NEGOTIATED ORDER IN INTER-ORGANIZATIONAL RELATIONS:
TOWARD AN INSTITUTIONAL THEORY OF STAKEHOLDER NEGOTIATIONS

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ABSTRACT

In this study we analyze possible links between new institutional economics and stakeholder management models. Our preliminary findings fit with the traditional political organization argument: namely that firms’ organizational decision-making include explicit and implicit aspects, shaped by institutional and technical constraints, and that decisions have to be balanced from this perspective. As an illustrative empirical material we use failed merger and acquisition process between United Airlines and US Airways 2000—2001. The basic theorizing methods used in this paper are the alternate template strategy, and comparative analysis between the two readings (texts). Our suggestion is that the two theoretical frameworks are complementary, and could be useful when studying/estimating the influence of inter-organizational negotiations to organizational decision-making, and especially strategizing.

INTRODUCTION

Both in organization and management research (Freeman & Evan 1990) and in new institutional economics (NIE) (Cheung 1983), the perspective to see firms as contractual entities has grown since late 1970s (overview in Ménard 1995). Organizations have been defined as “legal fictions” (Fama 1980) or living “in a nexus of contracts.” (Aoki, Gustafsson, Williamson 190) Both in NIE and management research the level of analysis has been at the inter-organizational level, and more precisely: the point of view has been organization centric. In a way, for example strategic stakeholder management and NIE researchers assume that at least quasi-rational organizational actors are able to operate efficiently in inter-organizational field and even manipulate their environment (Ménard 1995). The basic idea in this paper is to first integrate the intra-organizational level to the analysis via the classic negotiated order framework, and secondly critically discuss about the possibility to create a new meta-narrative: institutional stakeholder theory. We argue that strategic stakeholder management and NIE researchers have not taken into consideration the political nature of intra-organizational decision making, and that this aspect makes the manipulation-like operations in inter-organizational relations highly questionable.

Starting with the classic essays of Selznick (1957) and Simon (1957) in the late 1950s and continuing with those of Cyert (1963), Strauss (1963) and March (1963) in the early 1960s, the political nature of decision-making has been a central tenet in organization theories. On the one hand, Anselm Strauss described the organizational decision-making environment as a negotiated order (Strauss, 1963; Strauss, 1978). One the other hand, March and Olsen (1989) showed that decision-making often is a rule-following act rather than a rational process. Both the negotiated order (NO) and rule-following theories view decision making primarily as a political process where intra-organizational bargaining affects the ultimate outcome: realized organizational strategy (March, 1963, 1989; Strauss, 1978). Crucial questions in those negotiations are the scarcity of resources and consequently, the relative power of different intra-organizational interest groups (Cyert, 1963; Pfeffer, 1978; Strauss, 1978).

Three postulates are crucial to in the NO and related-schools of decision-making:

1. The NO is the total sum of the organization’s rules and policies, along with agreements, understandings, pacts, contracts, and other working arrangements currently obtained (ISNIE, 2001; March, 1963, 1989, 1994; Selznick, 1957; Strauss, 1978; Strauss, 1963)
2. The products of intra-organizational bargaining (contracts, understandings, agreements, rules) have temporal limits: they can/will be reviewed, re-evaluated, revised, revoked or renewed (March, 1963; Strauss, 1963).
3. Negotiated Order (NO) has to be worked at, and the bases of concerted action needed to be continually reconstituted (Strauss, 1978; Strauss, 1963).

Our contribution is to extend the NO-related decision-making explanations from the intra-organizational to the inter-organizational level of analysis. While we build our argumentation on NO-related theories about intra-organizational decision-making, we expand their possibilities through parallel readings from stakeholder thinking and the new institutional economics (NIE). The key argument in this paper is that the idea of negotiated order explanation is valid for both intra- and inter-organizational levels of analysis.

On the one hand, stakeholder thinking identifies who affects strategic decision-making, and why they seek to influence an organization; on the other hand, the negotiated order approach specifies how—the process through
which—organizational strategies are influenced. Complementing both of these approaches, NIE explains the conditions—i.e., rules—that constrain strategic decision-making.

**THEORY-BUILDING APPROACH AND ANALYTICAL TOOLS**

To explicate the notion that organizational decision-making is dependent on political processes and negotiations with both internal and external stakeholders we use multiple readings of the recent airline merger and acquisition negotiations between United Airlines and US Airways. These readings draw upon both institutional economics and stakeholder thinking. We employ the alternate template strategy is to highlight how these two readings extend the notion of negotiated order and our understanding of inter-organizational relations.

**New Institutional Economics**

The regulatory form of the new institutionalism, New Institutional Economics (NIE), builds on transaction cost economics and on public choice theories (Scott, 1995b), as portrayed in Douglass North's conceptual framework (North, 1981, 1990). For our purposes, and in accord with North's definition, institutions are the rules of the game and organizations are the players. On the one hand, institutions are the informal and formal rules that constrain organizational actions. On the other hand, institutions change over time as organizations exert influence through enacting these rules. Thus, organizations act in the middle of a complex web of written and unwritten contracts and norms that create the incentive structure for strategic choices.

**Stakeholder Thinking**

Another way to view business environments is as a set of stakeholders. Using this approach, Freeman and Evan (Freeman, 1990) define organizations as a multilateral agreement between the organization and its stakeholders. The relationship between the company and its internal stakeholders (e.g., employees, managers, and owners) is defined by both formal and informal rules that have developed through the history of the relationship. This institutional setting constrains the strategic possibilities of the company. Top management, especially, depends on internal stakeholders to fulfill its intentions. However, external stakeholders can be equally important. Of these external stakeholders, federal and state governments and the local communities set the formal rules for businesses. Relationships with other external stakeholders (e.g., customers, competitors, special interest groups, etc.) are constrained by formal (e.g., legal) rules and, in addition, by informal rules.

**Alternate Template Strategy**

To highlight our theoretical claims and to move toward an institutional framework for stakeholder negotiations, we use the alternate template strategy (ATS) to analyze merger and acquisition negotiations in the airline industry. When using the ATS, the analyst proposes several alternative interpretations of the same events based on different but internally coherent sets of a priori theoretical premises (Langley, 1999). As a theory building tool, the ATS may be used to test "pattern-matching" or to provide alternate "readings" of the material. In any case, the ATS helps the analyst either to confront different premises or to integrate different levels of analysis (Langley, 1999). We use the latter approach in this paper.

Specifically, the ATS provides a way to integrate two different approaches for analyzing inter-organizational negotiations. As we have briefly argued, NIE and stakeholder thinking seem to be internally coherent and complement each other. Hence, they are suitable for the ATS used as a testing ground for the possible coherence/complementation. Furthermore, it seems that both of the used theoretical frameworks are compatible with the NO-related theories that constitute our link to the intra-organizational strategic decision-making.

After the two alternate readings, using two different lenses with a shared empirical illustration, our aim is to compare the conceptual and philosophical fundaments of stakeholder thinking and new institutional economics. For this purpose, we use a modified open coding method (Glaser, 1967) to discover the possible links and differences between the two theoretical perspectives. This said, we literally ground our theorizing on two alternate readings, or rather texts where the same story (fabula) has been told from different angles thus formatting two different narratives (Franzosi, 1998).

**United Airlines and US Airways Failed Merger**

We provide two readings of the failed merger and acquisition (M&A) negotiations between United Airlines and US Airways between 2000 and 2001. In many ways, this case is an exemplar of how stakeholder relationships and the institutional environment influence strategic decision-making. The negotiations were directly connected with the M&A between American Airlines and Trans World Airlines, as well as the attempted M&A between Northwest Airlines and Continental Airlines.
The airline industry has gone through dramatic changes since the 1970s. Deregulation has been a major institutional change in the United States, as well as in European countries. Concurrently, competition has become more global, especially during the 1990s. U.S. airlines have tried to adapt to these changes with different strategic approaches: low-cost competition (Southwest); market share growth (United Airlines, American Airlines); and improved operational efficiency through employee ownership programs (United Airlines, Northwest Airlines, TWA).

Mergers and acquisitions are typical responses to a major change in the market environment. However, in the airline industry M&A attempts have been very difficult to accomplish. Powerful stakeholder coalitions — especially employee unions — have been able, in many cases, to stop M&A negotiations (Savage, Nix, Whitehead, & Blair, 1991). All of the recent U.S. airline M&As have been linked together through both employee interests and public agencies that have legal rights that must be met if a M&A is to go forward (Schurman, 2001; UAL, 2000, 2001).

Our analysis of these M&A negotiations draws on a detailed database about the negotiation process. We have collected primary and secondary data from various public sources. These materials include organizational correspondence; annual reports and other published company material; public material from the Department of Justice; and articles from trade magazines and newspapers. From this material, we have created a chronological list of key events during the merger process (see appendix). Our intent with the following readings is to show the plausibility of integrating stakeholder thinking and NIE. As such, this study is a theory reaching, not a theory testing approach.

**READING ONE: INSTITUTIONAL PERSPECTIVE TO THE ORGANIZATIONAL DECISION-MAKING**

In organizational and management theories neo-institutionalism — represented by DiMaggio, Scott, Meyer et al. — has been the standard theoretical toolbox to explain non-competitive phenomenon (DiMaggio, 1995). Building on sociological literature, neo-institutionalists argue that organizations institutional environment is defined by socially constructed informal and formal rules or "rational myths" that influence an organization's development (Meyer, 1983b). Taken together, technical and institutional forces form environmental niches—segments or components—in which organizations exist (Hannan, 1989).

Most NI scholars assert that organizations can have little, if any affect on institutions, which are seen as relatively static and even "mythical" (Meyer, 1983a; Scott, 1995a). In contrast, New Institutional Economics adherents emphasize that organizations and institutions have an interactive relation: organizations both affect institutions, as well as are influenced by institutions. The biggest difference between NI and NIE is that the latter school sees economic actors as optimizers: they make rational choices (how to use their resources) within institutional boundaries and according to their ability to process information. These arguments are the common ground for scholars who identify themselves as representatives of new institutional economics.

Douglass C. North is the leading authority on new institutionalism in the field of economic history. Based on his two most important contributions (North, 1981, 1990), one can argue that North spans three different schools of thought inside the new institutionalism. First, his arguments are built on the public choice school and, especially, on James Buchanan's and Mancur Olson's thinking. Secondly, on conceptual level, he relies on Coase's and Williamson's transaction cost economics (Coase, 1988; Williamson, 1975). Lastly, he has integrated some crucial elements from intra-organizational sociological thinking to his model (Cyert, 1963; March, 1963, 1989). Hence, it is obvious that the advantage of North's theory is not in its parts (transaction costs, rational choice, ideologies and culture) but rather in its comprehensiveness. In other words, North's theory has strong explanatory power because of its breadth. Correspondingly, it cannot match for example Williamson's skills in transaction costs economics or Buchanan's theory of political decision-making.

**Institutional Change**

From our point of view, the most interesting part in North's framework is his definition of institutions and institutional change. According to North, institutions are simply the rules of the game: they are meant to reduce uncertainty by providing a structure to everyday life. Thus, North's worldview is almost parallel to March's and Olsen's rule-following theory of organizational decision-making (March, 1989).
North's greatest contribution might be his well-defined hierarchy of rules. In "Institutions, Institutional Change and Economic Performance," he divided informal rules to: a) extensions, elaborations and modifications of formal rules; b) socially sanctioned norms of behavior and c) internally enforced standards of conduct. Correspondingly, formal rules are a) political and judicial rules; b) economic rules and c) contracts (North, 1990).

North (1990) sees the institutional structure of the society as a hierarchy (figure 000) where each level is more costly to change than the previous one. Accordingly, this increases the probability of incremental institutional change. On the one hand, informal rules are so imbedded to the societies that they change slowly. On the other hand, formal rules on the lower level of the hierarchy (constitutes) are very costly to change — mostly because of the multilateral negotiations between numerous organizations.

From our perspective, the concept of institutional change is crucial element toward a comprehensive framework for organizational negotiations analysis. Institutional change is process that starts when one or several players perceive that they could do better with an altered agreement or contract. The motivation to try to change the contractual environment occurs because of the change in relative prices. Hence, some new institutional arrangement seems to offer better benefits than the present one taking into consideration the estimated costs of change. Consequently, players make an attempt to re-negotiate the contract and either explicit or implicit negotiations arise (North, 1981, 1990).

Nevertheless, because of the hierarchical form of the institutional environment, the change might not be possible without restructuring a higher (i.e. lower in the figure 000) set of rules at the same time (North, 1990). Hence, the lowest levels of the rules are more multilateral — they influence bigger number of players and ultimately, all players — and the highest levels almost purely bilateral agreements between two players or organizations. This said, we can posit four crucial institutional premises:

1. Institutions are the rules of the game, and they create the set of strategic incentives in the society.
2. Rules of the game have a hierarchical structure where the lower levels are more costly to change.
3. Attempts to re-negotiate agreements on the higher level of the institutional hierarchy might result in restructuring the lowest level as well. This result, however, implies multilateral rather than bilateral negotiations.
4. An organization is constrained not only by its institutional environment, but also by its own history. Hence, strategic decision-making is a path dependent process.

**Rules and Games in UAL—US Air M&A Process**

For our purposes, the NIE offers a lens to view organizations in their institutional context. From this perspective, the airline industry is one of the most institutionalized of industries.

**Table 000: Set of Institutional Constraints in Airline Industry**

<table>
<thead>
<tr>
<th>Rules / Implementation examples at domestic and international level</th>
<th>Influence in operational decision making (short run)</th>
<th>Influence in strategic decision making (long run)</th>
<th>Possibility to influence</th>
<th>Domestic level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal rules (written)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constitutions</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
<td>United States Constitution</td>
</tr>
<tr>
<td>Statutes and laws</td>
<td>Moderate</td>
<td>High</td>
<td>Moderate</td>
<td>Antitrust legislation (section 2; Sherman Act), international safety standards, labor legislation (Railway Labor Act)</td>
</tr>
<tr>
<td>Individual contracts</td>
<td>High</td>
<td>Moderate</td>
<td>High</td>
<td>Collective agreements, Employee Stock Ownership Program (ESOP), alliance</td>
</tr>
</tbody>
</table>
As any big corporation, UAL is constrained probably by thousands different formal regulations and contract. Besides of them, it is acting in a niche built on informal rules. Hence, when the company tried to change its strategic position through a major merger, it made simultaneously an attempt to alter its institutional agreements. In consequence, this started re-negotiations about the possible re-structuring its institutional niche.

The biggest problem in the failed M & A process might have been that UAL was metaphorically not playing its own game, but rather it was a player in multiple simultaneous games. Thus, the “strategic move” from UAL’s perspective, was an antitrust action from DOJ / DOT point of view, attempt to change the intra-organizational hierarchical setting from employees perspective and so forth. The rules of the game(s) were partly overlapping. Thus, in May 2000, when UAL announced its merger plan, it started a process that changed not only its contractual relations but also rule settings on the lower level of the institutional hierarchy.

In public discussion, the “antitrust game” got biggest attention. From government perspective, the transaction — together with other simultaneous merger attempts — was interpreted as an effort to loosen the antitrust legislation in airline industry. Hence, when UAL consciously or not, tried to expand its institutional niche, DOJ / DOT decode the transaction as an attempt to change the rules for the whole industry. This said, on this level of the institutional hierarchy, merger plan’s influence was multilateral affecting all the major airline companies. Furthermore, it is obvious that the attempt to change industry rules was very costly for the company and even an attempt would not have been possible for smaller player.

UAL—US Air merger plan was from the beginning under suspicion of the Departments of Justice and Transportation. Although both companies promised to open some routes for competition, the transaction fulfilled every characteristics of an antitrust case. Most importantly, UAL’s market share would have raised both nationally and especially in certain routes, so high that accusations about market power augmentation were a justified reason to start governmental investigations.

The final result of the long investigation process around the transaction was at least depressing from the viewpoint of the company: American Airlines had obtained a leadership position in the industry by merging with the Trans World Airlines, and UAL’s own position was weakened by the unsuccessful merger attempt. From theoretical point of view, it is evident that UAL tried to change both the formal and informal rules in the industry. Nonetheless, following James March’s rule-following decision-making theory, we can estimate that UAL’s attempt to change the antitrust rules was unintentional but nevertheless, it’s goal was to alter the institutional framework not only in the industry but in the society as well — antitrust legislation, however, is built on the principle of free competition that is the core of Anglo-American society.

Besides the antitrust legislation, the merger attempt was deviated the established rule setting on many other levels. Most interesting conflict occurred between the employees and the company — actually between owners and their own company because of the Employee Stock Ownership Program from 1994. Employees had already blocked an earlier attempt to buy US Air in 1995. In 2000—2001, their attitude was somewhat different. In most of the public announcement the transaction was accepted if UAL would be equally co-operative in collective bargaining. Moreover, the integration of US Airways workforce was seen problematic from the viewpoint of
Unions. Thus, employees interpreted the M&A game as a “salary/hierarchy game” instead of taking the owner point of view.

At the earliest stages of the process, pilots were concerned about the seniority ranking system in the planned new company. Nonetheless, this was an intra-organizational problem fulfilling all aspects as a negotiated order case. More importantly, unions were willing to accept the new institutional setting for higher salary. Hence, the costs to change the rules were not only symbolic: in August 2000 for example, pilots received almost 30 per cent rising in their salary.

Machinists and flight attendants continued their negotiations with the company simultaneously with the antitrust investigation and obviously, one reason for the negative end-result was the worsening conflict with the unions in March-May 2001. It is noteworthy that both mechanists and flight attendants opposed the merger because of its rule-breaking nature: from their point of view the present situation was more preferable than the possible new one. For example in March 2001, IAM demanded protection “from layoffs, relocations and seniority losses” instead of purely financial benefits. Thus, they wanted their companies to follow the rule setting that had been created during the organizational history. Altogether, what was a strategic move to the company became an attempt to change the rule setting between the organization and its employees. The conflict was both intra- and inter-organizational: employees were afraid about their position inside the organization, but formally, the negotiations occurred between organizations (UAL and unions).

What was a business-as-usual M&A transaction started actually a process of multilateral negotiations about the institutional setting on many levels of the institutional hierarchy. Accordingly, it fits with Douglass C. North’s framework as well as with the negotiated order idea. However, our case example shows the weaknesses of North’s theory as well. Most importantly, although North underlines the cruciality of the interactive nature of institutional change, it leaves the analysis of the interaction to too abstract level for comprehensive understanding. Consequently, we argue that it might make sense to inegrate it with the actor-based stakeholder theory and thus, fulfill the logical gaps in both of these inter-organizational frameworks.

**READING TWO: STAKEHOLDER THINKING**

We define strategic stakeholder negotiations as joint decision-making processes where various coalitions of stakeholders have different interests in an organization’s decision making with a focal stakeholder. As a result, top managers often conduct bilateral negotiations with a focal stakeholder, but also may conduct bilateral and multilateral negotiations directly and indirectly with many different stakeholders. Hence, strategic stakeholder negotiations may be described as a web of direct and indirect interactions with key stakeholders, leading to joint decision-making by the firm and the focal stakeholder. At the same time, this negotiated array of key stakeholder relationships has an impact on strategic actions, as stakeholders provide support for and defend against these actions.

**Strategic Stakeholder Thinking: Key Premises and Analytical Framework**

A basic premise in stakeholder management is that top executive’s responsibility is to understand and balance various stakeholder interests. This responsibility is based on the recognition that a firm cannot be profitable in the long run unless it provides fair treatment to its stakeholders. One of the dilemmas facing executives engaging in stakeholder management is that firms are many things at once: Each stakeholder has a different relation with the organization, and accordingly, each set of needs may differ. Several theorists have even argued that the organization itself has no goals; rather, the goals that do exist are derived from the stakeholders’ inputs and their demands for rewards given their contributions. Moreover, these boundaries limit top management’s operational possibilities (Freeman, 1984; Frooman, 1999; Näsi, 1995; Rhenman, 1965).

Stakeholder theory is a structural theory: it helps managers understand the structural relationships (Pruitt, 1995) among firms, government agencies, consumer advocacy groups, and other actors (Freeman, 1984; Näsi, 1995). By examining the M&A process through the theoretical lens of strategic stakeholder management, managers can develop a more comprehensive view of the role of key stakeholders in this process, anticipate stakeholder actions, and develop strategies for managing stakeholder relationships.

The basic steps in conducting a strategic stakeholder management analysis are fourfold:

1. Identify key stakeholders and their interests (Agle, Mitchell, & Sonnenfeld, 1999; Fottler, Blair, Whitehead, Laus, & Savage, 1989; Mitchell, Agle, & Wood, 1997);
2. Classify the relationships among these stakeholders, as well as with the firm (Blair & Fottler, 1990; Savage et al., 1991);
3. Choose appropriate generic strategies (Savage et al., 1991) for managing different types of stakeholder relationships; and

We use the above steps to model the strategic stakeholder negotiation that occurred between United Airlines and US Airways. However, there are many ways to classify stakeholders (Clarkson, 1995; Freeman, 1984; Näsi, 1995). In this study, we categorize stakeholders as internal and external, according to their relationship with the firm.

Internal stakeholders have a direct financial and legal stake in the firm. This group includes owners, managers, employees, and crucial sub-contractors. These relationships constrain the strategic thinking and options within the firm (Mason & Mitroff, 1981; Mitroff, 1983). However, external stakeholders who have various interests in the firm also constrain its strategic actions. For example, within the U.S., local, state, and federal governments set the formal rules for trade and business. Much of the stakeholder literature is devoted to examining these stakeholders and their influence on business and society (Carroll, 1994, 1995; Donaldson & Preston, 1995; Frooman, 1999).

In a manner similar to SWOT analysis, analysts can determine those stakeholders who support, oppose, or are ambivalent toward a corporate strategy by considering the array of relevant stakeholders’ potential for threat and cooperation (Freeman, 1984; Rowe, 1989). Each relevant stakeholder can be assessed according to its capacity, its willingness, and its opportunity to act (Savage et al., 1991). To make such assessments, analysts can evaluate the stakeholders’ power, identify their current corporate strategies, and develop plausible future scenarios (Mintzberg, 1983; Pfieffer, 1978; Rowe, 1989; Schoemaker, 1995).

The two dimensions—potential for threat and potential for cooperation—may be used to classify stakeholder relationships into four types (Savage et al., 1991). Supportive stakeholder relationships are low on potential threat but high on potential for cooperation for a given corporate strategy and, thus, possibly are the easiest relationships to manage. Such would be the case where the stakeholders’ resources are high in asset specificity and thus low in transferability (Williamson, 1975). Non-supportive stakeholder relationships are high on potential for threat but low on potential for cooperation (e.g., competitors); they are the most distressing for an organization to manage as it attempts to implement a corporate strategy. Mixed blessing stakeholder relationships are those with high potentials both to threaten or to cooperate (e.g., suppliers, buyers, employees, government); as we demonstrate later, these relationships are often of pivotal importance during the negotiations that typically are necessary for implementing corporate strategies. Lastly, marginal stakeholder relationships are neither highly threatening nor especially cooperative.

The United Airlines and US Airways M&A: A Stakeholder Perspective

The key stakeholders for the United Airlines and US Airways merger can be arrayed in terms of their relationship as supportive, mixed blessing, or non-supportive. The management teams for United Airlines and US Airways were involved in a complicated web of negotiations with their stakeholders. In addition, these stakeholders also were communicating with each other—not only through their agents, as assumed in traditional negotiation literature (Zartman & Berman, 1982). There were several coalitions of mixed-blessing stakeholders: the IAM and ALPA (employee unions); TWA and AMR Corporation; Continental Airlines and Northwest Airlines. However, one of the most crucial mixed-blessing stakeholders was the Department of Justice (DOJ).

The U.S. Department of Justice, as an external stakeholder, had a high potential both for threat and cooperation. It maintains and interprets the formal rules for business transactions. These rules help companies to minimize their transaction costs because of the stability they create to the society as whole (Williamson, 1975). Specifically, the Department of Justice power is derived from its decisions on whether merger agreements create monopolistic situations (USDJ 1992; USDJ 2000).

The employee unions’ role in UAL’s stakeholder negotiations were crucial for three reasons:

1. For the airline industry, employees are a key resource and cost;
2. Members of Airline Pilots Association (ALPA) and International Association of Machinist and Aerospace Workers (IAM) own over 50 percent of UAL Corp.; and
3. Unions have political influence as special interest organizations.

During the United Airlines-US Airways merger negotiations, ALPA and IAM played a double role. On the one hand, they supported the process as owners (ALPA 1999; IAM 2000) (Schurman, 2001). On the other hand, they used the merger process as a lever to gain concessions during their collective agreement negotiations with UAL (IAM 2001) (Schurman, 2001). Before ALPA reached an agreement in August 2000, its biggest concern was the change in pilots’ seniority ranking if US Airway were to be acquired (ALPA 2000).

All in all, because of the magnitude of the merger and the ongoing consolidation within the industry, UAL was attempting to expand its market presence. Its generic strategy for all of the mixed-blessing stakeholders was to collaborate with them. UAL had already made concessions to the government in order to minimize the fear of monopolistic competition. It has sold parts of US Airways to American Airlines. In turn, AMR has promised to begin services in some routes that would have been dominated by UAL. In addition, UAL was very careful with local communities, promising to maintain all major US Airway hubs (UAL 2000b; UAL 2000c). In implementing this collaborative strategy, UAL had found a willing partner in American Airlines. AMR seems to had been using similar strategies with its stakeholders to pursue its merger with TWA (UAL 2001) (Schurman, 2001).

DISCUSSION AND IMPLICATIONS

The purpose of this study was to link the negotiated order concept to inter-organizational decision-making level. Building on new institutional economics and stakeholder framework, our aim was to move toward an institutional theory of stakeholder negotiations. Our theoretical aim was to redefine the institutional environment of a firm through stakeholder analysis and vice versa. This approach provides the new institutional theory with a way to link macro forces with micro interactions, and to explain both organizational strategy and institutional change.

Our conclusions drawn from two parallel readings of UAL’s merger attempt with US Air, can be summarized to three propositions for further studies around the theme:

1. Organization is a negotiated organ. Consequently, organizations can be best conceptualized as a set of multilateral contracts among stakeholders.
   a) Organizations' Intra- and inter-organizational relations are dependent on on-going implicit and explicit negotiations (about agreements of resource allocation)
   b) Organization's relation with its stakeholders is constrained by implicit and explicit agreements.
   c) These agreements can be bilateral or multilateral, and informal or formal.

2. Stakeholders attitudes and possibilities to influence organizational decision-making are dependent on:
   a) their resource-based power position (RB theory; stakeholder theory) and
   b) their experiences in earlier negotiations (rule following decision-making; path dependence)

3. Agreements constitute a hierarchical set of rules in which the multilateral agreements are more expensive to change than bilateral agreements (because of transaction costs).

These propositions include a way to see an organization as a sum of several theoretical construction blocks. First, organizational decision-making is viewed as an agreement between an organization and its stakeholders. Secondly, these agreements are the results of implicit and explicit negotiations.

A key strategy to operationalize these claims is strategic stakeholder negotiation analysis. Strategic stakeholder negotiations involve typically a web of many simultaneous negotiations. The outcomes from these negotiations include processes that influence future rounds of negotiation. Stakeholder negotiations enact the institutional framework that constrains top management’s strategic possibilities. The crucial elements in this web of agreements are that they are the results of joint-decision making and that they will change over time. Thus, organizational decision-making is always a joint decision making process, where organizations interact with their institutional environment without knowing what actually are the rules of the game, and what game they are playing overall.
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