinizing the intentions of the Oklahoma Thunder's People's Basketball Club (PBC) before the sale and acquisition.

From an institutional perspective, however, due diligence is difficult to accomplish. It would require an understanding about what really is going in the NBA Commissioner's office and that is virtually impossible through legal means. Using Hawley's (1968) description of isomorphism, one unit in a population is forced to resemble other units that encounter the same set of environmental conditions (i.e., much like a franchise). This definition provides some understanding about why and how the NBA pressured and supported the PBC. The NBA had previously overseen the ripping out of three teams from their communities. The Kansas City Kings became the Sacramento Kings, the Vancouver Grizzlies became the Memphis Grizzlies, and the Charlotte Hornets became the New Orleans Hornets. The NBA also spearheaded two successful campaigns to build new arenas in San Antonio and Orlando using taxpayer monies. The NBA had the experience and knowledge of how to pressure local communities to pay for their own expansion (and benefit) and the NBA's own Board of Governors had approval authority that served to regulate where teams were located and played home games.

Exactly where the NBA begins and ends, as an entity relative to any NBA team is unclear. One NBA club, the PBC, appeared to have more relative power over other NBA teams with their access to the immense resources of the NBA that the city of Seattle did not have. When the state of Washington voted not to help build a new arena in April 2008, it was a death sentence for the Supersonics in Seattle and a clear chasm was created between the

team and the state of Washington. The boundaries between the NBA, PBC and Howard Shultz's Basketball Club of Seattle remained unclear, or fuzzy, providing the necessary conditions for the move to Oklahoma City.

### 3. Underpinnings of Fuzzy Acquisition Boundaries

How the Oklahoma City (OKC) Thunder of the NBA came into existence is an interesting case study. We reviewed many sources in this investigation but two documentaries in particular, one called "Sonicsgate" published by The Seattle SuperSonics (also commonly referred to as the "Sonics") Historical Preservation Society (2009) and the other a commercially available version in (2012) title "Sonicsgate: Requiem for a team" by Green and Gold Media, were especially poignant. "Sonicsgate", in general, is unique in that even though the acquisition was observed in the public realm, it appeared as though the move was coldly and meticulously planned from the beginning. We discuss these details from a stakeholder lens to shed light on key underpinnings of the move.

The Supersonics were an American professional basketball team based in Seattle, Washington that played in the Pacific and Northwest Divisions of the National Basketball Association (NBA) from 1967 until 2008. The Sonics won the NBA Championship in 1979 but by 2008 were a team in disarray. The owner in early 2006 was Howard Schultz, of the famed Starbucks Corporation. Mr. Schultz had failed in his attempts to obtain public money for renovations to KeyArena where the Supersonics played their home games. Frustrated, Schultz sold the Supersonics on October 31, 2006, to the PBC led by businessman Clay Bennett. Terms of the sale required the PBC to "use good faith best efforts" for the term of 12 months in securing a new arena lease or venue in the greater Seattle area. Howard Schultz openly said that he sold the Supersonics to the OKC group only on the stipulation that this new ownership group, the PBC, would preserve the Supersonics deep basketball tradition in city of Seattle (Sonicsgate, 2009).

The use of legitimate strategic deception, low minority stakeholder salience, and legal dispute power provide the underpinnings for what we call fuzzy acquisition boundaries (see Figure 1). We suggest that the acquisition of the Sonics by the Oklahoma City PBC describes how the city of Seattle lost its most recognized sports team (at the time) due to these three conditions. In the next section, we will explain how fuzzy acquisition boundaries were created in the case of the Seattle Supersonics to demonstrate the tenants of our conceptual model followed by a discussion of regulatory stakeholder success.

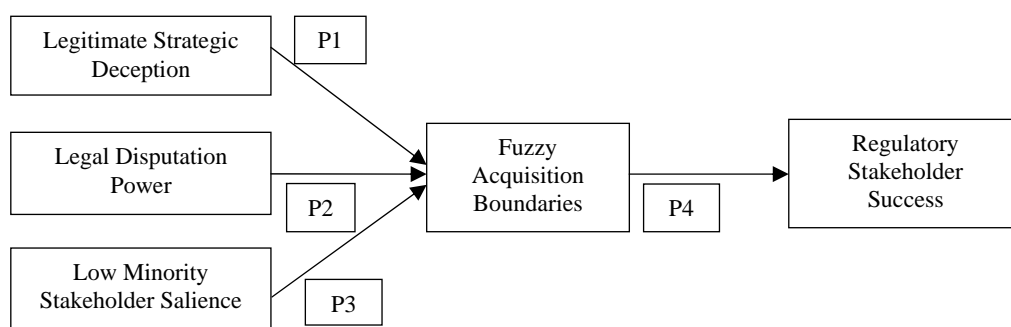


Figure 1 Regulatory Stakeholder Success Model

#### 3.1 Legitimate Strategic Deception

Organizations enter into business partnerships for many reasons. These range from the access to new technology, markets, and customers to synergies gained when resources are combined, or the actual products or services are offered by selling firms (Bruner, 2005; Buono & Bowditch, 1989; Hartzell, Ofek & Yermack, 2004;

Jemison & Sitkin, 1986; Shull & Hanweck, 2001; Ulijn, Duysters & Meijer, 2010). While many hope for an ethical partnership in the pre-negotiation, negotiation, and post-negotiation phases of acquisition and in contract terms and conditions (Schweitzer, Ordóñez & Douma, 2004; Williams, 2007), the anticipation and actualization of deception by seller and buyer is always present (Graebner, 2009). For instance, Buono & Bowditch (1989, p. 256) state that deception by buyers is “standard practice” while Marks and Mirvis (2001, p. 87) propose that “prior promises mean nothing”.

The use of deception is so pronounced that many authors find there is no way to prevent it from happening (Pittz & Adler, 2014; Zhang & Rajagopalan, 2002). International settings further complicate acquisitions due to different laws and cultural norms. Other authors suggest that deception is strategic and should be planned into the acquisition to help an organization achieve its goals (Wanasika & Adler, 2011). Lazarus and Folkman (1984, p. 32) suggest that these threats are nothing more than “harms and losses that have not yet taken place but are anticipated” in a business venture. In this vein, strategic deception can be viewed as beneficial, especially when it is legitimately used to increase the value of the organization (Graebner, 2009; Webb, Tihanyi, Ireland & Sirmon, 2009).

Unbeknownst to Howard Schultz, statements made by Clay Bennett in February 2006 prior to the sale of the Supersonics to the PBC revealed the PBC group’s true intentions. Bennett stated the following (Allen, 2006):

“If the Hornets go back to New Orleans, I expect we’ll [Oklahoma City] get a franchise. There haven’t been any promises made, but there have been a lot of congratulations offered to us.”

The NBA’s New Orleans Hornets played two seasons in Oklahoma City due to Hurricane Katrina. It was not an act of love on the part of the PBC to offer an arena for the Hornets but part of the plan to acquire an NBA franchise. The fact that the PBC expected something in return for this two-year expensive accommodation of the Hornets seems likely given that the PBC was looking for a franchise, any franchise, to bring to Oklahoma City. Ultimately, the Hornets did go back to New Orleans and Mr. Bennett did get a franchise — the Supersonics of Seattle. Mr. Bennett’s primary money source in the PBC was a man named Aubrey McClendon. In August 2007 in an interview with the Oklahoma City Business Journal, Mr. McClendon stated that the PBC Group “didn’t buy the team to keep it in Seattle”. The sale of the Supersonics was a convenient and necessary step for the PBC to claim an NBA ownership.

Wanasika and Adler (2011) define strategic deception as actions aimed at misleading others from the true strategic intent of their own organization. While Mr. Bennett publicly and repeatedly stated that he did not intend to move the Supersonics out of Seattle, it appears he always had the intent to do so given his and Mr. McClendon’s statements. The use of this kind of strategic deception is not only legitimate but also expected for achieving a competitive advantage. Such advantage can be achieved through increasing rivals’ cost functions, tying up competitor resources in less productive areas, wearing down competitors by launching multiple feints before executing the actual strategy, exploiting asymmetric information to make early market or product entry, or simply muddying the competitive environment to increase the level of noise (e.g., useless information and subsequent uncertainty). These strategies lead to increased waste for others, thereby, driving up transaction costs in an acquisition for competitors. Legitimate strategic deception muddies the waters of acquisitions because it allows major players in a transaction the latitude and time to do things they deem necessary without scrutiny or accountability.

Hendricks and McAfee (2006) found that firms using strategic deception often disguise their true intent while

entering new markets. Several e-mails that were transmitted between Mr. Bennett and other members of the PBC indicate that there was a healthy bit of back-room discussion in moving the Supersonics. The e-mail exchange provided here between Clay Bennett and Tom Ward, a key PBC member, again indicates the true intent of the PBC (Sonicsgate, 2012):

Tom Ward's e-mail to Clay Bennett (copied to Aubrey McClendon): "Is there any way to move here for next season or are we doomed to have another lame duck season in Seattle?" April 17, 2007 at 5:42 am.

Clay Bennett's response: "I am a man possessed! Will do everything we can. Thanks for hanging with me boys, the game is getting started!" April 17, 2007 at 7:48 am.

Tom Ward's response to Clay Bennett's response: "That's the spirit!! I am willing to help any way I can to watch ball here next year" April 17, 2007 at 7:56 am.

These e-mail exchanges again show the true intent of the PBC and Mr. Bennett. It is no wonder that the disclosure of these e-mails greatly distressed Supersonics fans. When confronted by these e-mails when they became public, Clay Bennett vehemently disputed the idea that his use of the word "possessed" indicated that he was maneuvering to move the team to Oklahoma City. The apparent lack of agreement between the PBC's "official" and "true" agendas fueled great consternation amongst Supersonics fans, an intended outcome of legitimate strategic deception. Supersonics stakeholders naturally questioned the intent of the PBC owners as to where the club's true, future home would be while the PBC worked behind the scenes to move the club to Oklahoma City. The emerging and conflicting messages sent by the PBC revealed just how much the PBC was gaining momentum in moving the club to Oklahoma City while at the same time diminishing the power of Seattle's stakeholder groups to share in this governance decision. The uncertainty caused by this deception greatly clouded the role of Seattle's stakeholders and how they should participate in the post-acquisition of the team. Thus, we suggest that:

*Proposition 1: Legitimate strategic deception is a tactic used to create fuzzy acquisition boundaries.*

### **3.2 Legal Disputation Power**

Firms that try to protect their interests legally are limited by what they can anticipate and subsequently put into contract terms and conditions. Williamson (1975, 1985) suggests that this stems from a cognitive inability to anticipate threats and, when combined with limited information, creates a contractual vacuum that limits prevention efforts towards mitigating potential harm. Williamson does not expand upon the idea that a buyer or seller has the ability to dispute law in their favor at the expense of a business partner, however. We refer to this ability as "legal disputation power" where buyer or seller has the capacity to influence legal outcomes due to superior legal preparation or acumen. This type of power reinforces the common belief that "if my lawyers are better than your lawyers, I will win the case." This "I win = You lose" mentality is at the core of a legal dispute.

The PBC's ability to dispute law, or challenge law, in their favor at the expense of the city of Seattle was evident when Brad Keller, lead attorney for the PBC, was able to get Greg Nickels, the mayor of Seattle, to publicly state in trial that keeping the Supersonics in KeyArena was economically unfeasible. This occurred on 16 June 2008. This admission at the beginning of the trial established the fact that the Supersonics could not economically stay in KeyArena and if they could not stay in KeyArena, the option of going to Oklahoma City seemed viable. If the state of Washington was not going to own up with funds for a new facility, then the Supersonics move to Oklahoma City seemed even more reasonable.

How did Brad Keller prove to be so much better than the city of Seattle's attorneys? Mr. Keller was an accomplished business litigation attorney who in the words of Michael Hood (2009), a writer for the *Washington*

*Super Lawyers* magazine, said:

“Brad Keller is energized by taking on the seemingly impossible cases of publically perceived bad guys. His great successes have been in making those cases not only competitive in the high noon of the courtroom, but usually victorious.”

PBC had hired the best in Mr. Keller and he subsequently grilled the city’s mayor to the point where Mr. Nickels admitted that he had not even been to a Supersonics game in more than two years. In essence, Mr. Keller was better at this game than the city of Seattle’s attorneys. We refer to this type power as “legal disputation power” where one has an ability to influence legal outcomes due to superior legal performance.

Mr. Keller also filed a motion stipulating that the lawsuit and the release of the e-mails by the city were meant to drive up the cost of leaving Seattle and force the PBC ownership group to sell the team. Hence, the transaction costs would be too high to move the Supersonics out of Seattle, as legal costs would prevent them from realizing any business gain. Although this motion was denied, it did serve to put the city on notice that if they continued to fight the PBC legally they would be in for a long fight and one that would cost the city a lot of money. On April 21, 2008, Mr. Slade Gorton, U. S. Senator from Washington (retired), said that he would be open to a settlement if the league promised a replacement team for Seattle. He said it was “highly unlikely” that the Supersonics would stay and indicated the city should instead focus on gaining a replacement team, but noted that local governments would need to be willing to fund an expansion of KeyArena first.

Attorneys on both sides made their closing arguments in the city’s case in June 2008 and the judge announced that she would issue her ruling on the following Wednesday. On July 2, 2008, just hours before the judge was to release her ruling, the PBC announced that the team and city had reached a settlement where the PBC would pay the city \$45 million immediately in exchange for breaking the lease and an additional \$30 million if Seattle was not given a replacement team in five years. According to the conditions of the settlement, the Supersonics’ name and colors could not be used by the team in Oklahoma City, but could be taken by a future team in Seattle. The OKC team would retain the franchise history of the Supersonics that could be “shared” with any future NBA team in Seattle. The team moved to Oklahoma City immediately and played their first home game on 14 October 2008. The NBA, PBC, nor any other entity made any promise to offer a replacement team to Seattle.

The fact that a settlement was reached before the judge announced her decision reveals just how complex and muddled the relationship was between the NBA, PBC and city of Seattle. Why would a settlement be reached after all that was presented in court? We argue that the PBC won their case through legal disputation power that successfully challenged the interests and claims of stakeholders. The city of Seattle and all the Supersonics fans found out they truly did not have a legal basis to have a voice in the governance of this acquisition (more on stakeholder interests in the next section). Thus, we suggest that:

*Proposition 2: Legal disputation power is used as a tactic to frame fuzzy acquisition boundaries.*

### **3.3 Stakeholder Salience**

The notion of stakeholder theory, originally developed by Freeman (1984), however suggests that stakeholders should have a voice in an organization’s decision making. Freeman (1984, p. 46) defined a stakeholder as “any group or individual who can affect or is affected by the achievement of the activities of an organization”. Organizations, however, make decisions that do not consider all stakeholder interests even though many stakeholders have a legitimate claim to an organization’s actions (Phillips, 2003). Further, Mitchell et al. (1997) prioritize stakeholder interests based on their power, legitimacy, and urgency. At times these overlap with

regard to how strong each of the actors is relative to a firm's power, legitimacy, and urgency. For instance, stakeholders with high urgency but low power and legitimacy are nothing more than "mosquitoes buzzing in the ears" (Mitchell et al., 1997, p. 875). These type of stakeholders would have low salience as defined by Bundy, Shropshire and Buchholtz (2013), or low priority, and an organization would not necessarily respond to their interests or needs (David, Bloom & Hillman, 2007) nor would a firm's responsibilities require a response to their concerns (Carroll, 1979).

In this case, fans of the Supersonics are stakeholders, albeit minority ones, of the professional basketball team in Seattle. These stakeholders were at a distinct disadvantage because while they were great in number, they were lacking in power. This led to a lack of stakeholder salience and their relative priority was low given PBC's true agenda (Bundy et al., 2013; Mitchell et al., 1997). Given the power, legitimacy, and urgency framework of Mitchell et al. (1997) that was discussed previously, the city of Seattle and Supersonics fans appeared to have high urgency but low degrees of power and legitimacy. They were at a distinct disadvantage with regard to not only the content of PBC's actions but also the timing of those actions. For instance, two days after Bennett's self-imposed October 31, 2007 deadline passed for public financing of a new arena, he informed NBA commissioner David Stern that the PBC intended to move the Supersonics to Oklahoma City as soon as it was possible. The timing of the announcement, one day after the Supersonics' home opener, drew critical comments from Tom Carr, Seattle's attorney, who said (Carr, 2007):

"Mr. Bennett's announcement today is a transparent attempt to alienate the Seattle fan base and follow through on his plan to move the team to Oklahoma City. Making this move now continues the current ownership's insulting behavior toward the Sonics' dedicated fans and the citizens of the city."

Other evidence suggests that while grass roots fan-based movements did spring up through mass demonstrations, Clay Bennett simply avoided them and did not provide them with an opportunity to be heard. Even the rallying cry of "Save Our Sonics" (SOS) led by fans, former players, coaches, and media darlings were ineffective at halting the transfer of the team. To make matters worse, PBC did not want negative attention so they limited player interaction with the local media and traded popular players (highlighted by the Gary Payton deal) who might eventually become important icons to the Supersonics stakeholder cause. By limiting fan interaction with the players, fans became more emotionally separated from the team and, hence, less likely to fight to keep the team in Seattle. The PBC's gag order of Supersonics players, however, just made the urgency of Supersonics fans to do something more prevalent. Unfortunately, this urgency was without the corresponding power required to affect change.

When the Washington state legislature did not give approval for funds by the April 10, 2008 deadline, Seattle Mayor Greg Nickels said that the "SOS" effort had failed and the city's hopes rested in its lawsuit. Bennett also reiterated that the team was not for sale and dismissed attempts by local groups and fans to repurchase the team. While Sonics fans had loyalty and empathy for their team and community, their lack of power to stop or hinder the PBC acquisition proved significant. Thus, we suggest that:

*Proposition 3: Low minority stakeholder salience is necessary to maintain fuzzy acquisition boundaries.*

#### **4. The Success of Regulatory Stakeholders**

We suggest that there is a category of powerful stakeholders in this case: the NBA Board of Governors' and the NBA Commissioner as regulatory stakeholders. Regulatory stakeholders are groups or individuals who can

affect the decisions of organizations through policy and law. These stakeholders tend to be powerful as they can permit or limit organizational action (Hiatt & Park, 2013; North, 1990). Since they are powerful, they tend to pursue actions that benefit their own self-interests (North, 1990; Shull & Hanweck, 2001). Abrahamson and Hambrick (1997) discuss how stakeholders, for instance, shape regulatory agencies and their decisions. Thus, there seems to be reciprocity between the organization and the regulatory groups assigned to watch over these organizations. Abrahamson and Hambrick (1997) refer to these groups as 3rd party actors who pursue greater autonomy and resources in the regulation of industries and organizations. The NBA and its owners have all the attributes of regulatory stakeholders and we apply this term to this group since the NBA, in essence, regulates all NBA teams with regard to policy, discipline, and strategy.

The NBA's success came from its relationship with the fuzzy boundary of the ownership of the Seattle Supersonics. This relationship between the NBA and PBC was carefully cultivated over time and significantly enhanced when Oklahoma City volunteered to provide a temporary home to the New Orleans Hornets during the fallout of Hurricane Katrina. The relationship was so well developed that e-mails surfacing between NBA Commissioner David Stern and Clay Bennett of PBC demonstrated a friendship between the two that went well beyond business exigencies. For instance, the following e-mail was sent from Clay Bennett to David Stern showing that Mr. Stern's relationship with Mr. Bennett was closer than with other NBA ownership groups (Sonicgate, 2012):

“David you know how I feel about our relationship both personally and professionally. You are among a very few, notwithstanding our relative brief actual physical time together that have significantly affected my life. I view you as a role model as an extraordinarily gifted executive, a deep and compassionate thinker....”

As evidence of this relationship, the NBA did nothing to counteract the PBC stratagem to relocate the Supersonics and, in fact, was quick to support the PBC when the state of Washington refused the use of public funds to finance a new arena. The state had recently invested heavily in stadiums for the Seattle Mariners (a major league baseball franchise) and the Seattle Seahawks (a national football league team) and the region was experiencing “stadium fatigue” following those expenditures. Legislators at the state level believed their constituents did not support stadium funding and several vocal minority activist groups at the local level insisted that public money could be better spent elsewhere. David Stern, the face of the NBA, unequivocally demanded a new arena that he knew Washington taxpayers would find difficult to support.

Oklahoma City, conversely, craved a NBA basketball team. Their desire was evident in the stadium they built for the New Orleans Hornets as a temporary relocation spot from Hurricane Katrina. The decision to provide shelter to the Hornets achieved three goals with the NBA: First, it proved the viability of NBA basketball in OKC. Second, it ingratiated the city and the future ownership group with the David Stern, and the Board of Governors. Third, it created momentum both within the OKC fan base and potential investor groups. A compelling case could be made that Commissioner David Stern and the NBA, as regulatory stakeholders, shared the intent of the PBC to move the team to OKC. As Friedman (1970, p. 124) states, “the social responsibility of business is to increase profits.” While the Seattle fans sent out an “SOS” with the “Save Our Sonics” mantra, really it boiled down to which city, Seattle or OKC had the best economic projections for the team. The NBA Commissioner and Board of Governors' responsiveness to towards Oklahoma City at the expense of Seattle demonstrated which side they favored. The blurry relationship between who was really driving the boat in this acquisition, the PBC or NBA, was evident throughout this case. Thus, we suggest that:

*Proposition 4: Fuzzy acquisition boundaries allow regulatory stakeholder success during complex acquisitions.*

## 5. Implications for Future Research

The animosity between Seattle stakeholders and the NBA and PBC cannot be overstated. While there are many ways to analyze this case, we believe the crux of the matter boils down to the fuzziness of the acquisition boundaries of who governed decisions of the Seattle Supersonics. Who really controlled the team? Certainly from a legal and property-rights perspective, the PBC owned and controlled the club. Yet, it appeared that the NBA controlled the PBC which expanded the boundaries to include a quasi-regulatory, quasi-legal authority from which the PBC looked to for direction. Conversely, the city of Seattle provided all the necessary hard resources for the club to play in and with a long-term lease (i.e., 30 years), there appeared to be a quasi-hierarchy in which the fans, club, and city enjoyed a mutual forbearance of success. This may simply be a case of change for the sake of change since the NBA upgraded their market from a “neighborhood team” to an “arena-shopping mall”. In addition, this may be a case where the NBA looked at Seattle and said, “this city is vulnerable,” therefore the Supersonics could be relocated at relatively low cost compared to other teams. This type of transaction cost logic would compare the costs and benefits of the acquisition based on a city-to-city comparison (Graebner, 2009).

The concept of fuzzy acquisition boundaries also has implications to organizational theorists. We argue that other cases involving permeable boundaries, legal disputation, legitimate strategic deception, and low stakeholder salience exist to be studied. Among the many candidates for application to our model is the fire-sale of Bear Stearns to JP Morgan Chase in March of 2008 that served as a prelude to the risk management meltdown of the investment bank industry that left minority stakeholders unrecompensed and continues to raise questions about federal intervention. Other examples include the influence of the Ministry of Economy, Trade, and Industry (METI) in Japan, the Food and Drug Administration (FDA) in the US, and mergers in highly regulated industries such as within the energy or telecom sectors. Due to the clandestine nature of these cases, information revealing characteristics about deception, fuzzy boundaries, and legal disputation power can be difficult to obtain, but we believe that these concepts are highly underreported aspects of corporate strategic planning.

Since strategic deception refers to strategic actions aimed at misleading rivals from the true strategic intent of the firm or the environment, further review of how strategic deception develops under different political, legal, and cultural environments would be enlightening (Gentile & Samuelson, 2005; Pitesa & Thau, 2013; Webb et al., 2009). The extent and nature of deception may vary from simple concealment of trivial information to outright lies and disinformation. Providing characteristics of deception would assist researchers in more fully understanding how organizational asymmetries work under different trust, distrust, and information conditions. This would in turn assist practitioners in also developing better safeguards, or safe harbors (Donaldson & Dunfee, 1994), for protecting valuable resources. Although acquiring data on deception can be difficult, cases that have become public are excellent venues to study the topic. Applying research on strategic deception to the burgeoning field of social networks is also an important task in developing a more complete understanding of organizational networks and, hence, boundaries.

We have a long way to go to fully comprehend the relationship between deception and organizational boundaries in part because what is legal and legitimate in one society is not in another (Donaldson & Dunfee, 1994). Deception also has a leveraging effect such that when organizations use deception to accommodate their

intent, their influence increases to the point of expanding their own borders surreptitiously. As more companies and industries engage in business practices like the NBA, then the potential for reducing local stakeholder salience becomes more likely and more pronounced.

## 6. Conclusion

We have provided a model to explicate the process by which legitimate strategic deception, legal disputation power and low minority stakeholder salience leads to fuzzy acquisition boundaries and, ultimately, to regulatory stakeholder success. Furthermore, this construct of regulatory stakeholder success is a mechanism to expand the transaction cost logic model to include the fuzziness of acquisition boundaries as a potentially powerful force in determining the costs, terms, and conditions of a partnership. As values, norms, and cultures change, so do our definitions of what is legal and legitimate with regards to deception and legality (Donaldson & Dunfee, 1994). The Supersonics-to-Thunder transaction put examples of national and local stakeholders on display to illuminate the various elements of the model. These elements led to the regulatory stakeholder success that we suggest was a result of the NBA's actions, the PBC's tactics of strategic deception and legal disputation power, and Seattle's low stakeholder salience. The result was the Seattle Supersonics transformation into the Oklahoma City Thunder.

Our model provides necessary information to build a theoretical underpinning for understanding other aspects of organizational theory such as negotiation, external analysis, internal analysis, and strategy planning. We suggest an expansion of traditional industrial-economic models to include other acquisitions with a focus on legitimate actions given the growing plethora of rules, laws, and policies that were once forbidden but are now acceptable in many business decisions. Finally, we suggest that without considering the constructs presented in Figure 1, realistic investigations of business partnerships are limited.

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