

Institutionalization and Negotiations in Organizations

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ABSTRACT

Most research on organizational negotiations has concentrated on factors that affect negotiating outcomes, given some predefined problem or issue. In contrast, this paper focuses on the institutionalization of negotiations, or the process through which social definitions of negotiating issues, procedures and outcomes emerge and are accepted by participants as legitimate boundaries of negotiation. A two-stage model of the institutionalization process is proposed and a number of factors affecting the process at different stages are discussed. Historical and contemporary evidence from labor relations in the U.S. steel industry is used to illustrate these arguments. The implications of institutionalization for further research on negotiations in organizations are discussed.

While early work on organizational negotiations focused almost exclusively on traditional problems of labor/management relations (Barbash, 1964; Kerr et al., 1964; Chamberlain & Kuhn, 1965; Walton & McKersie, 1965), recent work has broadened the scope of investigation to consider a wide array of negotiating situations (Rubin & Brown, 1975; Strauss, 1978; Bacharach & Lawler, 1980; Lewicki & Litterer, 1985). This latter work, typically focusing on social psychological factors affecting negotiating processes, paints a portrait of organizational relations in which negotiations are both a constant and are both a constant and pervasive feature (see, for example, Klimoski, 1972; Klimoski & Ash, 1974; Komorita & Kravitz, 1979; Neale & Bazerman, 1983).

While negotiating may indeed be a fundamental aspect of everyday life in organizations, there is little evidence to indicate that such negotiations ordinarily have a major impact on organizational behavior. Incremental changes in practices and procedures may occur periodically, but substantial organizational innovation and changes in policies and basic structure are rare events in most organizations. One approach to reconciling the observations of frequent negotiations and infrequent major change assumes that the majority of organizational negotiations take place within well-defined parameters that effectively serve to prevent such change. These parameters, constituted by social definitions of issues, procedures and solutions, typically emerge over time in an organization as groups and their representatives deal with recurring problems and events.

A fuller understanding of organizational negotiations, then, requires attention to the history of interactions and relationships in organizations. We argue that many, if not most, negotiations in organizations are subject to the process of institutionalization, or the social creation of intersubjective

"rules" that emerge over time and define which issues are legitimate topics of negotiation and which are not, appropriate negotiating procedures, as well as the range of potential solutions or negotiating outcomes. Consequently, both the process and the impact of negotiations on the organization are constrained. It should be noted that institutionalization is considered to be a variable here. At one extreme, there exists little or no consensus between parties on the issues and format of negotiations; at the other extreme, such issues and procedures are formalized in laws and contractual agreements between the parties. Our focus is on the process through which negotiations become institutionalized and on the conditions that contribute to this process.

The constraining effects of history on negotiations have been largely neglected in current research. This is probably a consequence, at least in part, of the reliance on experimental methods in empirical work in this area. Although such studies offer a number of advantages for the analysis of social phenomena (see Cook & Campbell, 1979), it is often difficult to recreate a natural history of relationships in a laboratory setting. Predesigned negotiating situations obscure the effects of many factors that ordinarily influence the process and outcomes of negotiations in natural settings. The application of negotiation research requires an understanding of these factors. In an institutionalized negotiating context, the use of tactics and demands that violate social understandings can be awkward and ultimately result in the breakdown of the interaction. Thus, an awareness of the effects of institutionalization on negotiations and an understanding of the conditions under which it is most likely to occur can contribute to more effective use of the prescriptions derived from negotiation research.¹

We begin our analysis by discussing extant research on institutionalization in modern organizations (Meyer & Rowan, 1977; Scott & Meyer, 1983; DiMaggio & Powell, 1983; Zucker, 1983). We argue that this research, while providing strong evidence of the *effects* of institutionalization on organizations, has given relatively little attention to the process through which it occurs. Focusing explicitly on the institutionalization of organizational negotiations, we discuss two major stages of this process and suggest conditions that are likely to affect each stage. To illustrate these arguments, we draw upon historical and contemporary evidence from labor relations in the U.S. steel industry. From World War II through the 1970s, negotiations between workers and management in steel firms were characterized by a high degree of institutionalization; from the late 1970s to the present, negotiations have become increasingly deinstitutionalized. Thus, this case allows us to examine more closely the role of various factors that lead to and sustain the institutionalization of negotiations. In conclusion, we seek to highlight the implications of these arguments for future research on negotiations in organizations.

Research on Institutionalization in Organizations

Research on organizations, from Scientific Management through the post-World War II era, has typically treated organizations as rationally constructed instruments for the production of goods and services (Scott, 1987). That is, organizational structures and behaviors have been assumed to reflect logical, efficient responses to the central problems of coordination and control of work activities (e.g., Blau, 1970; Pugh et al., 1968; Lawrence & Lorsch, 1967; Thompson, 1967).

The persistence and dominance of this approach in organizational studies is remarkable, especially given an accumulation of considerable contradictory evidence. The influence of political and

"non-rational" factors on organizational outcomes has been repeatedly documented in a variety of studies (Roethlisberger & Dickson, 1939; Blau, 1963; Gouldner, 1954; Crozier, 1964; Salancik & Pfeffer, 1974; Pfeffer & Salancik, 1978). One important reason for the continued dominance of a rational approach in organizational research, despite this evidence, has been suggested by more recent studies of institutionalization in organizations (Meyer & Rowan, 1977; Zucker, 1977)—viz., the basis of legitimacy in modern societies. As Weber (1946) emphasized in his analysis of the rise of bureaucratic organizations, formal structures and relationships in contemporary society are based on rational-legal authority. Thus, their legitimacy is predicated on the shared belief that such formal arrangements reflect logical, efficient means of accomplishing a given set of ends. This underlying belief is reflected in commonly-held understandings and interpretations of behavior in organizations.²

In this social context, policies, procedures and structures created by organizations can rapidly become institutionalized, that is, widely accepted as taken-for-granted "social facts" of organizational life.³ As such, their appropriateness is rarely questioned; rather, they are routinely taken into account in organizational decision-making and activities. One consequence of institutionalization is increased predictability of behavior in organizations. The shared understandings and expectations that underlie institutionalized structures and behaviors create strong pressures for conformity to them and thus limit consideration of alternative courses of action. However, since institutionalized practices and procedures are resistant to change (Zucker, 1977), they also impose substantial constraints on organizations' flexibility and adaptability.

Most empirical work based on this perspective has focused on the outcomes or effects of institutionalization on organizations (Kamens, 1977; Meyer & Hannan, 1979; Tolbert, 1985), while relatively little attention has been given to the processes through which behaviors and structures become institutionalized (though see Rowan, 1982; Tolbert & Zucker, 1983; DiMaggio, 1988; Tolbert, 1988). In particular, the way in which power relationships affect and are affected by institutionalization processes is an important, albeit largely neglected, research issue.

The fact that problems of power and control often provide the impetus behind institutionalization processes, however, has been implicitly suggested in a number of studies. Meyer and Rowan (1977, p. 348), for example, note the active role played by organizational actors in the creation of institutional environments that are of benefit to them. DiMaggio and Powell (1983) deal with this at greater length in their discussion of coercive and normative mechanisms of organizational change. They argue that institutionalization often occurs when powerful organizations coerce dependent organizations to adapt their structure in exchange for continuing support. Alternatively, it can occur through the activities of professionalizing occupations and other interest groups that seek to influence organizations to adopt policies and procedures benefiting the group. In either case, such organizational components can, over time, acquire a normative, taken-for-granted character.

Empirical evidence of underlying political interests in institutionalization processes has been provided in analyses by Dowling and Pfeffer (1975), Rowan (1982), and Rubinson (1987) of school systems. These studies suggest that the process of institutionalization is apt to be characterized by high levels of conflict in the early stages and importantly reflect the relative power of political groups and

actors that are affected by it. Understanding these processes, then, requires careful consideration of the nature of and the conditions that affect such power relationships.

Institutionalization of Negotiation

It is important to note at the outset that not all negotiations that occur in organizations are subject to institutionalization.⁴ Often times, the need for decision-making, and hence opportunities for negotiating, occur in response to unique problems and events within the organization. For example, the unexpected development of new technology and the decision to adopt it or not may generate intense negotiations, but such events are generally rare and unpredictable occurrences. Under these conditions, the "rules" governing negotiations are likely to directly reflect the power and interests of the specific decision-makers that are involved. It is only in the context of recurring problems that negotiating processes may become institutionalized.

The recurrence of certain problems, however, is a necessary but not sufficient condition for the institutionalization of negotiations in organizations. This typically involves two major stages. These stages are not necessarily temporally distinct; empirically, they may occur more or less simultaneously. Nonetheless, it is useful to consider them separately for analytical purposes.

The first stage entails the development of a common definition and acceptance of distinctive group interests. In other words, shared understandings about who the central actors are and what their legitimate interests are must first be created. The emergence of such definitions is importantly affected by the nature of internal relations within organizations, particularly the relative balance of power between groups.

The second stage involves the definition of the issues that are subject to negotiation among these groups, the negotiating procedures, and the set of potential outcomes of such negotiations. The emergence of a consensus on and institutionalization of specific issues and outcomes are affected both by internal relationships and by environmental conditions. In this paper, we focus specifically on the latter, identifying three environmental factors that contribute to institutionalization: the degree of stability in interorganizational relations, environmental capacity (i.e., the level of required resources that are available to the organization), and the involvement of external groups and organizations that have power to influence the focal organization. The two stages and each of these factors are discussed below.

Internal Relations and the Definition of Group Interests

A key aspect of the institutionalization of negotiations is the social definition and acceptance of distinct and enduring interests among sets of organizational members. Common understandings must be reached about the boundaries of different groups and their respective relationships to each other and to the organization. This step lays the foundation for the definition of negotiable issues by identifying areas or problems in which each group has an accepted, legitimate stake.

Informally defined cliques and coalitions constitute one case of this. However, such groupings are usually recognized as temporary representations of shifting interests. The emergence of accepted permanent differences of interest is generally associated with formal structural arrangements. For

example, in federated organizations such as universities and other professional organizations, this is commonly indicated by the formal inclusion of departmental or other divisional representatives in high level decision-making bodies with formal authority to create or change basic policies and rules. Such structural arrangements signify the public acceptance and explicit consideration of the distinctive interests of these groups in negotiations.

In hierarchical organizations, such as business firms, formal recognition of differing interests is often more problematic. Such organizations are premised on the assumption of the need for imperative coordination (Weber, 1946). Ultimate decision-making power is often perceived as being rightfully vested in a small subset of top-level members, and acknowledgement of conflicting interests seen as dysfunctional in terms of ensuring necessary coordination of members' activities. Thus, dominant members of the organization can be expected to attempt to prevent the emergence of social definitions of permanent differences of interest.⁵ Indeed, early managerial writers devoted considerable attention to precisely this issue (Follett, 1982; Barnard, 1938).

Historically, a variety of structural devices have been used to avoid and/or control the development of enduring differences between organizational groups. These range from "company unions," created in many organizations in the early part of the twentieth century in response to the increasing acceptance by workers of an ideology positing a fundamental conflict of interest between labor and management, to more recent structural innovations, such as task forces and the matrix form of organization, created to deal with long-term interdepartmental disputes and issues. These structures facilitate managerial control of existing and potential conflicts, and thus can serve to prevent such conflicts from being defined as permanent differences of interest.

Given the frequent reluctance of top managers to acknowledge such differences, an important factor affecting the initial stage in the institutionalization of negotiations is the balance of power among various sets of organizational members. A relative power balance is typically a precondition for the formal recognition of unique interests. Studies have suggested a variety of sources of power and influence in organizations (French & Raven, 1959; Salancik & Pfeffer, 1974; Pfeffer & Salancik, 1978; Bacharach & Lawler, 1980). In a classic essay, Mechanic (1962) describes three kinds of organizational resources controlled by groups and individuals that provide a basis for the exercise of power: control of persons; control of information and knowledge; and control of instrumentalities (property and facilities).

Different types of resources are likely to be more readily controlled by different groups within the organization. Property rights are generally controlled by the owners and managers of business organizations. Thus, the establishment of a balance of power depends largely on the ability of subordinate groups to control information and/ or persons. Effective control of these resources, in turn, often requires the creation of formal organizations to achieve necessary coordination and discipline of group members (e.g., unions or professional associations). Consequently, in hierarchical organizations, the first stage in the process of institutionalization of negotiations frequently involves the establishment of such organizations. Their creation and general acceptance signifies the emergence of the social definition of distinctive groups and interests.

Once identifiable groups within an organization have been defined, the second stage of the institutionalization process involves the development of shared understandings of the specific topics that are subject to negotiation and ways of handling negotiations on those topics. This entails a progressive narrowing of the scope of negotiations since some decisions or issues will be defined as the appropriate domain of one group or the other and hence not subject to bargaining. Once this occurs, attempts to redefine negotiating issues, and particularly, to include decisions previously excluded from negotiations, are apt to be treated as signs of "bad faith." Similarly, attempts to change the procedures or format of negotiations often create suspicion. Thus, there are strong normative pressures on actors to accept these negotiating parameters. Individuals who violate them run the risk of being viewed either as unacceptably aggressive or incompetently naive. In either case, such violation is often disruptive and may eventually result in the withdrawal of partners from the interaction.

The degree to which a delimited set of issues and procedures can be defined and institutionalized is importantly affected by a number of environmental conditions. First, environmental stability, particularly the stability of interorganizational relations, affects the predictability of problems the organization must face and hence the ability of members to define a standard set of issues for negotiations. Second, environmental capacity, or the degree of scarcity of external resources that are required by the organization (see Aldrich, 1979), affects the level of slack resources within the organization. Slack resources, in turn, decrease the pressure to search for new solutions to problems and thus contribute to the narrowing of the socially-defined range of negotiation issues. Third, the involvement of external groups and organizations, such as political lobbies, consumer groups or government agencies, can create pressure on negotiating parties to reach a rapid resolution to disputes. This constrains the range of issues that can be effectively considered and addressed by negotiations. We consider each of these environmental influences in more detail below.

As recent work has emphasized (Salancik & Pfeffer, 1974; Pfeffer & Salancik, 1974), relations among organizational members are heavily influenced by the nature of an organization's links to its environment. In general, the level of uncertainty associated with environmental relations appears to affect a variety of aspects of internal relations, including negotiating processes (Perrow, 1970). Burns and Stalker (1961) argue that organizations facing rapid change and uncertainty require a relatively low level of formalization and a broadly-defined division of labor in order to meet environmental demands. Perhaps as a result of these characteristics, Lawrence and Lorsch (1967) noted that organizations in such environments are also more likely to be characterized by frequent negotiations among individuals and groups.

While negotiations may be a common occurrence among organizations in less stable environments, they are also likely to be relatively idiosyncratic, centered around unexpected and unique problems. Such negotiating situations are unlikely to be subject to institutionalization. Stable environments, on the other hand, are more likely to produce institutionalized negotiations. By environmental stability, we emphasize the degree of predictability in both the exchange and competitive relationships among a set of organizations.⁶ Routinization of the kinds of external demands to which organizations must respond, through formal or informal interorganizational agreements, permits routinization of internal relationships as well. Such predictability increases the ability of

negotiating groups to agree on the importance of certain aspects of work relationships as critical problems or issues. This is true both because certain types of problems are likely to recur, and because the decision criteria applied to these problems are likely to remain the same over time.

The notion of environmental capacity (or carrying capacity) has been used to refer to the relative abundance or shortage of externally-controlled resources that organizations must obtain for survival (Hannan & Freeman, 1977; Aldrich, 1979). While most research considering the effects of variations in capacity has focused on the implications for the size and survival of organizational populations, such variations are likely to affect relations within organizations as well.⁷

Specifically, organizations in high capacity environments are, almost by definition, more likely to have slack resources (i.e., to have access to more resources than are needed for carrying out basic production functions). Slack resources lessen the frequency and intensity of internal conflict in organizations by permitting the objectives of one group to be pursued without seriously interfering with those of other groups (March & Simon, 1958). This is likely to affect negotiations as well, by making members more willing to accept demands posed by others and hence, limiting the perceived need to search for alternative solutions to problems. Under these conditions, then, it is relatively easy to define a standard set of negotiating outcomes. As long as environmental capacity remains high, negotiators will have little incentive to challenge these outcomes and, over time, they are likely to become accepted as the legitimate set of potential outcomes.

Still another aspect of environmental relations that can affect the institutionalization of negotiating processes within organizations is the presence and activity of external actors, groups and organizations that do not participate directly in negotiations but control resources that are valued by the negotiators. Such actors can thus affect the negotiations by threatening to withhold those resources. This includes government agencies, political or public interest groups, professional organizations, organizational suppliers and so forth.

External groups and organizations may seek to influence either the definition of issues that are subject to negotiations, negotiating outcomes, or both. Often, however, external intervention reflects less of an interest in defining specific issues or outcomes than in simply limiting the length of negotiating processes in order to minimize the indirect costs of such negotiations to these groups. Hence, they are apt to use the threat of withholding resources (e.g., withdrawal of accreditation, termination of contracts, etc.) to force negotiators to define and concentrate on a limited set of issues. Thus, such intervention (or its possibility) also contributes to the initial definition and eventual institutionalization of a limited range of negotiation issues.

Institutionalization and Deinstitutionalization

To briefly recapitulate, the institutionalization of negotiations can be said to occur when negotiating parties exhibit a high degree of consensus on the issues that are legitimate subjects of negotiation, procedures of negotiation, and a finite set of acceptable outcomes. This consensus may be formalized in laws and written contracts or it may simply exist informally as a part of organizational culture. Institutionalization enhances the predictability of and often expedites negotiations, but it may

also limit the ability of organizations to effectively respond to changing environmental conditions and internal problems.

Consequently, in the face of long-term changes in environmental conditions, older organizations with institutionalized procedures and policies are at high risk of failure (Hannan & Freeman, 1984). They are often replaced by new organizations that have developed different internal arrangements and relationships that are better-suited to the changed environment. Thus, a reversal in the environmental conditions that contribute to institutionalization (i.e., increased instability of interorganizational relationships, lessened environmental capacity, and changes in the external actors that influence the organization) contributes to deinstitutionalization, or the breakdown of the social understandings that governed the relationships among organizational groups. The effects of this are most intense among older organizations because such understandings become more firmly entrenched as an organization ages and their breakdown is likely to generate very high levels of internal conflict.

We have suggested two general stages of the process of institutionalization and discussed a number of factors that affect each stage, focusing particularly on the role of environmental conditions that contribute to the institutionalization of negotiations. In the absence of these conditions, negotiating processes and issues are unlikely to become institutionalized. On the other hand, negotiations are subject to deinstitutionalization when the environmental conditions change. In the following section, we describe the historical development of negotiations between workers and managers in steel firms to illustrate these ideas.

Institutionalization and Deinstitutionalization of Negotiation in the Steel Industry: A Case Study

The evolution of relations between steel workers and steel manufacturing firms represents a classic example of the institutionalization of negotiations. From 1942 through the 1970s, the issues, procedures and outcomes of negotiating processes became increasingly narrowly defined and formalized; it was not until the late 1970s that serious consideration was given to other potential negotiating issues and outcomes. In the following, we describe the historical context of this evolution, focusing on the factors that affected it at different timepoints.

Definition of Distinctive Group Interests

Following the series of mergers and acquisitions that resulted in the creation of U.S. Steel in 1901, fledgling efforts to obtain recognition of the independent rights and interests of workers in steel firms were quickly crushed (see Daugherty et al., 1937; Brody, 1960; Livernash, 1976). The increasing reliance on unskilled labor made possible by technological changes in steel production, oligopolic control of the industry by fiercely anti-union employers, and a general political climate of intolerance and distrust of unions created a context in which the owners and managers of steel firms wielded virtually undisputed power within their organizations. By 1919, a last-ditch organizing campaign among steel workers was successfully suppressed by steel companies amidst charges that the strikers and their leaders were "aliens" and "communists" (Brooks, 1940, p. 39).

While mounting intense resistance to all unionizing efforts, steel firms simultaneously undertook a more benign approach to persuading workers of the unity of interests between labor and management, in the form of company welfare practices. In the steel industry, this was reflected in the development of internal promotion policies and job ladders as well as the provision of a variety of recreational and social services to workers (Brody, 1960; Stone, 1974). The aims of these policies were twofold: to build company loyalty and commitment among workers, and to avoid government intervention to limit the steel companies' enormous power.

Given this context, it is not surprising that the labor negotiations that did occur during this period were generally unofficial, informal and sporadic. The outcome of such negotiations depended largely on the relative bargaining power of specific individuals, work groups and foremen (see Jacoby, 1983; Edwards, 1979).

The economic crash of 1929 and ensuing depression had a major impact on the relative balance of power between steelworkers and the owners and managers of steel firms. As the Depression wore on, public acceptance of unionism grew markedly; the election of Roosevelt in 1933 was generally taken as a clear signal of the shift in public opinion on labor rights. The passage of the National Recovery Act and Section 7a, giving legal recognition to the existence of organized labor, facilitated the mobilization of workers by union campaigns.

That these changes were perceived as a distinct threat to the balance of power between workers and the management of the steel firms is evidenced by the expansion of company welfare practices to include the establishment of Employee Representation Plans (ERPs), a form of company unionism. The ERPs represented an interesting intermediate step in the institutionalization of negotiations. While acknowledging the distinctive interests of workers as a group, they were clearly intended to subsume these interests under those of the firm as a whole.

Ironically, however, the ERPs contributed to further mobilization of workers. The inability of ERPs to address a number of issues of concern to workers, particularly wage-related issues, only fueled workers' dissatisfactions (Brooks, 1940; Daugherty et al., 1937). On June 16, 1936, the CIO-affiliated Steel Worker's Organizing Committee (SWOC) was formed with the strong backing of many ERP leaders. Less than a year later, U.S. Steel formally recognized the SWOC as a central negotiating body for steelworkers. Although it would be several years before the firms known as Little Steel⁸ would recognize the union, recognition by the dominant steel company represented a major turning point in the struggle to establish and legitimate the rights of labor in negotiating processes.

Thus, the first stage in the institutionalization of negotiations, recognition of distinct group interests, was characterized by intense power struggles and conflict. An unskilled and unorganized labor force was, for decades, unable to effectively counter the power of the owners and managers of steel firms, who strongly resisted all efforts to define a separate, distinctive set of interests by workers. It took the social and economic upheavals of the Depression to create a climate in which workers could be effectively mobilized and organized on a large scale. Once this was accomplished, however, the acceptance of the right of workers to pursue distinctive concerns and interests occurred relatively quickly.

Negotiating Issues and Outcomes

The topics and terms of negotiations between steelworkers and firm management were still largely undefined in 1937. A widely-circulated pamphlet published by the SWOC's research committee at this time suggests the breadth of the issues considered for negotiation. For example, it proposed participation by the union in the establishment of company sales strategies, in setting production goals, and in developing a "master plan" to coordinate sales, production, financing and labor schedules within the plant (SWOC, 1938). However, the entry of the United States into World War II and the environment of the steel firms in the post-War years led to an increasingly narrow definition of legitimate issues and outcomes of labor negotiations.

Intervention by External Actors

In response to war production requirements, the government began to take an increasingly active role in labor disputes. A wave of damaging strikes in 1941 inspired the Roosevelt administration to set up the National Defense Mediation Board (later named the War Labor Board). The Board created an official wage policy freezing wages at 1941 levels (Lichtenstein, 1982) and ordered "maintenance of membership" clauses in negotiated contracts, enhancing the economic security of the union. In return, it demanded that labor and management solve conflicts without recourse to strikes or lockouts. This placed particularly strong pressures on unions for accountability and control of the labor force (Freeman, 1985; Brody, 1980), and led labor leaders to focus on a narrow set of negotiating issues, in part to avoid conflicts that might lead to greater militancy among the workers.

The end of the War saw a brief revival of the debate over labor's participation in decision-making areas traditionally considered to be the purview of management (Kerr, 1949; Bakke, 1946; Chamberlain, 1948). However, faced with strong opposition by management and a decline in public support for unionism that accompanied the increasingly conservative political climate of the post-War years, union leaders in auto and steel soon abandoned these efforts to broaden the scope of bargaining and focused their attention on a narrow set of issues involving job definitions and wage rates.

Environmental Stability and Capacity

The environment of the steel industry in the post-War period, characterized by both stable interorganizational relationships and a strong demand for steel products, contributed to the ability of union leaders and management to reach a consensus on a narrow set of "appropriate" negotiating issues. Pent-up demand for autos, appliances and other steel products created a rich environment for steel manufacturers. U.S. firms dominated not only domestic but foreign markets as well; by 1950, 45% of the world's steel was produced in the United States.

Moreover, the industry was characterized by a high degree of concentration, a pattern that had been established by the rise of the U.S. Steel Corporation which, by the turn of the century, employed over half of the steelworkers in the country (Livernash, 1976). Such concentration facilitated coordination of pricing among steel producers and thus minimized the amount of interfirm competition

(Adams & Mueller, 1982). At the same time, vertical integration, common among steel firms, ensured stable supplier relationships as well.

Under these conditions, the major concerns of industry leaders centered on the minimization of work stoppages associated with labor unrest, concerns that they were both willing and able to address by making substantial concessions in terms of wages and benefits. Given labor's reluctance to test its strength by pushing for a broad scope of bargaining, these issues soon became accepted as the appropriate, legitimate focus of labor negotiations.

For three decades, then, negotiations between workers and managers in the steel industry were characterized by a high level of institutionalization. Collective bargaining, carried out by national-level union and management representatives, centered more or less exclusively on the issues of wage rates, benefits and job definitions; little effort was made by union leaders or management to substantially redefine these issues or the procedures for dealing with them.⁹

Deinstitutionalization of Negotiations

By the late 1970s, however, the environment of the steel industry changed dramatically. The dominance of established firms was sharply challenged by competition from foreign steel manufacturers and from newly-established domestic mini-mills, who capitalized on the development of new technology to produce cheaper steel goods (see Barnett & Schorsch, 1983; Arthur, 1987). This competition had a major impact on U.S. Steel, the industry's stabilizing leader, whose percent of domestic shipments dropped from nearly 30% in 1950 to less than 18% in 1981. Demand for steel during this period became highly volatile, culminating in a worldwide depression in steel production in the 1980s (Ruben, 1987). These environmental shifts had a devastating impact on U.S. steel firms. Major companies closed down mills and smaller companies filed for bankruptcy. Between 1973 and 1984, employment in the industry fell from 500,000 workers to 220,000 (Acs, 1984).

The increasing instability of interorganizational relations among steel producers and lean environmental capacity created a context in which institutionalized negotiating patterns were subject to challenge. A host of new problems associated with the management of external relations had to be confronted if firms were to survive. In this new context, the rationality of extant organizational arrangements and relationships could be, and were, called into question. Institutionalized negotiating patterns were criticized for contributing to increased labor costs in steel firms without offsetting increases in productivity, because wage negotiations had been isolated from consideration of firms' economic performance and local market conditions. Moreover, the emphasis on narrow job definitions as the basis of employment rights was argued to have contributed to strong employee resistance to any changes that might affect these job definitions, including the adoption of new technology or flexible work rules and arrangements.

The development of alternative, apparently successful models of production in the steel industry, in Japanese firms and new domestic mini-mills, also served to undermine institutionalized negotiating relationships. In these firms, more flexible work arrangements appear to be associated with greater participation in traditional areas of managerial decision making (Arthur, 1987).

These factors, the need to solve new problems created by changing environmental conditions and the development of alternative forms of organization, have led to the deinstitutionalization of negotiations in the older, integrated sector of the steel industry. This is evidenced by the recent revival of a number of negotiating issues and arrangements developed in early SWOC efforts. A 1980 agreement between the United Steelworkers of America (the direct descendant of the SWOC) and steel firms put a strong emphasis on both shop-level and plant-level participation by worker representatives in various production-related decisions. Moreover, participation at the business or strategic level has also become an issue of negotiation. At LTV Steel Corporation the union demanded a total business reorganization, including "a renegotiation of LTV's raw-materials Contracts, cut in the ranks of plant supervisors and an end of contracting out of union work" (*Business Week*, 1986: 33). Similarly, at Wheeling-Pittsburgh, the union negotiated for "Co-Asset Management," whereby the Steelworkers nominate two non-USW members to the board of directors and have complete access to the company's financial records (*Business Week*, 1985: 37). In addition to membership on the board, steelworkers also participate in "mini-boards" which influence decision on shop-level technology and other investments (McManus, 1986).

In recent years, the form of negotiations has also been transformed. As of 1986, the USW no longer negotiates an industry-wide contract with the Coordinating Committee of Steel Companies. For the first time since 1956, the parties are negotiating contracts on a company by company basis (*Steellabor*, 1986). This new decentralized structure increases the flexibility in negotiations by allowing the parties to come up with unique bargains concerning the particular situations affecting each company.

At present, then, both the form and issues of negotiation in the industry are in flux. We suspect that this will remain true for some time, since no major changes in the environment of the steel firms that would contribute to institutionalized negotiations between workers and management appear imminent.

Summary and Conclusions

The preceding case description provides a concrete illustration of some of the general arguments concerning the institutionalization of negotiations suggested in the first section. The process of institutionalization, involving the emergence of normative understandings and definitions of a circumscribed set of negotiating issues and procedures among organizational actors, was argued to occur in two major stages.

In the first stage, separate groups within the organization, with distinctive interests and concerns, are formally acknowledged. This stage, which lays the foundation for the definition of a standard set of negotiating issues, is importantly affected by the establishment of a relative balance of power among potential groups, since recognition of permanently-defined group differences may be strongly resisted by some members.

The second stage, in which the groups reach a consensus on a relatively narrowly set of "legitimate" issues and outcomes of negotiation, as well as negotiating procedures, is conditioned by a number of environmental conditions facing the organization. These include: environmental stability,

which affects the likelihood that certain recurrent internal problems will be identified as negotiating issues; environmental capacity, which affects members' motivation to question existing arrangements; and involvement by external groups and organizations, which can result in pressure on negotiators to focus on a limited set of issues and solutions. The reversal of these conditions is apt to lead to deinstitutionalization, or the breakdown of these established understandings of legitimate procedures and issues. New organizations emerge with internal arrangements suited to changed environmental conditions and the ensuing competition between these organizations and older ones often creates situations in which institutionalized structures and processes can be called into question successfully.

Each of the stages is clearly demarcated in the historical development of negotiations between labor and management in the U.S. steel industry, and we have shown how different conditions affected each stage. Negotiations can be described as fully institutionalized when the social understandings and assumptions governing bargaining relationships become embodied in formal contracts, as occurred in this case.

Perhaps more typically, such understandings are not formalized; nonetheless, they act as powerful constraints on organizational negotiations. Newcomers to an organization often discover this when they enter into negotiating situations for the first time. They are apt to raise issues, follow procedures and propose solutions that violate the shared understandings guiding bargaining among members. Such efforts are generally tolerated, but quickly, dismissed by other members. If the newcomer persists, despite this discouragement, he or she is likely to find these activities met with increasing hostility and to be summarily informed "that is not the way we do things."

Even in the absence of formal rules and contracts, institutionalization, indicated by the degree of resistance to changes in negotiating processes, is affected by the environmental conditions described above. Following from our earlier arguments, we would hypothesize that organizations operating within stable, high capacity environments are likely to be especially resistant to changing or broadening the scope of negotiating issues. Negotiations in organizations facing rapid change or declining support, on the other hand, should be characterized by consideration of a wider range of issues in decision-making situations.

In short, many negotiations that occur in organizations are subject to some degree of institutionalization, indicated by the strength of consensus among organizational members on appropriate and inappropriate issues for negotiation. This has several important implications for research on organizational negotiations.

Implications

One implication pertains to the problem of integrative versus distributive bargaining (Walton & McKersie, 1965). Although integrative bargaining, involving the development of mutually beneficial solutions, is generally accepted as being preferable to distributive bargaining, involving win/lose solutions, the former is observed relatively infrequently in actual bargaining situations (Pruitt, 1981). The institutionalization of negotiations provide one explanation for this.

As Pruitt (1983: 36) notes, while "integrative agreements sometimes make use of known alternatives ... more often they involve the development of new alternatives." The decreased flexibility in members' attitudes and approaches to negotiations that occurs with institutionalization, however, runs directly counter to this kind of "creative problem-solving." Once members have developed common understandings about an appropriate, limited set of issues, procedures and outcomes that are subject to negotiation in a particular situation, the strength of these social definitions makes it virtually impossible for negotiating parties to conceive of substantially different approaches. Hence, the more negotiations are institutionalized, the less likely are parties to engage in integrative approaches to bargaining. Achievement of fully integrative solutions, in this case, will probably require the active intervention of a mediator or other third party, preferably one that has *not* been associated with previous negotiations.

A second implication concerns the role of negotiations in producing organizational innovation and change. It was suggested earlier that negotiations in organizations often have little long-term impact, based on the observed rarity of substantial change in organizations. This may reflect the fact that many, if not most, negotiations occur in highly institutionalized contexts. The social limitations on negotiating processes that are part of institutionalization, and particularly the tendency to make legitimate issues procedural ("how to") rather than substantive ("whether"), make it less likely that basic organizational structures and activities will be called into question by negotiating parties. This helps ensure stability and predictability in organizational relationships, but limits the likelihood of innovation and adaptation that negotiations might otherwise produce.

Most research on negotiation has concentrated on the investigation of factors that affect negotiating outcomes given some predefined problem. The process through which negotiating issues, procedures and outcomes in organizations are defined by participants over time and the conditions that affect this process have been given relatively little attention. Clearly, a fuller understanding of negotiations in organizations requires attention to this in order to comprehend both the constraints on bargaining behavior and the impact of negotiations on other aspects of organizations.

Notes

1. We thank the editors of this volume for calling our attention to these implications.
2. In an experimental study, Zucker (1977) demonstrated that individuals were more likely to accept and conform to arbitrary judgments of others when the social context was defined as a formal organization than one of personal influence. This research provides strong support for the notion that activities and behaviors in organizations are indeed more likely to be perceived or interpreted as objective and rationally-designed than in other social settings.
3. This approach to institutionalization in organizations is explicitly based on phenomenological work, as represented by Schutz (1962) and Garfinkel (1967). Other approaches (e.g., Meyer & Rowan, 1977; DiMaggio & Powell, 1983) place less emphasis on the role of shared intersubjective understandings and interpretation as an underlying causal mechanism in institutionalization processes (see Zucker, 1987).
4. By definition, two conditions must be present for negotiations to occur. First, a situation must exist in which individuals have to reach a consensus in order to act (i.e., collaboration is required for the accomplishment of some task). Second, the terms of collaboration must be subject to dispute. If it is mutually accepted that one actor has the right to make

decisions and issue orders, there is no need for negotiating. Similarly, if one actor has the ability to compel others to act (complete coercive power), then negotiations are unnecessary.

5. This is not intended to suggest that federated organizations are necessarily immune from this. These factors can affect the emergence of distinctive group interests in any type of bureaucratic organization.

6. Often, stability or uncertainty has been linked to the frequency of change in critical aspects of organizations' production technology. However, the effects of changing technology operate primarily through increasing the level of competition among organizations, or by requiring the development of new exchange relationships.

7. Most theoretical definitions of this concept do not lend themselves to easy operationalization. Clearly, there is a wide array of resources that organizations must obtain from external sources in order to carry out their operations. Apart from the tautological strategy of using rates of organizational failure as an indicator of capacity, measurement of this concept requires specification of a particular type of resource. We suggest that a critical dimension of environmental capacity is the level of demand for the goods and services produced by an organization relative to its production capacity. At a population level, this would require aggregate measures of demand and of production capacity among a set of competitors.

8. Little Steel firms included Bethlehem, Republic, Youngstown, National, Inland, and American Rolling Mills. These smaller, more competitive firms strongly resisted recognition of the union for another five years.

9. Although several experimental programs in labor/ management relations were established in the steel industry, such as the Human Relations Committee in 1960 and the Experimental Negotiating Agreement in 1973, these had virtually no impact on actual negotiating processes and outcomes.

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