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# Managing Stakeholder Relationships and Nonprofit Organization Effectiveness

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*This research examined how nonprofit organizations manage their relationships with stakeholders and how these practices relate to perceived organization effectiveness. We conducted semi-structured, open-ended interviews with executive directors of nonprofit organizations (NPOs) to discover whom they see as their stakeholders, the types of expectations they encounter from stakeholders, and the practices they use in managing stakeholder relationships. The two nonprofits that were evaluated as most effective used a consistent, thematic rationale in dealing with stakeholder issues: one organization discussed its actions in terms of its mission and core values, the other based its actions in terms of building relationships and networks. Our study suggests that organizations that ground their external relations in issues that are recognized as good nonprofit management, and do so consistently across stakeholder groups, will tend to be rated as more effective by multiple, external evaluators.*

**N**ONPROFIT ORGANIZATIONS (NPOs) face various types of accountability, including fiduciary, legal, professional, and an obligation to preserve and serve the public good (Chis olm, 1995; Hammack, 1995; Kearns, 1996). Consequently, they are subject to the expectations of not only formal authorities but also stakeholders such as the media, the general public, peer agencies, and donors (Kearns, 1996). While some types of accountability translate into clear expectations for nonprofit activity, for example, filing annual forms with the Internal Revenue Service, preserving and serving the public good can be interpreted in many ways (Mansbridge, 1998). Therefore, one of the tasks of stakeholder management is interpreting the nature of stakeholders' expectations and weighing the appropriateness of the expectations against the values and

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mission of the organization, the executives' professional norms, and the organization's own interpretation of the public good. Consequently, executives of nonprofits have some discretion in how they manage stakeholder relations.

Although the ambiguity of the public good yields discretion to nonprofits, nonprofits encounter multiple stakeholders with expectations of the organization, and according to the multiple constituency model of effectiveness (Zammuto, 1984), they assess NPO effectiveness according to whether their particular expectations are satisfied (Herman and Renz, 1997). In other words, effectiveness is based on the responsiveness of the nonprofit to stakeholder concerns (which could reduce NPO discretion). Empirically, there is some support for the positive relationship between stakeholder groups' assessments of NPO effectiveness and NPO responsiveness (Herman and Renz, forthcoming) as well as the practices NPOs use to manage stakeholder relationships (Ospina, Diaz, and O'Sullivan, 2002). This raises the question of how organizations manage responsiveness in order to promote perceptions of organization effectiveness.

In this article, we take an interpretive approach to examine how NPOs understand their environments and the practices they use in relating to stakeholders. Using multiple external evaluators to assess the NPOs in our sample, we examine the relationship between how nonprofits manage stakeholder relationships and assessments of NPO effectiveness. We use three organizations from our sample to show that NPOs that rely on a consistent, thematic approach to managing stakeholder relations are evaluated as more effective than organizations that use a less consistent approach.

### **Responsiveness and Accountability**

Nonprofit organizations typically operate in complex environments with multiple stakeholders, such as funders, referral agencies, government officials, volunteers, and clients or participants; for executive directors and staff, the board of directors is an additional stakeholder (Van Til, 1994). Stakeholders represent a source of uncertainty for nonprofit organizations, since NPOs typically require resources and legitimacy from their stakeholders, and these streams are not necessarily predictable or controllable (Bielefeld, 1992; Gronbjerg, 1991). Consequently, stakeholder relationships necessitate monitoring and managing. From the stakeholders' perspective, stakeholders assess their relationships with NPOs based on how well their expectations are met and how they are treated by the focal organization (Herman and Renz, 2004).

Responsiveness may be problematic when multiple stakeholder groups have varying, and sometimes conflicting, expectations of the nonprofit organization. In addition, stakeholders may want things that the nonprofit cannot provide or that it believes it should not provide. At the heart of accountability and responsiveness is the recognition

that organizations do not merely respond to their environment but may be proactive, making decisions in order to balance responsiveness to stakeholders with their capacity and resources and their beliefs about appropriate activity (Kearns, 1996; Oliver, 1991; Romzek, 1996).

Empirical work has begun to examine how NPOs strategically manage stakeholder relations (Alexander, 1996; Bigelow and Stone, 1995; D'Aunno, Sutton, and Price, 1991; Ospina, Diaz, and O'Sullivan, 2002; Tschirhart, 1996). Some of this work focuses on the use of balancing (Oliver, 1991); when organizations encounter conflicting pressures or expectations that are inconsistent with internal objectives, they try to find a compromise between the inconsistent expectations. For example, Alexander (1996) found that curators and funders often had different preferences in the types of exhibitions mounted by art museums. To deal with these conflicting pressures, museums shifted resources; they used donated funds to mount the popular or accessible exhibitions that funders preferred and the museums' internal resources to fund shows that reflected the norms of the professional art historian. In this way, museums simultaneously obtained necessary resources from the environment and retained their autonomy to mount exhibits that contributed to their legitimacy in the art world.

Ospina, Diaz, and O'Sullivan (2002) found that nonprofits viewed maintaining community relationships as essential for being perceived as accountable and legitimate by stakeholders. Nonprofit executives used multiple mechanisms to facilitate two-way communication between community members and the organization, such as conferences, advisory committees, member surveys to obtain input from community members, and newsletters and data sheets to reach out to constituents. The NPOs also regarded communication as an integral tool for educating and engaging community members in important community and policy issues.

Despite these efforts to examine stakeholder management, these studies do not typically tie stakeholder management practices to measures of organization effectiveness. Ospina, Diaz, and O'Sullivan (2002) discussed the stakeholder management practices of four successful NPOs. However, since they studied only effective organizations, we have little knowledge of whether less effective organizations use these practices as well; in these studies, we cannot distinguish between practices of effective and less effective NPOs. Consequently, we have limited information about how nonprofits' stakeholder-focused activities contribute to attributions of effectiveness.

Strategic management of stakeholders entails not merely responding to stakeholders but guiding the stakeholders' expectations and their evaluations of the NPO (Kearns, 1996; Oliver, 1991; Romzek, 1996). By influencing expectations so that they are aligned with the nonprofit's values, missions, and capabilities, nonprofits enhance the likelihood of being perceived as responsive to stakeholder needs and the public interest, and therefore as effective organizations.

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Another mechanism that may affect perceptions of accountability is the use of a consistent rationale or thematic approach in dealing with stakeholders. Consistency increases nonprofit predictability and decreases stakeholder uncertainty about the nonprofit organization. When the nonprofit is perceived as employing a consistent approach in its external relations, stakeholders may be better able to anticipate the dynamics of their interactions with the nonprofit. When the NPO subsequently acts in the way the stakeholder anticipated, it will more likely be perceived as accountable and responsive and therefore will be evaluated as more effective.

It is important to emphasize that consistency alone may not be sufficient for attributions of effectiveness. Organizations that are consistent in their rationale but act in ways that violate expectations of serving the public trust and the public interest may still be regarded as ineffective. According to Kearns (1996, p. 40), the public trust is defined as "being able to account for the organization's implied promises to its constituencies by pursuing its stated mission in good faith and with defensible management and governance practices." The public interest "involves diverse perceptions and values regarding public needs and priorities." We assume that a consistent, thematic strategy can influence stakeholder expectations, but it does not obviate the need for the NPO to substantively pursue its mission, serve clients, or provide services. Similarly, we are not suggesting that using a consistent rationale or thematic approach to stakeholder relations is a mechanism to manipulate stakeholder perceptions in order to avoid serving the public interest. Thus, we propose that nonprofits will be evaluated as effective when stakeholders interpret that they are serving the public interest, using behaviors that entail a consistent approach with them.

### Nonprofit Effectiveness

In conceptualizing and measuring NPO effectiveness, researchers have drawn on one or some combination of three major approaches: goal attainment; system resource, which emphasizes organizational resource procurement; or reputational, which associates effectiveness with the reported opinions of key persons, such as clients, other constituents, or service professionals (Forbes, 1998). In drawing on the work of Cameron (1986), Bies and Cowles (2002) have expanded this list of approaches to include additional models of effectiveness, such as internal process, legitimacy, fault-driven, and high-performing systems models.

A review of the effectiveness literature reveals a diversity of approaches in assessing nonprofit effectiveness and little agreement within the field about which objective measures best capture it (Forbes, 1998). In surveying the effectiveness literature, Forbes (1998) concluded that one of the newer, prevalent approaches recognized effectiveness as a dimension that is emergent or socially

constructed; organizational effectiveness is a negotiated outcome derived from repeated interactions between organizational actors and their environments. It is through interacting and interpreting the information that is transmitted that evaluators develop meaningful criteria to assess effectiveness that are specific to the context of the interactions.

Herman and Renz's research (1997, 2000) is based on and supports this social constructionist or emergent perspective. They assert that stakeholders judge organization effectiveness and that some stakeholders' judgments will have more credibility or influence than others. There is no widely agreed-on objective basis by which all stakeholders assess NPO effectiveness, although Herman and Renz (1998) found considerable agreement between evaluators in labeling particular organizations as highly effective; that is, there is agreement on what evaluators regard as high-performance NPOs. With less effective organizations, there was less interrater agreement. However, as Forbes (1998) points out, the research based on this approach by Herman and others fundamentally demonstrates that different evaluators understand effectiveness differently and use different indicators to make their assessments. Thus, the social constructionist approach is akin to the reputational approach, where reputation is based on the assessments of multiple evaluators.

The recent literature on nonprofit effectiveness emphasizes that multiple frames of reference and multiple criteria are used when assessing NPOs (Bies and Cowles, 2002; Herman and Renz, 2000, 2002; Miller and Faerman, 2002; Schmid, 2002). This perspective has been labeled the multiple constituency model. According to this model, different stakeholders have different expectations, and no one dimension of nonprofit performance influences effectiveness evaluations (Zammuto, 1984). In effect, effectiveness is a portfolio of performance dimensions, assessed by a portfolio of evaluators. Since this approach allows stakeholders to identify and use the dimensions of nonprofit performance that they think should be considered in evaluating effectiveness, issues of accountability and responsiveness are likely to be included as one of the relevant facets.

Ospina, Diaz, and O'Sullivan (2002) report that successful nonprofits address competing pressures from the stakeholders by creating formal and informal mechanisms to cultivate stakeholder relationships and to create win-win solutions. Besides Ospina, Diaz, and O'Sullivan, however, there is little research studying the relationship between stakeholder management behaviors and organizational effectiveness, as well as what organizations can do to enhance perceptions of responsiveness. By examining stakeholder management practices in three nonprofit organizations and multiple stakeholders' evaluations of these NPOs, we contribute to filling this gap in our understanding of effective stakeholder management.

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## Methods

Since relatively little is known about the range of practices that nonprofit organizations use in managing relationships with various stakeholders and how stakeholder management relates to perceptions of organization effectiveness, we used an inductive approach to data collection and analysis. We conducted semistructured, open-ended interviews with executive directors of fourteen nonprofit organizations that provide human and social services to residents of a large metropolitan area in the Midwest. They discussed the actors and groups they regard as their stakeholders, the types of expectations these stakeholders have of their organizations, and the kinds of practices they use in managing their relationships with these stakeholders. Interviews ranging from one hour to two and a half hours were tape-recorded and transcribed.

Since we interviewed only the executive director of each organization, we rely on his or her responses to questions about his or her actions as well as the actions of other individuals in the NPO. In reporting the results, we refer to the actions of the executive director and the actions of the organization, recognizing both that the executive director is an agent of the organization and that other individuals in the NPO engage in activities that contribute to managing stakeholder relations. Clearly, a richer, more extensive description of each organization and its stakeholder relations would be obtained by interviewing board members, other staff members, clients, or representatives of other stakeholder groups.

Our analysis focuses on three organizations chosen from our sample that consisted of four organizations from a pilot study and seven NPOs from a random selection of nonprofits in the local region. We initially selected a random sample of fifty nonprofit organizations, using the local United Way's Database of Nonprofit Agencies. Organizations included in this database were in the human and social services domain, had an annual budget of at least \$500,000, and were located within the city boundaries or one of the surrounding counties.

We then contacted six individuals who have extensive experience in and knowledge of the local nonprofit community and its social service agencies. Each of the individuals agreed to evaluate the effectiveness of local NPOs; evaluators were promised confidentiality about their ratings. The evaluators include a consultant to the region's nonprofits, an executive of the region's United Way, two recently retired corporate funders, a chief executive of a major health conversion foundation, and a leader of the region's philanthropic community. Each evaluator was sent a one-page questionnaire for each of the fifty-four organizations (the four pilot organizations and the fifty drawn in the random sample). The evaluators were first asked to rate how familiar they were with each of the organizations. Quantitative, closed-ended questions asked the evaluators to rate the

nonprofits in terms of the organization's overall effectiveness and on specific dimensions of stakeholder management, such as relating to funders, clients, and community members; financial resource development; and program and service provision.

Collectively, the evaluators were sufficiently familiar with the four pilot organizations and with fifteen of the fifty randomly selected NPOs. Evaluators were asked, "How well do you know this organization?" They indicated their answers on a seven-point scale, from 0 (Don't Know) to 6 (Know Very Well). In many cases, if the evaluator indicated his or her familiarity with the organization with a rating of 1 or 2, the person did not complete the remainder of the form. In the instances where he or she did complete the form after rating familiarity as 1 or 2, we omitted this rating, questioning the validity of the evaluation given the lack of familiarity. Given our constructionist approach to effectiveness, we divided the random sample into two groups. In the "familiar" group were organizations with which at least three evaluators were familiar (a familiarity rating of at least 3 by at least three evaluators). In the "unfamiliar" group were organizations that were unfamiliar to the evaluators (failed to receive a minimum familiarity rating of 3 by at least three of the evaluators).

One of these fifteen organizations was disqualified from the study because it had a new executive director who would not have been able to discuss how he had managed stakeholder relationships for that organization. A letter was sent to each of the fourteen familiar organizations, informing them of the study and asking for their participation. To encourage participation, organizations were promised anonymity, confidentiality, and feedback about managing stakeholder relations effectively. Interviews were conducted with seven organizations, yielding a response rate of 50 percent.

For the analysis, we selected the two organizations with the highest evaluations in terms of global organization effectiveness and effectiveness in dealing with various stakeholder groups and the organization that was rated as least effective within this sample. (We selected only one organization to represent less effective stakeholder management because, in reviewing the effectiveness ratings of all the NPOs in the sample, one was conspicuously rated lower than the rest.) Organizations at the extremes were selected to highlight the differences in stakeholder management between effective and less effective organizations. The characteristics of these three organizations are in Table 1. These organizations are similar on several dimensions. All three organizations are human service providers and provide individualized long-term or residential treatment. Each of the organizations has a long-term presence in the community; each has been in existence for at least forty years. Each has a moderate-size board of directors ranging from thirty-one to forty members. Of the two highly effective organizations, one provides residential services to children at risk, and the other provides nonresidential treatment for children. The less effective organization is a residential

**Table 1. Comparison of the Three Case Study Organizations**

	<i>Nonresidential Children's Center</i>	<i>Residential Children's Center</i>	<i>Residential Recovery Facility</i>
Mean global effectiveness <sup>a</sup>	5.2 (SD = .84)	5.2 (SD = .84)	4.33 (SD = .58)
Mean effectiveness in dealing with funders <sup>a</sup>	5.2 (SD = .84)	5.6 (SD = .55)	3.0 (SD = 0)
Mean effectiveness in dealing with the community <sup>a</sup>	4.8 (SD = .84)	5.4 (SD = .55)	3.67 (SD = 1.15)
Mean effectiveness in dealing with clients <sup>a</sup>	5.25 (SD = .96)	5.0 (SD = 1.15)	5.0 (SD = 0)
Mean effectiveness in providing programs and services <sup>a</sup>	5.6 (SD = .55)	5.2 (SD = .84)	4.67 (SD = .58)
Mean effectiveness in developing financial resources <sup>a</sup>	4.8 (SD = .84)	5.6 (SD = .89)	3.33 (SD = .58)
Number of raters	5	5	3
Organization age	104 years	167 years	41 years
Board size	31	36	40
Annual budget (2002)	\$2.8 million	\$7 million	\$700,000

<sup>a</sup>Effectiveness measured on six-point scale, 1 = low effectiveness, 6 = highly effective.

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facility that provides services to people recovering from alcohol and other substance abuse.

## Results

The effective organizations were similar in that they both consistently adhered to a particular rationale and approach in dealing with their stakeholders. In contrast, the executive director of the recovery facility discussed (1) the need for the organization to repair damaged stakeholder relationships, (2) difficult encounters he had with an inflexible board of directors, and (3) a client community with expectations that the executive director thought were unrealistic. Although he tried to address each of these situations, a consistent approach or rationale was not apparent.

### Nonresidential Children's Center

The overall approach of this organization and its executive director to stakeholder relations was driven by the organization mission. The executive director stated, "Mission and core values are where everything begins for us. That's where everything begins with our external relations with board, with stakeholders, with donors. It's kind of the stake in the ground that drives everything here." In fact, the



executive director even defined stakeholders in reference to organization mission. He stated, “Stakeholders are anybody who has made a significant commitment to the mission of the agency.” Indeed, in this organization, responsiveness to stakeholders is accomplished by adhering closely to mission: “I think managing stakeholders is really about just being very clear about who you are, what you believe in, what you’re going to do—that the mission drives everything. And you’re very clear about what your competencies are and what you can and can’t do. And you’re very clear about what you expect in return.”

In discussing how he manages his relationship with the board of directors, the executive director claimed he plays a central role in selecting board members. In addition, the selection process is very deliberate in terms of finding the right individuals to provide what is needed and who will be passionate about the organization mission. He stated:

It’s a very intentional process. Most of my contemporaries that I watch build boards—there are some extraordinary people. But a lot of folks are just looking for warm bodies. To pursue your goals, you start with the board. Who’s on your board, how deep are their networks, are they networked? We have a marvelous board right now, a generous board, a board that has created an incredible strategic plan. The board has come to the realization that while they have created an extraordinary vision, its realization is beyond them, financially. They don’t have the networks of the personal wealth. So the board has said, “The first thing we need to do is go get the people with the deep pockets and the deep networks and put them on the board. If that means I have to step down to realize that, okay. That’s how passionate I am about the vision.”

This NPO collaborates with other organizations on several different projects. The executive director talked about how he selects and puts together collaborative projects: “Some of it is intuitive, some of it is just luck, but a lot of it is I know where I want to go. I’m not grabbing at any opportunity; I’m grabbing only those opportunities that will move me toward where I want to go.” He described how he created a three-year \$2 million alliance with a large corporation:

We knew what was in it for them. They were buying 104 years of experience and expertise and a powerful brand in this marketplace, and a strong reputation. What was in it for us? We had to be very clear about why we were going into this. We ended up with about fifteen benefits and three or four negatives and then had to have a discussion at the board level. Do we want to get married to them? Here are the pros, here are

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the cons. Turns out the pros leap us forward about five years on our strategic plan on the mission, the constituents to be served, all of that. We need to manage the three or four negatives. But everything else seemed to work. Are these the right people, do they have some competencies that complement ours, do they have the resources to make this go, do they seem to have a long-term commitment, are the missions the same? Is this moving us toward our point on the horizon, or is it moving us toward something else?

In another example of collaboration, this NPO is involved in a project with other organizations in a public housing complex. The intent of the project is to “create kind of a seamless system of youth development and opportunities for kids.” In discussing how he deals with the expectations of the clients, he said:

We're a youth-serving agency, but the first thing we hear is “lighting is terrible here. It breeds crime. The housing authority is intransigent. We can't work with them.” Well, we said, “Those are your issues; they're not youth development issues. They're legitimate, but they're not our work. Our work would be building your capacity to have a sense of power and influence to get those things changed.” We could have gotten all that stuff remedied overnight through our connections. But then, if we're gone, what value have we added to that neighborhood? This is that stake in the ground. It's really about getting all of those stakeholders—the funders, the parents, and the kids—aligned around a common vision about what we want for these kids in this neighborhood. From the start, you need to be very honest and straightforward about which expectations you can meet.

The executive director related another situation that illustrates consistency in the organization's mission-dominant approach to various stakeholder groups, including funding sources, elected officials, and the board of directors:

What we want to do is attract and establish relationships with stakeholders where the stakeholder and the expectations of the stakeholder don't cramp our style. What we've got with government funding streams is that the reporting requirements. . . . Here we could get \$44,000 per year from the Department of Health to run some teen programs in the public housing project. That entails two two-day meetings per year in the state capital, one full-day meeting here in the city with about six of them and four of us, monthly reports, quarterly summaries—for \$44,000 per year. If I've got the right board of trustees, I know three

people I can call and get \$44,000 a year. What you begin to do is say we're gonna have relationships with government entities where there's so much money involved over a longer period of time that it's worth that kind of accountability. The level of accountability has got to be cost-effective. To compete for that grant and get that grant and then be accountable for that grant probably costs 25 to 30 percent of the value of the grant, which means that's money not going into the kids. We got a big, multiyear half-million-dollar grant from the Department of Justice for that same neighborhood. I got that because of our congressman and our senator. And I got to them through some of their major donors. So that's where I would rather play the game. That's a number at the level that I don't mind going through all those hoops. Because there's still plenty of money left for the kids.

Overall, this executive director summarized his approach to stakeholder relations in reference to the primacy of mission: "We compromise on tactical things all the time. But if you're talking about strategic things or mission things, we don't compromise. When it suits our ends, we're happy to compromise. But if we can't see where it suits our ends, why would we?"

### Residential Children's Center

The rationale behind the management of stakeholder relations in this organization centers on cultivating relationships in order to recognize and seize new opportunities as well as to maximize responsiveness to stakeholder expectations. The executive director said the purpose of building relationships is so that "we hopefully are staying current in the minds of entities with whom we'd like to be partnering, one way or another. And if there are screw-ups, which there will be, that is not our intention. There are ways we will try to address whatever it is."

Cultivating external relationships takes many forms and targets various groups, such as the board of directors, funders, and government officials. In dealing with donors, the executive director said:

We struggle every year with how to recognize our donors. As a group, our donors don't come to functions on the campus. We want them to come to campus because if they're here and they see what's going on, it's much easier for their involvement to increase. We try to do things that are very enticing to our group of funders. We don't go to somebody's house and have champagne. We like to have our donors come here and some of the kids read poetry that they've written. We really try to know who the constituent group is and what will speak to them.

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The board of directors also receives much consideration from the executive director and senior staff since the board members are the “ones who in some ways cause things to happen here and cause relationships with the rest of our stakeholders.” The executive director uses different mechanisms to engage board members and cultivate the relationship with the board. The executive director said that she and the staff

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try very hard to make sure that it's the board that gets the credit for the good things that go on here. And certainly causing the board members to feel good about their involvement here, is just about my highest priority since that's the way their involvement grows. . . . It's constant communication with the board, individually and collectively. Ninety percent of the board now loves e-mail. There are those who like very regular communication about everything. There are others who don't. It's knowing what things they want or how they want to be involved, at what level they want to be involved. And then pointing out the things that they have a right to feel good about here.

To cultivate relationships with a variety of community stakeholders, the organization is hosting an upcoming event for the business community's association for facilitating growth and development in the region. She said:

This is a great coup. It has taken us about two years to get them to agree to have this here. Usually it's at the airport or a hotel. Why are we doing this? Because that cultivates a really wide source of support—hopefully media, potential board members, potential corporate contacts of other kinds. As soon as we knew they were coming here, because it's during the United Way campaign, the next call was to United Way—why don't you make this a campaign event? So whatever we screw up with United Way a month from now, they know that we are going to be trying to do things that help their case as well.

In this example, the organization is cultivating relationships to attract new possibilities and to foster goodwill with current stakeholders in the case of future misunderstandings. In taking these steps, the organization appears responsive to stakeholder groups.

Ultimately, this executive director recognized that relationships that have been developed help in crisis management and responding to stakeholder concerns. She stated:

A few years ago, we had a very, very serious staff incident. Even before we know the extent of the seriousness, there's a

list of people that I'm going to call to say, "I want you to know this is going on. Here's what we're doing about it. Here's my home number if you have questions." So that if we know that there are things that those who have responsibility for monitoring us would not feel good about, I would much rather they hear that from me than from any other source. A few years ago, there was a person wanting to volunteer here who was clearly a person with a mental illness. After we had made clear to her she wasn't going to be able to volunteer here, she went to extraordinary lengths to communicate with United Way and the legislature and every board member she could find an address for. I had no idea she was doing this until I started getting all these interesting phone calls. And she presented very well. It was not that she was immediately a crackpot. One hopes that these relationships that have been developed over time mean that (1) people will call me immediately and (2) people will start their filters going. I remember the call from the United Way person that day who said, "We know this is off base; we know how you run your volunteer program. Just give me what I need."

The executive director recognizes that cultivating relationships with stakeholders facilitates the organization's ability to be responsive to stakeholder concerns. From previous interactions and experience with one another, communication lines are available, and the executive director can learn about what those expectations are and when those expectations have been violated. Ultimately, stakeholders are likely to give the organization a chance to respond to their concerns, avoiding an immediate and negative snap judgment.

### **Residential Recovery Facility**

In contrast to the focused adherence to a particular rationale or approach to stakeholder relations in the examples of effective organizations, this case illustrates strained and ambiguous relationships and expectations between the organization and various stakeholders, including the board of directors, referral agencies, volunteers, and the client community. In each of the situations this executive director discussed, his comments suggest that although he tries to address the ambiguity and constraints, he does not reduce conflicting expectations or eliminate constraints that impede responsiveness to stakeholder concerns. For example, in discussing the organization mission and the client population, the executive director said:

There's a little bit of difference in perception in what our board thinks we do and what the staff actually does. Our primary focus is on alcoholics. However, we view most people today as polysubstance abusers. Rarely do you get the true

alcoholic. Most often, some other drug is the drug of choice, but alcohol is their gateway drug. A significant portion of our board is in recovery, and a lot of them who are older are pure alcoholics. I don't think they understand the concept of the younger users of today. The program director and I try to educate them . . . pretty much by saying the reality is we don't get the pure alcoholic. Or if you want us to really stick to that, then we're not going to be able to accommodate thirty men or twenty women because they're not out there. Sort of unsaid on both sides.

The executive director also feels constrained in his activities because of the nature of alcoholism and the organization's adherence to the twelve steps of Alcoholics Anonymous, which limits the kind of publicity available to the organization. The executive director stated:

Chances are if you walk up to a person on the street with no ties to the recovery community, they would have never heard of [this organization]. This gets back to society's perception of alcoholism—that it's a character flaw, not a disease. Poor Uncle Louie, that's his problem. Then also, one of the concepts of AA is that AA does not seek publicity. You'll never see a billboard that says, "Come to an AA meeting. Got a problem? Call AA." You'll never see that. So we've been hampered somewhat. If the board wants us to grow and meet the goals of the long-range plan, which ultimately calls for more facilities, then we have to take our message to the general public. And some people are uncomfortable with that.

The executive director discussed problems with getting the organization's message to the media in order to get some indirect publicity:

We're the last program of its type left in [this city]. Even though the public may not have this outcry that we stay, they have a stake in us being here. They just don't realize it yet. We tried like heck to get some publicity on TV and radio and in the newspaper. They keep saying to us, "Tell us what's new." The only new thing we can really come up with is pretty soon there's not going to be anyone like us. Can we say we've created a new program that's attractive to the new media? We haven't come up with a way to say it yet. Not that we haven't tried. It's a real challenge.

The executive director spoke about having to repair relationships with stakeholders, such as with a referral agency and with a service provider:

When I got here, I looked back and I noticed the Veterans Administration had been sending us clients. They pay a higher fee than we charge our clients. And the last year or two before I got here, there were virtually no referrals. So I called them up and said, "I'm the new director, we have a new program director, we'd like to introduce ourselves." They said, "Gosh, we've been trying to get someone to contact at [the organization] for two years. We'd love to send some of our clients." There's a hospital in town that sends a nurse over. No one had ever gone over there to say thank you. When the nurse comes in, no one had given her [an organization] coffee cup. As a result of going over there, we found out that they have a sliding-scale fee schedule, and most of our residents can go over there and get any type of health service. Before, we had people who may have needed diabetes medicine and weren't getting it because they didn't know where to go. We had to go back and reestablish relationships with all these organizations, and we probably still have some work to do.

These comments suggest that because of lapsed relationships, responsiveness to stakeholder needs and expectations (both clients and service providers) could have been better.

This executive director discussed circumstances in which the organization was unable to meet the interests of the recovery community, an important stakeholder group for this organization. The executive director said:

The recovery community—people in AA—would like us to have all sorts of social events at minimum costs so they can come and hang out. It might take forty hours of preparation to have a picnic that we gross a thousand dollars on. To me, that's not worth forty hours of work because you can spend forty hours of work on a different project and gross ten thousand dollars. In another scenario, we have all these people who want to volunteer at [the facility], and we can't accommodate them. If they'd come down and fix the roof, that would be wonderful. But they all want to get involved in education. The reason we got these volunteers is that last year, one of our board members said, "Oh, we ought to have a picnic and recruit volunteers." I said, "That's great, as long as we have something for them to do." The board member said, "No, no. We gotta have this, let them know [this organization] is here."

I choose my battles carefully. We had the picnic. We expected thirty-five volunteers; eighty showed up. A year later at the board meeting, the big thing was why hadn't I found something for all those volunteers to do. The recovery

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*These comments suggest that because of lapsed relationships, responsiveness to stakeholder needs and expectations (both clients and service providers) could have been better.*

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community wants us to cater to them. Our golf tournament used to cost a hundred dollars. Last year it cost two hundred dollars. Now people are saying the recovery community is upset that the price of the tournament was raised. The purpose of the tournament is not to accommodate the recovery community. The purpose is to raise money to operate the organization.

From this description, the executive director appears unresponsive to the expectations of the recovery community, which include potential volunteers, donors, and members of the board. However, from the executive director's perspective, members of the recovery community want things that the executive director believes are not in the best interests of the organization. The executive director was unable to convince these stakeholders that what they were asking for would put the NPO in a worse position to meet its goals or what he was suggesting was in the best interests of the organization.

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*This research helps to build a nascent body of literature suggesting that external relations contribute to evaluations of effectiveness.*

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## Discussion

This study examined how nonprofit organizations manage their stakeholder relationships and whether their practices contribute to organizational effectiveness. We adopted an inductive research methodology, and the data suggest that when executives used a consistent or thematic approach in dealing with their varied stakeholders, the organization was perceived as more effective. The organization in which a consistent or thematic approach was not apparent was evaluated as less effective.

However, consistency is not the only characteristic that differentiates the effective cases from the less effective organization. The theme underlying the consistency may be critical to how others evaluate the organization. The executive director of the nonresidential children's center spoke about adhering to the organization's mission and core values as a rationale for dealing with stakeholders with respect to developing and implementing programs, raising funds, choosing board directors, and selecting organizations with which to collaborate. The executive director of the residential children's center discussed the importance of cultivating relationships with stakeholders and, like Ospina, Diaz, and O'Sullivan (2002), recognized the importance of developing channels for two-way communication. Adhering to mission and cultivating stakeholder relationships are recognized as best practices in the nonprofit sector (Drucker, 1990). Thus, the data suggest that what distinguishes the effective from the less effective organizations may be both the tenacity of these organizations in using a focused rationale and the basis or substance of the rationale.

This research helps to build a nascent body of literature suggesting that external relations contribute to evaluations of



effectiveness. While existing literature debates the use of correct procedures and successful outcomes (goal attainment) to indicate organizational effectiveness, new literature (Herman and Renz, 2004; Ospina, Diaz, and O'Sullivan, 2002) is pointing to stakeholder and external relations management as a source of effectiveness. External relations have always been important for nonprofit organizations, since NPOs rely on external sources for resources (funding, volunteers, members, and board members) and legitimacy. With the increase in collaborative arrangements, as nonprofits work with other organizations (Abramson, Salamon, and Steuerle, 1999; Salamon and O'Sullivan, 2004), managing external relations becomes even more important. When dealing with a variety of stakeholders with different expectations and different criteria for effectiveness, understanding how nonprofit executives should handle accountability relationships and responsiveness becomes even more urgent. This research suggests that using a consistent and substantive approach may be a useful tool for enhancing stakeholder perceptions of organization effectiveness.

Although the executive directors primarily discussed dyadic stakeholder relationships (between the NPO and a particular stakeholder group), they recognized the interconnectedness among their stakeholders. That is, the stakeholder groups are not isolated from one another. These NPOs are embedded in communities in which stakeholders communicate directly or indirectly with each other, without the NPO itself acting as gatekeeper of that communication. These ties facilitate communication about perceptions of the NPOs across the various stakeholder groups. The interconnected network of stakeholders within the community was particularly relevant for the executive director of the residential center for children at risk. She knew that at some point, there would be rumors of mistreatment of a child at the center. The stakeholder network would circulate both the rumor and personal reactions. Therefore, this executive director cultivated relationships with these stakeholders as a means to preempt a crisis and as a way of mitigating a crisis should one develop. Developing relationships and trust with stakeholders was a strategy for developing social capital that would be augmented as the stakeholders communicated among themselves.

In the context of a nonprofit community embedded in an interconnected network of stakeholders, a consistent, thematic approach may be of great utility for managing stakeholder relationships. By maintaining consistency in their relationships across stakeholder groups, the information exchanged among stakeholders about the NPO would be more likely to appear congruent. One stakeholder's experience with the NPO would be compatible with that of another stakeholder. This consistency would support a generalized perception that the organization acts in a reliable, accountable way. However, this conclusion clashes with the implications that Tassie, Murray, and Cutt (1998) draw from their research. They suggest that

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*A consistent, thematic approach may be of great utility for managing stakeholder relationships.*

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since evaluators have different criteria for assessing effectiveness, nonprofits may find it useful to learn about the criteria each evaluator uses and then present the image that is appropriate for the situation. To reconcile these disparate conclusions, we suggest that overt image management may be more effective in a setting where there is little interaction among stakeholders. However, in an environment where many involved in the nonprofit community come into contact with each other in a variety of contexts, acting as a juggler may foster the exact opposite result of what was intended: instead of being perceived as meeting criteria for effectiveness, the organization could be seen as duplicitous, with little accountability.

### Future Research

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*According to McClusky (2002), the board serves as a two-way link between the [organization and its environment].*

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The nonprofit literature recognizes that in effective NPOs, there is a strong, supportive relationship between the chief executive and the board of directors (Knauff, Berger, and Gray, 1991; Herman and Heimovics, 1994). Indeed, some of the comments in the interviews in this study show that the executive directors of highly effective NPOs recognize the board of directors as a key stakeholder and work to get the board involved in pursuing the organization's mission. Harlan and Saidel (1994) suggest that the board of directors should play a vital role in the organization's external relations as a boundary spanner between the organization and its environment. According to McClusky (2002), the board serves as a two-way link between the two. Its members can serve as both "ambassadors" and "antennas," positively representing the organization to a wide variety of constituencies and bringing important views, beliefs, and perceptions from those constituencies back to the organization (McClusky, 2002). These initial findings suggest the need for future research that examines how executive directors use members of the board to build relationships with other stakeholder groups and how board involvement affects stakeholders' perceptions of effectiveness.

We recognize several limitations to this research. First, this is a snapshot description of these NPOs' practices at one point in time. Consequently, it is unclear whether these organizations were effective because they used a consistent and substantive approach or whether they could use this type of approach with stakeholders because they were already regarded as highly effective. A longitudinal study could highlight the causal ordering between the consistency and effectiveness of stakeholder management in NPOs. Second, in order to provide a rich, empirical description of the organizations we studied, we limited our presentation to three organizations from our entire sample. Furthermore, we did not control for mission area, stage in life cycle, or ethnic/racial composition of the staff, board, and members. Because of these characteristics, care should be taken in generalizing from the findings of this study. Future research of stakeholder management is needed to strengthen our conclusions.

This research contributes to our understanding of nonprofit management and leadership by demonstrating that stakeholder management practices may contribute to perceptions of NPO effectiveness. While external relations are becoming more important for NPOs, research that informs us about effective stakeholder management is minimal. This research suggests that in a community in which information among stakeholder groups is shared, dealing with stakeholders using a consistent rationale based on serving the public trust is perceived as a part of effective nonprofit organization management.

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