



In Search of a Stakeholder Management Theory for Third Sector Organizations¹

Em Busca de uma Teoria de Gerenciamento de Stakeholders para Organizações do Terceiro Setor¹

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ABSTRACT

This paper aims to contribute to the extant stakeholder theory by providing some first steps and guidance about the importance of the external environment in the decision-making of third sector organizations. Resource dependence, institutional theory and stakeholder theory provides the analytical basis for the investigation. A constructivist ontological approach guides the investigation, which has been carried out using the action research approach. Data has been collected by interviews, focus groups and participant observation. The whole set of texts (documents, transcriptions and reports) are analyzed by content analysis. According to the results, there are some very strong stakeholders able to exert influence upon third sector organizations, to which it has to dedicated attention in order to meet their expectations. The strongest stakeholders are those in charge of managing the organization and those who provide financial resources to it. As a single case study in which the theory testing process is uppermost, the evidence gathered provides interesting insights for posterior research given that both theoretical and methodological frameworks have been tested. The investigation enlarges extant knowledge about stakeholder theory in proposing a model for mapping stakeholder influences on third sector organizations, originally devised for other situations.

Keywords: *Stakeholder analysis; Third sector organizations; Resource dependence; Action research*

RESUMO

Este artigo tem como objetivo contribuir para a Teoria dos *Stakeholders* fornecendo informações sobre a importância do ambiente externo na tomada de decisão em organizações do terceiro setor. As Teorias da Dependência de Recursos, Institucional e dos *Stakeholders* fornecem a base analítica para esta pesquisa. Uma visão ontológica e construtivista conduz a investigação, que foi perpetrada por meio do método da pesquisa-ação. Os dados foram coletados por meio de entrevistas, grupos de foco e observação participante. O conjunto de textos colhidos (documentos, transcrições e relatórios) foram avaliados por meio da análise de conteúdo. De acordo com os resultados, existem alguns *stakeholders* que são considerados como capazes de exercer influência em organizações do terceiro setor, para os quais a mesma deve dar atenção e preencher suas expectativas. Os *stakeholders* mais fortes são aqueles responsáveis pela gestão da organização e aqueles que fornecem recursos financeiros à mesma. Como um estudo de caso único, onde o processo de testar uma teoria se torna mais

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manifesto, as evidências observadas nesta pesquisa apresentaram algumas percepções para pesquisa futura, via o escopo em que ambos os contextos teóricos e metodológicos foram testados. A pesquisa expande o conhecimento teórico atual acerca da Teoria dos *Stakeholders*, já que propõe um modelo para mapear as influências de *stakeholders* para organizações do terceiro setor, considerando que foi desenvolvida para outras situações.

Palavras-chave: Análise de *stakeholders*; Organizações do terceiro setor; Dependência de recursos; Pesquisa-ação.

1 INTRODUCTION

Since Ed. Freeman proposed the tenets of Stakeholder Theory (Freeman, 1984), originally for for-profit organizations, several scholars and practitioners have been dealing with this concept in order to figure out opportunities and threats for public, private and third sector organizations. At the first moment, the endeavor was to pinpoint actors able to influence the decision-making of such organizations. At that time, scholars focused their attention on understanding who was supposed to be regarded as a stakeholder (Agle, Mitchell, & Sonnenfeld, 1999; Gomes & Gomes, 2008; Mitchell, Agle, & Wood, 1997), the nature and size of the stakes external agents held with organizations and the extent to which this might alter performance and behavior (Bryson, 2004; Mitchell *et al.*, 1997; Gomes, 2009; Mattingly, 2004; O'Higgins & Morgan, 2006; Walls, Berrone, & Phan, 2012, Wolf, 2014).

Following upon this, there were efforts to adopt the ideas, concepts and methods of stakeholder theory in public and non-for-profit organizations. While initially the idea was to make sense of the influences exerted in order to promote development and profits (Berman, Wicks, Kotha, & Jones, 1999), in the public organization domain, the main idea was to avoid threats and to exploit opportunities dealing with stakeholder influences in an advocacy coalition context (Walker, Damanpour, & Devece, 2011). Stakeholders were seen as external social actors likely either to represent an opportunity or a threat for public and third sector organizations (Gomes, Liddle, & Gomes, 2010a; Taylor & Taylor, 2014). Worthy of mention here is the importance of stakeholder strategies for the effectiveness of public sector organizations, as defended by Sauerbronn and Sauerbronn (2011), for whom stakeholder analysis is of foremost importance for the understanding of Corporate Social Responsibility.

After the new public management wave, when governments all around the world decided to allow the private sector room for helping the public sector deliver public services, stakeholders became a regular word in the academic and practitioner vocabularies due to the power of the concepts within which it is embedded for helping map out arenas of power and relationships (Gomes & Gomes, 2009, Gomes, Liddle & Gomes, 2010b). We already know that public organizations like private organizations, deal with their external and internal environments trying to acquire needed resources (Park & Rethemeyer, 2012; Parsons, 1951; Pfeffer & Salancik, 2003; Verschuere & De Corte, 2014) and legitimacy for their actions (DiMaggio & Powell, 1983, Meyer, Egger-Peitler, Höllerer, & Hammerschmid, 2014). We also know that public officials deal in a regular basis with agency dilemmas and that sometimes their agenda does not match that of their constituencies (Jorissen, Lybaert, Orens, & Van Der Tas, 2014; Ryan & Schneider, 2003). In this sense, stakeholder theory has been gaining more and more legitimacy and space for helping managers of all kind of organizations to understand the environment in which they operate (Reed, 2008, Rhodes *et al.*, 2012).

Despite being well established in other domains, stakeholder theory is still little used for empirical investigation in the third sector. One example of such research is Fletcher, Guthrie, Steane, Roos and Pike (2003), who studied The Australian Red Cross Blood Service

to understand the value dimensions of this organization from an external stakeholder perspective. Mason, Kirkbride and Bryde (2007) employed stakeholder and stewardship theories to set out the current theoretical landscape of social enterprise governance. In a recent paper, Morgan and Burchell (2010) sought to understand the views of employees in a UK company on an employee volunteering scheme. According to the evidence collected in a literature review with the most important databases, more studies in this field are needed before we have a general stakeholder theory for the non-for-profit sector.

This paper aims to present empirical evidence by testing the feasibility and helpfulness of stakeholder theory for managing this particular type of organization, which has become more popular with the advent of the third way (Lonti & Verma, 2003). Evidence came from an inductive and interpretive investigation carried out with a third-sector organization from Brazil, in which stakeholder influence has had considerable impact. Data was collected by participant observation, a set of focus groups and unstructured interviews. The organization investigated operates in connection with a public organization dedicated to higher education in Brazil.

The principal questions this paper aims to address are:

- Who are the main stakeholders for a third-sector organization?
- How do stakeholders exert influence upon this sort of organization?
- How should third sector organizations manage these influences?

In order to address these questions, the paper is structured as follows: the next section presents the theories upon which the analysis will be based. This is followed by sections detailing the research methods employed in the investigation, outlining the findings and presenting the conclusions.

2 THEORIES THAT UNDERPIN STAKEHOLDER THEORY

From the open system view, an organization behaves in accordance with influences exerted by the technical and institutional environment in which it operates (Scott & Davis, 2007). As a social system, the most evident source of influence exerted upon organizations is likely to be people, groups and other organizations that engage with them in relationships in search of trade and advantages. Freeman (1984) offered the concept of stakeholder as a mean for operationalizing these influences exerted upon an organization by those external agents. Oliver (1991) argued that the best way to understand the influences of the technical and institutional environments is by employing the principles of the resource dependence and institutional theories. Hill and Jones (1992, p. 152) argued that the relationship between organizations and their stakeholders are likely to be explained by the stakeholder-agency theory to the extent that it “points the way towards a theory of the adjustment mechanisms that realign management and stakeholder interests.”

2.1 Resource Dependence Theory

As an open system, an organization needs resources and has to negotiate with people, groups and other organizations that own these resources. Depending on the importance of these resources to the organization, this process can lead to a dependency relationship within which resource suppliers are able to exert influences over the organization (Pfeffer & Salancik, 2003). The higher the relative importance of the resource for the organization, the more attached to this supplier the organization will be. Resource Dependence deals with how organizations cope with these dependence relationships in order to survive and retain their autonomy. As Oliver (1991) argued, an organization needs to be aligned with its technical

environment in order to be able to cope with interdependencies and power. The better fitted with its technical environment an organization is, the more likely it will be to survive and prosper (Pfeffer & Salancik, 2003).

Pfeffer and Salancik (2003) argued that dependence is a measurement of how important resource suppliers are to an organization. This measurement might influence the position of the resource supplier in the organization's strategic plan. In their view, any component of the technical environment should be, to some extent, important for the organization's survival. It is critical to know how important each one is.

2.2 Institutional Theory

Scott (1998) argues that environmental pressures that make an organization conform to the social and cultural worlds are central to the institutional theory. Within institutional influences, there are some invisible pressures on the organization to adhere to taken-for-granted rules and norms (Oliver, 1991). Meyer and Rowan (1977, p. 41) argue that, "formal organizations are complex networks of technical relations" in that organizations are induced to incorporate taken for granted "rationalized concepts of organizational work and institutionalized in society". These pressures result from the selection process and only adapted organizations will survive (Hannan & Freeman, 1977).

Organizations often feel threatened by the prospect of being selected out and they choose to be isomorphic with other successful organizations (Hannan & Freeman, 1977). DiMaggio and Powell (1991, p. 66 as cited Hawley, 1968) defined isomorphism as "a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions." For this reason, and being constrained by similar environmental forces, organizations begin to look like each other (Orrù, Briggart & Hamilton, 1991, p. 362).

According to the literature review above, one can link Resource Dependence and Institutional theory together because they focus on different aspects of interorganizational relationships (Oliver, 1991). Resource dependence focuses on the connections created by resource capture and maintenance. At the other end of the scale, institutional theory focuses on the political and moral aspects inherent to this type of relationship. In short, they are two sides of the same coin that are brought together in order to depict the whole picture on how organizations relate to each other.

2.3 Stakeholder theory

Freeman (1984), in a widely quoted book within stakeholder theory, argued that stakeholders are people, groups and organizations that have some interest in an organization's success. They have power to influence the organization's behavior and performance and they are affected by the organization's operation and outcomes (David, 1995).

Freeman (1984) suggested a stakeholder analysis process for scanning the organization's external environment in order to identify opportunities and threats as well as to improve the exercise of the organization's value judgment. To this end, he proposed that a map of the main external agents who are likely to influence or be influenced by the organization should be drawn up.

Bryson (1995) argued that, besides looking for external opportunities and threats, an organization's objectives are also defined by looking at its internal strengths and weaknesses. Furthermore, some sort of balance needs to be sought between the organization's objectives

and the diversity of its stakeholders' interests due to resource limitation (Greenley & Foxall, 1997).

Strengthening the arguments above, Pfeffer and Salancik (2003, p. 43) argued: "Organizations could not survive if they were not responsive to the demands from their environment. On the other hand, if an organization responds completely to environmental demands it would not survive as well."

2.4 Stakeholder-Agency Theory

Agency theory is likely to help to explain the relationships between "one or more persons (the principal(s))" with "another person (the agent) to perform some service on their behalf" which involves "delegating some decision making authority to the agent" (Hill & Jones, 1992). As an evolution of this theory, these authors suggests that stakeholder's orientation should be included in the principal-agent relationship in order to include the whole set of interests involved in the relationship (Shankman, 1999). The stakeholder-agency perspective also takes into account the power exerted by the organization upon its stakeholders and vice versa (Hill & Jones, 1992).

2.5 Stakeholder Identification and Saliency

Stakeholders have been classified into several ways. Among them we cite Savage, Nix, Whitehead and Blair (1991), Atkinson, Waterhouse and Wells (1997) and Mitchel *et al.* (1997) as follows.

On the one hand, Savage *et al.* (1991) argued that stakeholders could be classed as primary or secondary. Primary stakeholders are those who have formal and economical relationships with the organization. Secondary stakeholders are those agents not directly related to the organization despite their ability to influence and be influenced by its operation and outcomes.

On the other hand, Atkinson *et al.* (1997) argued that stakeholders can be seen as environmental or process related. Environmental stakeholders are those included within the external environment in which the organization operates. For Atkinson *et al.* (1997, p. 27) "this group defines the company's external environment that, in turn, defines the critical elements of its competitive strategy." Process related stakeholders are employees and suppliers, and this group is engaged "to plan, design, implement, and operate the process that makes and delivers the company's products to its customers" (Atkinson *et al.*, 1997, p. 27).

Contributing to a general stakeholder identification theory, Mitchell *et al.* (1997, p. 854) proposed a model based on three dimensions: "(1) the stakeholder's power to influence the firm, (2) the legitimacy of the stakeholder's relationship with the firm, and (3) the urgency of the stakeholder's claim on the firm." The bases of the three dimensions are dealt with as follows.

2.6 Stakeholder Importance

A stakeholder's importance for a given organization can be realized by the following statements: "Minimizing the stakeholders' dissatisfaction should be a concurrent objective of 'excellent' companies" (Chakravarthy, 1986, p. 448). Pfeffer and Salancik (2003, p. 2) corroborated this assumption by stating that: "Our position is that organizations survive to the extent that they are effective. Their effectiveness derives from the management of demands,

particularly the demands of interest groups upon which the organizations depend for resources and support."

A final take on active stakeholder management is to be found in Greenley and Foxall (1997, p. 259) "Orientation to the diverse interests of stakeholder groups is central to strategic planning, and failure to address the interests of multiple stakeholders groups may be detrimental to company performance." These statements all stress stakeholder satisfaction as the ultimate objective of an environment-steered organization. Some authors contend that stakeholder theory is a new theory of the firm (Key, 1999; Rowley, 1997) replacing the old economic paradigm with an updated ethical view on the relationships between firms and their constituencies.

2.7 Stakeholder Analysis

In order to identify the relevant stakeholders, a process of analysis is proposed. Bryson (1995) and Joyce (1999) suggested the following checklist:

- Identification of the stakeholders;
- Identification of how stakeholders are able to influence the organization;
- Identification of what the organization needs from each stakeholder;
- Identification of the criteria used by the stakeholder for evaluating the organization's performance;

2.8 Ranking Stakeholder Importance

As a stakeholder is likely to represent an opportunity as well as a threat, the organization needs to know how influential each stakeholder is and to what extent it represents a threat or an opportunity to the organization's strategic management. Savage *et al.* (1991) classified a stakeholder's relative importance in terms of capacity for threat to the organization, and potential to co-operate with the organization. Figure 1 presents this stakeholder classification scheme and suggests four different strategies for dealing with them.

		Capacity for threat	
		Low	High
Potential for Co-operation	High	Stakeholder type 1 Supportive Strategy: involve	Stakeholder type 4 Mixed Blessing Strategy: collaborate
	Low	Stakeholder type 2 Marginal Strategy: monitor	Stakeholder type 3 No supportive Strategy: defend

Figure 1: Stakeholder Management Theory
Source: adapted from Savage *et al.* (1991)

2.9 The five-sided stakeholder influence model

By comparing two sets of decision-making, Gomes *et al.* (2010b) stated that public organizations make decisions constrained by several sources of force exerted by influential stakeholders, namely regulation, collaboration, orientation (agenda setting), legitimation and supervision. They declare that these influences need to be taken into account in strategy formulation and performance management if this sort of organization wants to be successful.

Figure 2 represents the five sources of influence that explain the environmental factors. Looking carefully at the connections between the areas of influence and the decision-making cell, one can easily identify patterns of dependence upon resources, constraints from the institutional field and the principal-agent relationship problem.

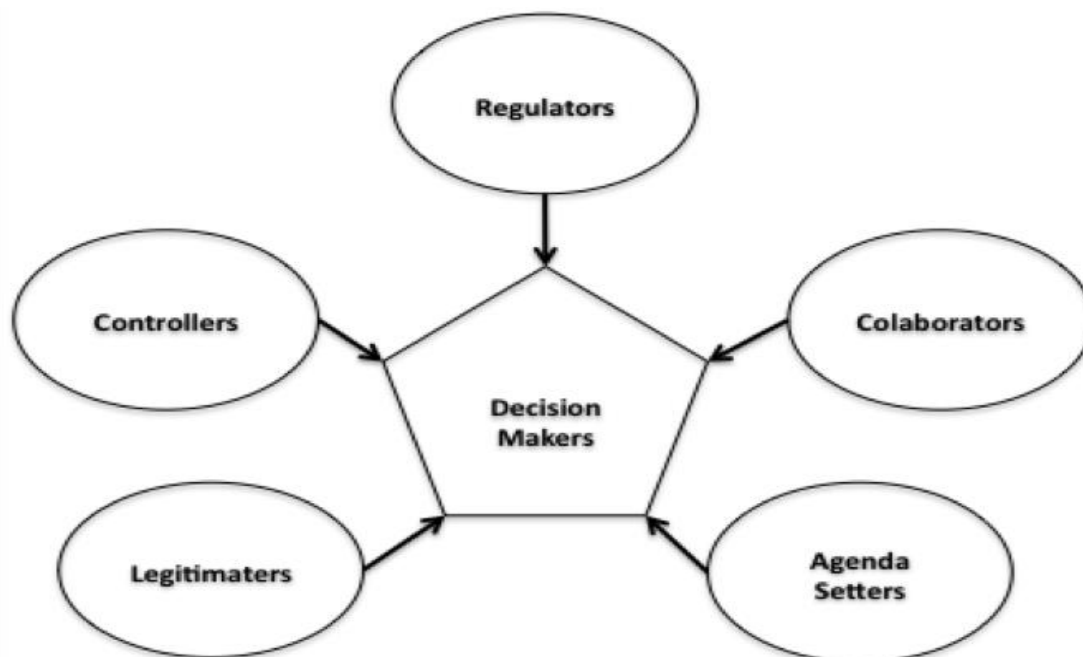


Figure2: Five-sided model of Stakeholder Influences
Source: Gomes, Liddle and Gomes (2010b)

Influence over the money supply arises from the regulatory cluster, which makes central (federal) and other tiers of government a strong stakeholder able to affect performance either by reducing or expanding the flow of money. Despite the criticism that taxes are raised at the local level, it is up to central/federal government to allocate the amount each local government is entitled to receive. This is a real example of a resource dependent situation.

In the collaboration cluster, internal and external agents were identified that approach local government in order to help it deliver public services. This happens because the public entity is incapable of delivering such services, or because of the search for efficiency, which is the case of public and private partners. In the specific case of employees and government officials, the explanation rests upon a win-win solution. Local government needs workers and staffs need employment. Of course, no working relationships happen without struggles, but at the beginning at least, they approach one another in order to take advantage of resources (money and job conditions for staff and skills for the employer). This relationship can be explained by a resource dependence rationale.

In the agenda setting cluster, central/federal and other tiers of government can again influence local government by defining the main objectives that will steer their objectives and

targets. The nature of the relationship formed between local government and this cluster can be explained by the tenets of institutional theory. According to this theory, an organization needs to comply with the set of rules and regulations derived from its institutional environment in order to achieve legitimacy. This is similar to the legitimating cluster, from which local politicians gain power and legitimacy for steering the local government for a period of time.

Finally, in the controller cluster formal and informal mechanisms of control can be seen at work. The mechanisms derive from both the need to hold public sector managers accountable to society and the need to ensure money has been spent according to the institutionalized mechanisms of performance, namely efficiency, effectiveness, equity and economy. This seems to be another relationship that can be explained by institutional theory arguments, because it appears to be a demand from society or the result of the action of pressure groups.

From the knowledge presented so far, we are able to contend that third sector organizations operate in a web of interest and power relationships that force them to be responsible to resource owners, institutions, and agenda-setters. In order to cope with the set of influences likely to threaten the organization's survival, stakeholders will be mapped out and means for managing relationships with them sorted out. Next in this paper, we present an investigation in which this previously-developed knowledge has been tested in a Brazilian third sector organization. The idea is not to create knowledge generalizable to other species of organization, but rather to test whether knowledge produced with respect to public and private organizations is likely to produce answers applicable to third sector organizations.

3 METHODS

Due to the relative scarcity of interpretive studies within the third sector management literature, we carried out an exploratory investigation focusing on our experience at the Arthur Bernardes Foundation (FUNARBE), founded to support the Federal University of Viçosa for managing funding received from both public and private organizations. The main aim of the Foundation is to manage contracts, to purchase goods from internal and external markets, to contract service providers, and to account for all activities related to the management of the funds. As a single case (Yin, 2003), the study of the foundation is justified due to the performance that the organization has demonstrated in the last five years, becoming regarded as one of the most well-managed organization of this nature around the country. We followed Eisenhardt (1989), Eisenhardt and Graebner (2007), and Siggelkow's (2007) assumptions that single case studies can be very useful in testing and explaining theories.

As evidence of the information above with respect to FUNARBE, its net income and surplus have nearly doubled during the period mentioned, and this situation has helped the Foundation to put into practice a set of affirmative actions that has helped both education and research activities of the Federal University of Viçosa.

We don't expect to formulate any comprehensive, generalizable, and normative theory at this stage, but rather to elaborate a little further on how stakeholder influences impact the decision-making of this kind organization. Our main aim is to test whether stakeholder theory can explain the performance and behavior of an organization that is neither public, nor private in essence.

Following the constructivist philosophy and the opportunity at hand, data was collected through an action research approach (Bryman, 2008; Lee & Lings, 2008; Mumford, 2001) with the agreement and the active participation of managers, directors, staffs and other stakeholders. Semi-structured interviews, participant observation and focus groups were used

to collect information and to triangulate data in order to ensure validity and reliability (Denzin & Lincoln, 1998). Data was analyzed with joint involvement of researchers and participants, employing interpretive and phenomenological approaches (Bryman, 2008; Lee & Lings, 2008).

The process started in September 2006, when the group met to devise the strategic plan for the year of 2007. This process was repeated in September 2007, when objectives, targets and performance indicators were reviewed and updated and then evaluated in December 2008.

3.1 Data collection and analysis

Data was collected by participant observation, documents and non-structured interview with members of the Administrative Council, Executive Directorate and managers at the sublevel. Interviews were not recorded, but interviewees had the opportunity to confirm them afterwards after participating in meetings where the results were presented and discussed. The documents collected were the strategic plans for the years, 2004, 2005, 2006 and 2007. After collection, data was analyzed using content analysis (Silverman, 2001).

The analysis employed interpretative and phenomenological approaches (Denzin & Lincoln, 1998) in which researchers and participants tried to make sense of the information available by understanding the meaning of acts and behaviors. We assumed that by employing the interpretative approach we could improve the understanding of stakeholder importance and relevance for the decision-making of the Foundation to the extent that participants had a good grasp of the relevance and influence of each stakeholder in the process. To this end, we sought to identify, by picking interlocutors' minds, the meaning of stakeholder actions. For collecting and analyzing data we employed an interactive approach in which evidence was collected and validated immediately with staff and managers. As soon as we had some evidence this was to study participants in meetings in which consensus was sought for every concept. Treating actions as verbs, we created a nexus of causal-relationships between stakeholder's influences and the performance of the Foundation, which constantly checked against available theory.

4 FINDINGS

4.1 The case at a glance

FUNARBE is an organization with 300 employees located at the edge of the Federal University of Viçosa's campus. The university is 140 miles from Belo Horizonte, which is the capital of the State of Minas Gerais. The Foundation was established in 1979 to support the research activities of the university.

The foundation was created for helping the university manage the financial resources contracted by faculty members with public and private organizations for financing their research. Due to the legal framework with which public organizations like the university (considered as the principal in the relationship) must comply, every operation of the Foundation is embedded within a nightmarish net of rules and regulations. To make life easier for faculty, the Foundation has a team of trained and skilled employees able to buy goods, to contract out services, and to account for every transaction carried out in order to attend the need to comply with the whole set of rules and regulations.

The Foundation has a simple, three-level administrative structure. At the strategic level, responsible for the definition of the main policies, is the Administrative Council, which

works as the board of the foundation. The board is composed of seven executive and six non-executive members. Among the seven executive councilors there is an ex officio position for the Pro-Rector of Research. Councilors are all members of the university and they can be academics, lecturers or other civil servants. Their selection is by a ballot of the fellows of the university. Below the Administrative Council, there is the Fiscal Council, which is also made up of academics and employees of the university. The Fiscal Council supports the Administrative Council with respect to accounting matters.

The Executive Directorate is elected from the University's senior lectures for a four-year term of office and is responsible for the daily activities and decisions, such as planning, organizing, directing, and controlling. Among the activities under the responsibility of the Executive Directorate are managing contracts and agreements with government agencies and private sector organizations; hiring, developing, training, and evaluating the performance of employees and staff; and controlling investments in order to maintain the good financial health of the foundation.

At the operational level, there are eight departments responsible for the daily activities of the Foundation: Agreements (contacts with public funding agencies); Contracts (contacts with private funding agencies); Purchasing; Accounting; Treasury; Information Systems; Human Resources; Transportation and Logistics. In addition to the administrative structure, and directly accountable to the Executive Directorate, there is a Juridical Assistant.

4.2 Action research findings

In the first meeting, it became clear that there was a handful of strong, influential stakeholders able to shape the organization daily activities as well as its objectives. According to the President of the Administrative Council, the Foundation was very proud of its independence from the University, to the point that the Rector has no say on the council. Independent of this declaration, we were able to verify that neither Administrative Council decisions nor the work of the Executive Directorate are affected by the administration of the University, even though the Foundation is located within the boundaries of the University.

According to findings, the most influential stakeholders were: faculty, university staff, the local District Attorney, Bureau of Internal Revenue, Court of Accounts, Ministry of Education, Ministry of Science and Technology, Ministry of Labor (and its representatives at the local level – Labor Delegates), Secretariat of Science and Technology of the State of Minas Gerais, suppliers, partners, employees, the local community, the local media, and pressure groups. Below, we deal with each these stakeholders and the sort of influence they are likely to represent, as well as the strategies employed by the Foundation for coping with these influences.

4.2.1 Stakeholder List

Faculty members (customers of the Foundation's services): according to the findings, faculty represents a source of both opportunities and threat. As the Foundation is able to solve their problems, faculty members come out to its premises all the time. The issue is that their presence tends to mean both more money to be managed and more problems to be solved. Due to the feeling perceived at interviews and on visits to the premises, we regard faculty as mixed- blessing stakeholders. The analysis also confirms that managers try to collaborate with them as much as possible, providing benefits and advice.

University staff: findings indicate that university staff do not represents a threat for the foundation to the extent that there is no formal relationship among them. As stated by one

interviewee, “they come along and ask something from the grocery shop, if we can attend them we will, but we don’t care so much otherwise”. Savage *et al.*’s (1991) framework indicates regarding this as a marginal stakeholder. Staff do not represent an apparent threat, but, as the Foundation is located within the limits of the university, a two-way path would improve the relationship.

Local District Attorney (MP): according to the President of the Foundation, the MP represents a constant threat to the organization due to his role of having the final word on financial statements. But, he also informs the Foundation if a problem has been detected. As the Foundation is very keen observing the legal framework, there is nothing to fear. According to the Gomes *et al.* (2010) framework, influences from the controller cluster involve formal and informal mechanisms of control, that are there for holding managers accountable to society, and to the need that money be spent according to the institutionalized mechanisms of performance and transparency. The evidence collected suggests that managers try to defend themselves from this kind of stakeholder.

Secretariat of Federal Revenue (SRF): as the Foundation needs to import laboratory equipments on a regular basis, its staff are in constant contact with this federal department in order to liberate items as fast as possible. This relationship sometimes gets a little troubled due to the required paperwork, worsened by the lack of attitude from SRF staffs. Employing the Savage *et al.* (1991) model, they can be characterized as non-supportive stakeholders due to their lack of support and potential for threatening the importation process.

The Federal Court of Accounts (TCU): given the close relationship existing between the Foundation and the University, informants gave little regard to the Court’s influence. Analyzing the competences of the Court, we understood informants’ perceptions. The fact is that any action by the Court affecting the Foundation would first be felt by the university.

Ministry of Education (MEC): The relationship between the Foundation and the University is endorsed by the Ministry of Education, which is the Federal Government entity entitled to set down educational policies in Brazil. As the formal relationship needs to be renewed every two years, the Foundation keeps a very close eye on this relation. The University is formally subordinated to the Ministry of Education, which has mechanisms to held the university accountable in terms of control of spending and observance of the legal requirements for hiring, as well for the contracting out of services and for purchasing. Some informants regarded this stakeholder as marginal due to the low potential for threat and to the relative low potential to cooperation. Applying the Gomes *et al.* (2010) model, this stakeholder can appear in three clusters, namely regulation, control, and agenda-setting.

Ministry of Science and Technology (MCT): information collected during fieldwork regards this stakeholder’s influence as lower than that of the Ministry of Education. This fact can be explained by the low potential it has for posing threats to the Foundation’s daily activities. One of the most important funding agencies in Brazil is the National Council for Scientific and Technological Development (CNPq), linked to this ministry, but CNPq prefers to contract research directly with researchers and, furthermore, does not allow the presence of third parties in the relationship.

Ministry of Labor (MTE): as the Foundation has to contract people to work on its premises, as well as in labs and in the field, there is a relative probability of getting into trouble with the Ministry of Labor, which is the department in charge of labor relations. But, again, if the Foundation acts by the book, it is the sort of stakeholder with low likelihood to cause trouble.

Minas Gerais Secretariat of Science and Technology (SECTES): according to information gathered in the field the perception is that this stakeholder has a sort of gain-gain

relationship with the Foundation. As it doesn't have legal power to impose its interests, the relationship is as smooth as possible with an emphasis on collaboration, rather than on antagonism.

Suppliers: according to evidence gathered in the field, suppliers are very dependent on commercial relations with the Foundation due to the scarcity of large buyers in the region. This situation is very positive for the Foundation, because it has the opportunity to choose suppliers from a collection of enterprises and farmers who have little option of customers available.

Partners: there is a strong relationship between the Foundation and its partners. The same situation prevails as in the supplier relationship, i.e. lack of potential competitors for sharing partners' attention.

Employees: as we interacted with employees, we concluded that there are three main sources of jobs in the surrounding area: the University, the Foundation and some small factories and shops. As it is very difficult to get hired by the University, which is obliged by law to carry out a tender for recruiting and contracting new employees, and salaries at the downtown factories and shops are very low and working hours long, it can be imagined just how attractive jobs at the Foundation are likely to be and how many people try to get hired there.

Local community: according to the findings, the relationship between the Foundation and this stakeholder indicates another dependence relationship. The local community regards the Foundation as a solid and reliable organization, and they state it in a very proud way. The local community seeks support from the Foundation for their activities and the Foundation has a stated social responsibility policy, which clearly advocates providing as much support for the poor and deprived as possible.

Local media: Local media in small cities are not very powerful and managers know about that. Informants stated that there are three radio stations and four newspapers in the city. All of them try to keep good relations with the Foundation, due to its potential as a source of revenue through advertising. As the Foundation is not often a source of bad news and scandals, and most news in this media is related to social events and football matches, this relationship is merely commercial.

The evidence provided above allows us to depict a stakeholder's map for the Foundation employing the Gomes *et al.* (2010) model as presented in Figure 3.

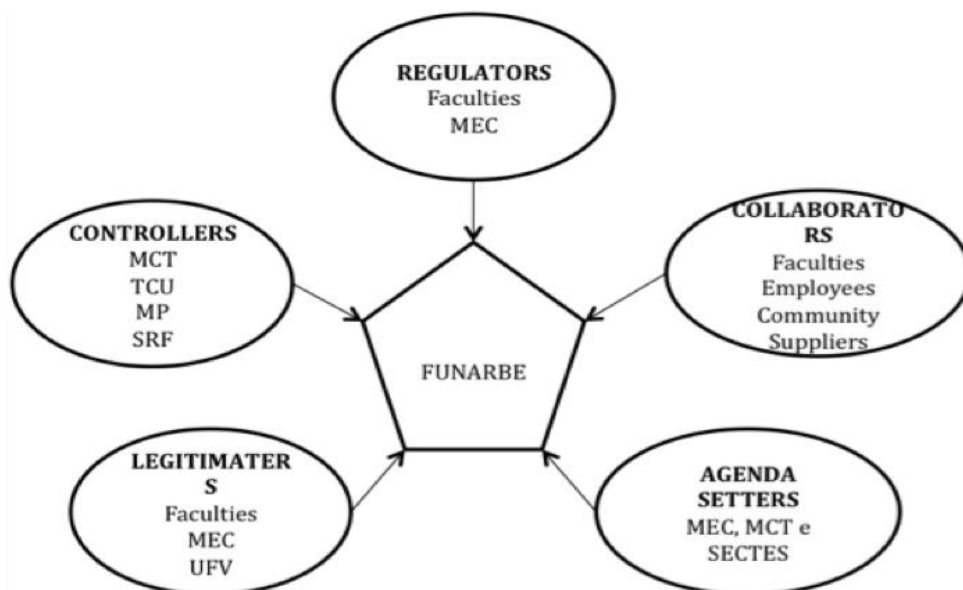


Figure3: Five-Sided Model for Mapping Funarbe's Stakeholders

According to the Savage *et al.* (1991) framework, presented in Figure 1, the Foundation needs to deal with each stakeholder group in a different way in order to avoid threats and exploit likely opportunities. Figure 4 illustrates how the organization is expected to deal with each of those groups in light of the potential threat and opportunities they pose.

		Capacity for threat	
		Low	High
Potential for Cooperation	High	SUPPLIERS LOCAL COMMUNITY PARTNERS SECTES	MEC FACULTIES UFV EMPLOYEES
	Low	UNIVERSITY'S STAFF LOCAL COMMUNITY	MP MTE TCU SRF

Figure 4: Mapping out stakeholders in terms of capacity for threat and potential for cooperation
Source: Adapted from Savage *et al.* (1991)

In the mixed blessing stakeholders group, able to represent both opportunities and threats, are the Ministry of Education, university faculty, staff and Foundation employees. In order to have a good relation with these stakeholders, the Foundation needs to engage in actions of collaboration. To this end, the Foundation has put into practice a set of affirmative actions whose main aim is to improve research through providing fellowships and assistance to ease the purchase of equipment and other needs of researchers at the beginning of their professional lives.

For dealing with supportive stakeholders, who are the suppliers, local community, partners and the Minas Gerais Secretariat for Science and Technology, the Foundation needs to involve them into its activities. To this end, the Executive Directorate has planned a set of meetings for devising collaborative actions.

For dealing with the marginal stakeholders, University staff and the local community, the Foundation has been doing more than merely monitoring them, given the fact that collaborative actions such as sponsorship agreements, joint training activities and other collaborative actions have been undertaken.

Finally, for dealing with the non-supportive stakeholders, namely the local District Attorney, the Ministry of Labor, The Federal Court of Accounts, and the Secretariat of Federal Revenue, the Foundation has prepared itself to face these stakeholders as mixed blessing rather than as enemies. For so doing, discussions have been carried out with them in order to set an agenda of problem-solving activities known as conduct protocol. The intention is to anticipate problems rather than to react to unexpected situations.

5 FINAL REMARKS

This paper aimed to test stakeholder theory as a tool for managing and improving third sector organization's relationships with their environments and therefore for improving their performance. We employed knowledge available in the extant literature to depict who are the stakeholders likely to exert influence upon a third sector organization in order to smooth environment complexity. The models used helped us to identify the set of stakeholders likely to have potential for collaboration and threat to the focal organization, as well as to channel

managerial attention on five influence clusters. Both models were constructed based on resource dependence, institutional theory and stakeholder-agency theory.

Data came from a constructivist investigation carried out with a third sector organization that operates in higher education in Brazil. In Brazil, it is very common to have foundations linked to public universities for the purpose of helping them cut through the bureaucracy and manage it more rationally, in a way similar to tugboats drawing vessels to the dock. In this sense, we have chosen an organization that in view of its results during the last five years has achieved what is considered a good performance given the fact that its net income and surplus have been increased considerably during this period.. The investigation lasted one year and a half and data was gathered by interviews, documents and participant observation, within the action research approach.

According to the findings, stakeholder theory is very helpful to third sector managers in reducing the complexity of the environment they must deal with on a daily basis. This theory has proved helpful in pinpointing the key stakeholders to whom managers need to address greater attention, as well in mitigating complexity by clustering stakeholder influences into a less complicated web of channels. Findings also indicate that as an organization that is private in its essence but public in its operation, the Foundation studies is held accountable to the Federal Government (through the University) and also to other control institutions such as the Ministry of Education, the Ministry of Labor, the Federal Court of Accounts, University faculty, and other organizations. In this line of thought, third sector organizations have to deal with their various needs and demands on a daily basis. Therefore, this paper contributes to the extant theory by enlarging the comprehensiveness of the five-sided model, which can now be used in third sector organizations as well, as it has proved to be a useful tool for mapping stakeholder influences for non-for-profit organizations. Another contribution of this paper is methodological in nature. We conducted the investigation in partnership with managers and staff of the third sector organization studied, and this has proved to be very helpful in that the validation of the conclusion was ensured by consensus, and very expeditiously. Throughout the analysis process, meetings with staff and managers validated the results. This brought speed and reliability to the data collection and analysis process.

In terms of the fragilities of the investigation presented here, we understand that further and deeper analyses should be carried out involving more organizations and in a different environment. Being a single case, the potential for generalization of the findings could be considered doubtful by some, but we believe that this is not the case. Case studies are good strategies for theory testing purposes, and the findings presented here demonstrated that. From a practical perspective, the model proved to be useful in helping managers devise means for dealing with ambiguity and complexity, which is commonplace in third sector organizations given the fact they are neither private nor public and have to operate under both frameworks, being scrutinized by both domains.

As this is still a field to be explored in more details, we have proposed some new knowledge to be used in third sector organizations, which we regard as a theoretical contribution. In the epistemological domain, we proposed a data collection and analysis method that would help to replicate the investigation in other settings. In terms of enlarging the theory building process, we suggest that hypotheses be devised from the analysis presented here, which will require proposing factors that performance stemming from each arrow of the Five-Sided model. This will require depicting the influence of each stakeholder upon decision-making, as well as the potential to improve/worsen performance. Though these are still unanswered questions, the evidence collected in this case supports the assumption that

stakeholder theory is likely to improve third sector organizations' performance, at least with respect to developing better strategic plans.

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