Too many cooks spoil the broth

Stakeholder management in 21[th]Century non profit organizations

Marc Vermeulen[1]

Abstract

In the politicall system we see a dramatizing of processes because citizens are better educated and more critical. They claim value for money and social media may provide a very rapid diffusion of information about the quality of service delivery. Organization can be overexposed to all sorts of uninvited stakeholders. The dynamics in organization may cause them to 'freeze' rather than to innovate. In this article I will specifically address the role and position of frontline professionals, because they probably are essential in service delivery whereas they have to operate more and more in a glass house. Harvard political scientist Archon Fung, a specialist in stakeholder involvement, spoke of a Panopticum in which professionals are the prisoners and stakeholders are in the watching tower.

The article aims to provide a better understanding of the dynamics of public service delivery in a very critical and panoptical context, using a combination of sociological, policy science and HRM perspectives. Based on this better understanding, I will provide some conclusions and suggestions both for further research and for policy making, regarding the role of stakeholders

Introduction

Stakeholder involvement is supposed to have a positive influence on the development of organizations. Stakeholders help organizations to keep a sharp orientation on their clientele, they provide critical feedback on quality of services and they may also provide interesting networks for coproduction. In a way one could say 'the more the merrier': you cannot have

[1] *Marc Vermeulen is a professor of educational sociology at Tilburg University and at the Open University NL and he teaches strategic analysis for public organizations at TiasNimbas Business School in the Netherlands. He is also a consultant for leaders of public organizations and member of several supervisory boards off non-profit organizations. Many thanks to Tonnie van der Zouwen en Anke Vroomen for constructive comments.*

enough stakeholder participation. It might be exaggerated, but in general organizations rather have a risk of being to closed for stakeholders than of being to open.

However, things are changing. As a result of both political, sociological and technical changes organization may become overwhelmed with stakeholder attention. I will illustrate this with two rather painful cases/ affaires in Dutch education (Inholland and Amarantis) in which a large public attention to failing systems overwhelmed organizations in education and highly contributed to low trust organizational dynamics.

More generally my argument in this article will be that managing stakeholders may be quite a different game nowadays. With more permeable boundaries of organizations the definition of groups of stakeholders becomes blurred. Open organizations may have stakeholders they didn't even know of. People may feel that their interests are at stake and they want to be involved or at least informed, without having formal relations to organizations. As a consequence the idea of *managing* stakeholders becomes more complex. Management presupposes ratio and relation: but if we are not aware of a relation and/or these relations may be less rational than expected, how can we manage them. Organizations thus may have even unwelcome guests looking over their shoulder and interfering with internal affairs.

Inholland and Amarantis

My analysis is based on two recent major crises in large educational institutes in the Netherlands. For Dutch people the words *Inholland* and *Amarantis* have become well known examples of failing large schools, mismanagement, crisis and intense political deliberation. In both organizations I had the opportunity to play a role in the aftermath of the crisis.

Inholland is a large university for professional education operating in the major cities of the western part of the Netherlands. They took a high profile not only by their size (very large) and their location in 3 of the largest cities of the Netherlands (Amsterdam, Rotterdam and The Hague). Inholland was the result of a series of swift mergers. They intended to provide high educational standards with for instance a very modern design of their curriculum, the acquisition of shares in a private university business school (Nyenrode) and landmark type of buildings (Rotterdam). The organization ended up in a larger crisis after a number of

irregularities were discussed in national newspapers regarding examination procedures in a limited number of their programs. investigation both by journalists, the Ministery of Educations Inspectorate and accountants revealed very meager quality control systems, mismanagement and big governance problems. Both in regular media as in social media many personal stories circulated of students and staff giving air to their frustrations with the Inholland organization. Under large pressure from parliament and the Minister of education the board was replaced. The new interim board faced massive frustration by professionals and a decline of students numbers causing large financial problems large.

Amarantis was a more or less similar case, also in the western part of the Netherlands, but now regarding vocational training. This very large organization rapidly moved towards full bankruptcy. Although the first alarming signals had a financial background, in the next weeks the educational results, quality control and style of management were heavily criticized. Again, after much pressure in media and parliament the board was replaced and an interim manager decided that the organization had to be split up in 5 separate entities. Three national investigation committees where installed to investigate the process.

Again this crisis was extensively debated in national political fora, in newspapers and news shows and on internet.

Both crises at Inholland and Amarantis evolved in a climate where other public organizations (housing corporations and hospitals) got into more or less similar trouble. At the same time the financial crisis hit the Dutch economy hard. Discussions of budget cuts where connected to the malfunctioning of those public organizations, the role (and incomes) of top management etc. They all fed into a system of mistrust in public performance. As a consequence the political system reviewed a number of laws replacing confidence by control.

Stakeholders in the public domain

Civic society-state-market-…

In the Netherlands, and perhaps more generally speaking in the Rhineland societies, many public organizations[2] have their roots in civic society of a previous era. Healthcare, education, social housing or welfare were typically functions where either well to do citizens and/or religious groups took the initiative to organize better conditions for those not able to do so. In the area I grew up (in the Dutch province Limburg), by far most of the schools where an initiative of either nuns or monks as were hospitals and welfare organizations. Social housing was an initiative of the wealthy entrepreneurs, partly driven by (Catholic) social concerns, partly by functional motives (e.g. labor force living in the vicinity of their plants). Over the past hundred years or so those organizations migrated from civic society to more or less state driven bureaucracies[3] and from there to semi-commercial enterprises [4]In the first step, as a result of the social security state, in the post second world war period states got very much involved in providing public services. Together with money came bureaucracy, probably reaching a climax in the eighties of last century. Large, inefficient and expensive bureaucracies got under the fire of Chicago school economists (Friedman) and politicians as Margareth Thatcher and Ronald Reagan who were inspired by Friedman's ideas: *new public management* boiled down to the idea that public services either should be send to the market or that organizations at the very least should be managed as a company. Both effectiveness and efficiency would maximize in a businesslike setting.

At the turn of the century this model failed in my opinion: very large schools like Inholland and Amarantis got into trouble because of their size, the misunderstood idea of entrepreneurialism and competition by the top management and the leading principles of returns of investments rather than educational quality and public good creation. More or

---

[2] Definition: also non profits or second sector organizations. Privately run by boards, providing (welfare) services to the public at large. Note the difference with governmental organizations, such as public schools, policy forces etc. They are not privately owned and directly governed by elected politicians.
[3] Without completely becoming part of the government. Foundations, cooperations, mutuals etc. stayed independent as an organization with their own boards. However, their activities were (almost) fully funded by government and thus intensely regulated and supervised.
[4] Mouwen, C.(2011), *Handboek Strategisch Management voor de Non-profit Organisatie*, Assen: Van Gorcum

less similar patterns occurred in health care (Meavita, Orbis) and in social housing (Vestia) in the Netherlands[5].

Authorizing environment.

In his seminal work on the creation of public value, Harvard political scientist Mark Moore[6] introduced the idea of an authorizing environment of public organizations. Schools, hospitals etc. get a public license to operate by the society at large either by democratic or by moral obligation. This public 'audience' may organize formally (parliaments, boards, inspectorates) or informally (public opinion, press) but in one way or another they provide an authorizing environment to those public organizations. The discourse in this environment may be dominated by more civic, more stately or more market driven type of deliberations.

A useful way of looking at the authorizing environment of public organizations is provided by McKevitts analysis of street level public organizations[7]. Building on the ideas of Lipsky's street level bureaucrats[8], McKevitt depicts schools, hospitals etc. as *street level* public organizations (SLPO's): on a street level these organizations provide very practical public services (healthcare, housing, education) to clients in return for the (tax-)dollars they paid. SLPO's typically have to deal with 3 types of forces: government, clients and professionals. All three parties have double bindings outside the system. Again, using Dutch education as an example: the *government's* hands are more and more tied by EU-regulations (e.g. higher educational policies are now decided to a large extend at an EU level, rather than at national level). *Clients* may be both students and members of other social systems, they most certainly will comply to the rules of their peer groups and also they might be influenced by e.g. political or religious groups.

Finally *teachers* look for a balance between their role as a (loyal) employee and as an autonomous professional perhaps more referring to their peers outside the organization and following outside professional rules and codes rather than organizational. A typical and probably also very positive characteristic of professionals is that they keep in close contact

---

[5] Camps, T. & M.Vermeulen (2012,red.) *Een hele onderneming. Liber amicorum voor prof.dr. ir. C.A.M. Mouwen* Tilburg: TiasNimbas. In this book a number of Dutch authors give brief reflections on the common factors in failing large public institutions

[6] Moore, M. (1995) *Creating Public Value* Cambridge (Mass): Harvard Univerisy Press
Moore, M. (2013) *Recognizing Public Value.* Cambridge (Mass): Harvard Univerisy Press

[7] McKevitt, D. (1998). *Managing core public service*. Oxford: Blackwell

[8] Lipsky, M. (1980). *Street-level bureaucracy*. New York: Russell Sage Foundation

with their professional communities outside the organization, thus stay connected to state-of-the-art insights from those professional communities.

Government, professionals and clientele as main stakeholders of schools or hospitals may follow a different line in their perception of the value created in the SLPO's depending on the dominance of a particular discourse.

When SLPO's were predominantly initiated by civic initiatives, clients where the recipients of good deeds and had to be humble and grateful. Professionals (many of them probably being volunteers) had a strong moral conviction in their work and were driven by calling and religious aspirations. In this system the state as an authorizing environment only played a distant role backing up civic elites to perform

When the discourse becomes predominantly state driven, governments will be active rulers, professionals will see themselves as acting bureaucrats and clients will be obedient subjects of public policies, enforcing their influence by elections every so many years. However, in a *new public management* type of public value creation, governments will play a distant role at best as a market manager, trying to create level playing fields for open competitions. Clients become customers, demanding value for money and professionals become salespersons in public services trying to satisfy the customer and to optimize within their hospital or housing agency.

So far we have encountered 3 types of stakeholders (politicians, professionals and clients and three types of discourses (civic, state and market) providing a structure to describe dynamics in public services delivery over the past century. The dynamics in roles and responsibilities may be summarized as showed in table 1:

Tabel 1 Stakeholders' perspective in three different discources

Discourse/Stakeholders	Politicians	Clients	Professionals
Civic	Support through elite networks	Gratitude Obedience	Trust
State	Constructivist and activist regulation	rights & obligations	Bureaucratic control
Market	Create level playing field	Deals, Consumption	Transaction

The final decades of the 20th century also provides us with more professional managers running public agencies. Inspired by new public management, the scale of public service providence exploded: large schools, large hospitals etc. A caste of professional managers started running those complex organizations. One of the main challenges for them was understanding their position in this 3 x 3 system of stakeholder influence, both trying to read the dominant discourse and trying to balance the positions of clients, professionals and government. Strategic analyses of threats and weaknesses are combined with the analyses of the playing field and of relevant stakeholders. The whole idea of *managing stakeholders* results from those insights: it boils down to selectively activating and de-activating groups in society in order to support the goals of the organization.

Dynamics and dilemmas

Although the combination of stakeholders and political discourses as provided in table 1 may be helpful from an analytic perspective it should not be viewed as a stable nor as a consistent and well balanced process. In this section I will present some dilemmas and dynamics within the system of public service delivery.

Clients

 A classic issue within this line of thinking is how we have to deal with the group of voiceless stakeholders. Core of the welfare state is that it takes care of people who for some reason do not succeed in organizing their own income, housing, health etc. In the earlier days this was typically a low income and low education group having trouble to develop their own 'voice' within the public system. In the civic society as it developed in the 19the century they

were taken care of by either religious groups and/or by well to do citizens who acted from a calling. Other people decided what was best for them, they were not able to address their own needs in a rational and informed way. Voiceless gratitude was the best these groups had to show to their beneficiaries. After the introduction of general elections their position was strengthened by giving them a formal vote in the political system. However all democratic systems struggle with the idea of underrepresentation. Either groups of people do not use their vote or they use it (e.g. if voting is an obligation) in a non-informed and or non-rational way, thus silencing their own voice within the system.

In a market driven system for public value creation citizens get forms of purchasing power, the client becomes a customer. As in a regular market people could decide to have education from one or from another school thus forcing schools to be responsive to the needs of their students. Competition forced school to be efficient and effective. Rational actors choose the best schools for themselves or their children, as they do with housing, healthcare etc. However, not every customer acts rational and fully informed[9]. Complex systems have high entrance barriers, need specialist knowledge to understand them or are culturally miles away of some groups in society. As in regular markets, also in the public domain market failure seems to be hard to handle and do exclude groups from public services that are either good for those groups or for society as a whole (externalities). People do not act rationally all the time, e.g. some people do not find their way to hospitals when they should or do not follow up on medical treatment. Some people send their children to schools next door, rather than to better schools around the corner and they do not provide support for pupils' homework.

Professionals

More or less similar lines of thinking can be applied to public servants. In civic society their main motives to engage in education, healthcare or welfare work was calling. In many instances people acted as volunteers or were underpaid. Motivation was intrinsic (calling, religion) and altruistic. 'Voice' of those volunteers predominantly was moral, local and (specifically in Catholic systems) obedient. The dominant characteristic of the labor relation between professional and their organizations was *trust*.

---

[9] Tiemeijer, W. C. Thomas en H.Prast (eds.2009) *De menselijke beslisser.over de psychologie van keuze en gedrag.* Amsterdam: Amsterdam University Press

With increasing government rule in public service provision, professionals became bureaucrats, acting from a legal mandate that provided guidelines for their professional judgment and actions. Motivations probably were mixed: both altruistic but also risk avoiding[10]. Loss of professional autonomy and mediocre pay schemes were compensated with regulated labor conditions and high levels of job and income security. The public domain became a *sheltered sector* within the economic arena, not very much influenced by business cycle dynamics, changing slowly and not very competitive in the labour market[11]. Essential in the labor relation between professional and organization was *bureaucratic control*.

Pushing SLPO's into market dynamics, labor relations were supposed to reform drastically. Tenured schedules were replaced by temporary contracts, well predictable income patterns were distorted by the introduction of performance pay and bonuses. The core of the labor relations became *transactions* or deals.

Political system

Changes in the political dynamics may have consequences for the influence the political system can have on street level public organizations. At the starting point, in a night-watchman state there was hardly any involvement in public service delivery (except for safety), private civic initiative was leading in delivering welfare to society. In shifting to state run bureaucratic systems, obviously political influence increased dramatically and subsequently it seemed to evaporate in new public management. Another interesting development was the increasing influence of Bruxelles, the European Union. A growing part of public services is influenced by international rather than national legislation. Higher educational policy (Lisbon agreement) may be the best example of this logic: higher educational systems have to be aligned within the EU in order to stimulate the mobility of students and professionals and to enhance transparency in qualification systems.

---

[10] Buurman, M. (2011) Beyond the Call of Duty? Essays on motivation and self-selection of bureaucrats. Rotterdam: Erasmus University (PhD thesis)
Dohmen, T. (2010) 'Waarom sommigen liever leraar worden en anderen beter geen bankier kunnen worden.' In *TPEdigitaal* 2010 jaargang 4(2) 106-129
[11] With as a dramatic consequence that the public sector organization are more attractive for low skilled people compared to private firms and for high skilled people the opposite will be true. See for further discussion. Donahue, J. (2008), The Warping of Government Work. Cambridge, MA: Harvard University Press,.

So also at the level of (national) politics we see changes in the relations between government and public institutions redefining the balances between them in terms of influence (voice) and stakes.

Conclusion: All stakeholders are equal but some are more equal than others

This Orwellian statement may very well apply to a number of tactics by public organizations. Managing stakeholders according to textbooks implies a selective activation of some stakeholders over other stakeholders. One might expect this tactical development of relations as a means of realizing the goals and mission of the organization. However goals may shift over time and may be ambiguous as well. A typical characteristic of public organizations is that they are vulnerable for shifts in the political climate. For good reasons boards of those organizations may want to develop a more independent policy, create a distance to overactive political involvement. They may want to build up a heat shield: in order to develop a stable operation boards will prioritize their activities and involvements. As a consequence they will serve some specific needs more explicitly over other needs or in other words they may accommodate some stakes better than others

Changes in discourse also may force them to do so: those changes will have different consequences for different stakeholders and some will adjust easier than others. This will give misbalances within the system. In the cases that I was involved in (Inholland and Amarantis) I saw a very unbalanced system where different stakeholders held different positions and acted according to the lines of different discourses. In a way those differences created a lock-in situation in which no one actually had a clue on what was the leading mechanism within the organization. Obviously the top executive level was not successful in balancing the organization and the different stakeholders within and alongside it. This contributed to a large extend to the major crises that struck those organizations.

##Hier schema INHOLLAND?AMARANTIS

The balancing act and the selective activation of stakeholders will be much more in the spotlight and therefore involve unexpected 'guests' . Due to social media SLPO's are in a glass house: deliberations and consequences will be out in the open all the time. It is easy to tape behavior of street level bureaucrats and put it online. This will have two consequences. First, professionals and their managers may become very uncertain and risk avoiding not knowing where and how their behavior will become subject of discussion. The idea of a Panopticum comes to mind: a perfect way to immobilize people is to make their behavior visible at unexpected moments and without any option to hide.   Second, voiceless stakeholders may find new ways to express their intentions, spectators without a stake may be of growing influence as un expected arbiter of value[12]. Thresholds to comment (if necessary anonymous) are low, and people do not have to be involved yourself to form an opinion about the quality of schools, hospitals etc. All of this occurs in a political arena that seems to be more fragmented, both in ideology and in short term, single issue attention. Dramatization in the democratic process[13] may bring much unexpected and upfront dynamics for SLPO's. Politicians may not be interested in the bigger picture, the general interest or the long term.

Discussion: four issues challenging 21th century public organizations

The changes in the dominant discourse for managing street level public organizations are very much a fact of life in the early 21[th]t century. Executives of public organizations will be challenged to constantly adopt to new combinations of different stakeholders engaging in different types of discourse. For that reason I see four major issues waiting for answers:

1. In the 21th century we don't know how to develop new directions after the failure of state and market as dominant mechanisms. Is there a 21[th]century re-invention of

---

[12] The idea of the glass house and the Panopticum came up in an interview with Harvard Kennedy School of Governments political scientist Archon Fung. See : Vermeulen, M. (2012). ' Dertig jaar na Street-level Bureaucracy.Een blik terug en een blik vooruit met Archon Fung' .In: Moors H. & E.Bervoets (red. 2013) Frontlijnwerkers in de veiligheidszorg. Gevalsstudies, patronen, analyse. Den Haag: Boom Juridische uitgevers
[13] Elchardus, M. (2002) *De dramademocratie* Tielt : Lannoo

civic society? For which stakeholders will this be an attractive perspective and will all stakeholders 'migrate' to the same set of expectations?[14]

2. Traditional democratic institutions (parliament, elections etc.) lose ground to more informal democratic processes, such as supervising a school board or influencing a housing corporation. Politicians may follow up on this and actively interfere with day to day management and governance issues, simply because it is a new way of getting into touch with their electorate[15]. On the one hand this provides good opportunities for activist involvement in order to open up autistic or fossilized institutions such as large schools, hospitals etc. On the other hand however it will introduce unpredictable new elements in process that need to have some form of stability and sustainability.

3. Large organization may have little buy in of both clients ánd of professionals, they will become (even more) loosely coupled due to virtualization of relations (blended learning, distance healthcare, flexible working). Insiders and outsiders of organizations will be more intertwined, the boundaries between inside and outside of an organization get blurred. For this reason new groups will engage with organizations, not necessarily driven by direct interests in those organizations.

4. Stakeholders are better educated, more rational and more critical towards the added value provided for their personal situation. In general in Western world, people become more rationalistic, they want to have evidence for the quality of public services rather than beliefs and stories[16]. Also they seem to be less orientated on public goods or collectiveness and more on individual benefits. This implies that accountability to the public will have to change from generic and ideological to specific and evidence based.

---

[14] Some indications are found in changes in the US society after 9/11 and after the Obama election. Putnam revisited in 2010 his idea of a disintegration of social structures as put in his book *Bowling Alone.* Temporary social structures (supporting firemens families after 9/11 and supporting the first Obama campaign) unexpectedly seemed to persist, supported by social media. See: *Putnam,R. & T.Sanders (2010) 'Still Bowling Alone? The Post-9/11 Split'in: Journal of Democracy, Volume 21, Number 1, January 2010, pp. 9-16* and *Putnam, R. D. 2000. Bowling Alone: The Collapse and Revival of American Community. New York: Simon & Schuster.*

[15] Fung, A. (2002). 'Creating Deliberative Publics: Governance After Devolution and Democratic Centralism' in: *The Good Society,* Volume 11, Number 1, 2002, pp. 66-71 (Article)

[16] Results from the Global Value Survey from OECD (2008) Trends Shaping Education. Paris: OECD page 74.

Tabel 2 Classification of the relation at Inholland and Amarantis between students, schools and government by type of discourse:

Relation between	State	student	Professional
Organization	C/M> Organizations behave very independently C/M>Limited state influence in governance (appointing key executives, supervisors etc.) M> Lump sum budget, both driven by student numbers and by output M> Financial risks partly in organisztion, partly state level too big to fail C/M> No regulator in playing field, free competition C> Indirect quality control, no state influence on curriculum	M> Student is mass consumer, bringing in money C/S> Students do not choose on quality or price but on proximity and image S> In meritocracy study is defensive necessity and/or commodity C/S>Non-voluntary relation between student and school: there is no other choice S>Strong pressure from government to attend college education	C> Professional seeks autonomy and focuses on class rather than organization. C/M> Low buy in in organizational issues: relation is transactional S> Risk avoiding behavior, tenured tracks are dominant C> Professionals try to avoid bureaucratic procedures, forms etc.
State		S> Clientele looks for recognition in political system (public opinion) S> Political systems finds interesting electoral support in frustration of both students/parents and professionals C/S> Education becomes 'hot' in both public opinion and political debate	C/S> Indirect influence of inspectorate and national (non-state) bodies on curriculum and assessment C/M> Limited legislation on professional standards, licensing etc. S/M> Labor conditions are hybrid: partly determined by national agreements and partly by local employers (flexible and decentralized)
Client			C/S> Student and teacher did not chose each other. No positive commitment, weak psychological contract S > Due to bureaucracy relations are anonymous

*Type of discourse: market dominated discourse (**M**), civic society dominated (**C**) or state dominated (**B**)*