



# Social signaling and interorganizational relationships: Lessons learned from the professional sports industry

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**Abstract** In today's connected economy, interorganizational relationships are increasingly important. Whether government-to-government, political party-to-political party, business-to-business, department-to-department, or some other interorganizational pairing, these relationships can provide organizations with signals used to identify and better respond to changes in their environment and in their interorganizational relationships. This enables astute organizations to not only understand how others will interpret the social signals they send, but also to shape those signals in ways that will improve their interorganizational relationships. We illustrate this herein, using the public and readily recognizable relationships involved with labor relations in the professional sports industry. We show how social signals can explain the way organizations change and adapt to their environments, and how these changes send messages to related organizations. Finally, we provide a set of recommended advice for managers based on this case analysis.

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## 1. Signals: A broader role

In today's connected marketplace, interorganizational relationships are increasingly important for business success. Relationships provide organizations and their

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stakeholders with greater access to information. This information is often transmitted using signals, a cost-effective method for insiders to selectively send information to outsiders who want to know more about what is happening inside the organization (Connelly, Certo, Ireland, & Reutzel, 2011; Spence, 2002).

In business fields, signaling studies tend to focus on the deliberate communication of positive information that is specific to particular transactions (Connelly et al., 2011; Spence, 2002). For instance, within the field of corporate finance and stock offerings, researchers often examine the oral or written communication used to signal firm characteristics. However, information can also be transmitted unintentionally (Daily, Certo, & Dalton, 2005; Ryan, Sacco, McFarland, & Kriska, 2000) and can communicate intentions about future actions (Filatotchev & Bishop, 2002). In sciences ranging from anthropology to zoology, signaling mechanisms have been used to explain a wide range of social behaviors (Bird & Smith, 2005). Biologists observed that the chameleon survived because of its ability to change its appearance. Research has shown that the chameleon's color change is more than simply an attempt to camouflage itself (Stuart-Fox & Moussalli, 2008); rather, the color change sends signals to others about the chameleon's current state (e.g., ready to fight) or future intentions (e.g., desire to mate). Those social signals induce other chameleons to respond, often by changing their own colors. This social signaling process has enabled the species to adapt and survive as it evolves over time.

In a similar vein, when organizations change their profile, they are sending out a signal to others in their social network. Organizational ecology explains how organizations are open systems that adapt to and learn from their environment (Hannan & Freeman, 1977, 1987; Miner & Haunschild, 1995). As open systems, organizations are embedded within networks of relationships that are affected when one part of the network changes (Scott, 2003). Thus, the changes in one organization that result from its own evolutionary process act as social signals that can induce other organizations to change as well. In this way, social signaling is instrumental in affecting the ongoing evolution of organizations.

By not carefully considering how an organization's actions and signals might be interpreted by others, organizations may be sending unintentional signals that are contrary to their own interests. We propose that through multiple types of social signals and across many types of transactions, interorganizational social signaling can be used intentionally to shape both the evolution of organizations and their

relationships (Perkins & Hendry, 2005). From this broader lens, social signals can be used effectively in many situations beyond what is communicated with shareholders—including partners, groups of employees, and others (Connelly et al., 2011).

### 1.1. Social signaling in interorganizational relationships

When organizations share the same environment, they can be expected to experience similar forces (Heugens & Lander, 2009). In response to these forces, organizations become more homogeneous over time. This process, known as *isomorphism*, has been shown to result from three types of social forces: coercive, mimetic, and normative (Heugens & Lander, 2009). The aim of this study is to explain how social signals play an important role in the isomorphic process of organizational evolution and how the process functions over time. There are many types of interorganizational relationships in which this process may operate: government-to-government, political party-to-political party, business-to-business, and department-to-department. In this study, we draw upon the interorganizational relationship between labor and management.

The relationship between an employer and a labor union represents a situation in which two organizations are positioned in an interorganizational relationship that is based on mutual dependency with both compatible and competing interests. Each party needs the other (Aldrich, 2008), and because of the importance of this interdependency, each will become familiar with the structure and appearance of the other. The profile of each organization—that is, how it appears to the other organization—becomes part of a common understanding. This dynamic is similar to those found in other interorganizational relationships, like buyer-to-seller, manufacturer-to-distributor, and alliance partners, among others.

To demonstrate how social signaling operates in interorganizational relationships, we discuss various examples of actual institutional behavior from highly publicized and ongoing labor-management relationships in the professional sports industry. These examples are used to illustrate how social signals operate within the context of coercive, mimetic, and normative social forces. We show how changes in one professional sports organization sent social signals to others and how those signals were instrumental in effecting ongoing changes in the industry. This demonstrates how organizations in other industries could strategically use social signals to enhance interorganizational relationships.

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