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## **Towards a theoretical foundation for third sector organisational performance measurement and quality**

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### **Abstract**

#### **Purpose**

The theory of third sector organisational performance and quality has received little attention to date in a predominantly practice led research field. Adopting appropriate quality and performance practices is accepted as essential for the viability and effectiveness of the delivery of vital welfare services, but the lack of an appropriate theoretical underpinning could undermine the operationalisation of these approaches. Outlining the key theories proposed in the field, this paper aims to identify an appropriate theoretical perspective to underpin an effective approach to excellence for the third sector.

#### **Methodology**

Drawing on empirical data from third sector organisations in Scotland and the existing literature, the key theoretical lenses conceptualising third sector organisational performance and quality are addressed.

#### **Findings**

Recognising tensions between interpretive approaches, such as institutional theory, and positivist approaches such as contingency theory, a case is made for the application of stakeholder theory. Stakeholder theory has significant resonance for quality and performance and underpins the multi-stakeholder service delivery environment of the third sector. Improving understanding of the multiplicity of stakeholders' competing claims will contribute to supporting the sustainability of third sector organisations. The research provides evidence that organisational excellence in the third sector will be enhanced with an applied understanding of stakeholder theory and management.

#### **Research implications**

The research outlines the importance of developing a theoretical underpinning in the complex field of third sector organisational performance and enhances our understanding of how this can contribute to ensuring organisational excellence.

## **Originality/Value**

There is a lack of empirical research on the theory underpinning organisational performance in the third sector, a sector which is increasingly responsible for delivering key health and social welfare services. This research aims to contribute to a growing body of research by applying theoretical frameworks to data from third sector organisations to support the development of the effectiveness and credibility of its performance measurement for essential stakeholders.

## **Keywords**

Third sector, organisational performance measurement, quality, theory, stakeholder theory

## **Type of paper**

Theory

## **1. Introduction:**

In recent years the third sector has become increasingly responsible for the provision of key health and social care services (Milbourne, 2013; Conaty and Robbins, 2021; Taylor and Taylor, 2014). Third sector organisations (TSOs) are therefore responsible for reporting to a diverse range of stakeholders with complex performance requirements (Conaty and Robbins, 2021; Dacombe, 2011; Dhanani and Connolly, 2012; Lebec, 2023; Lebec and Dudau, 2023; Moxham, 2014). Alongside the complexity of their stakeholder groups, TSOs share characteristics which differentiate them from private and public sector organisations, which include their not for profit status, focus on mission, reliance on social capital and voluntarism (Wadongo and Abdel-Kader, 2014; Macmillan and Paine, 2021). Ensuring the robustness of the theoretical foundations of performance measurement are challenges which face all sectors (Bititci, 2018; Franco-Santos, Lucianetti and Bourne, 2012), but could be particularly problematic for the third sector where the lack of a theoretical underpinning could hinder the effectiveness and credibility of its performance measurement efforts for these critical stakeholder groups (Lee, 2021; Gomes and Gomes, 2015; Conaty and Robbins, 2021). Furthermore, identifying a suitable theory with which to study third sector organisational performance measurement (TSOPM) is recognised as being a body of work in its infancy (Moxham, 2014; Tucker, 2010; Taylor and Taylor, 2014), with research to date being largely conceptual with a small number of case studies and limited empirical studies to draw on (Conaty and Robbins, 2021; Gomes and Gomes, 2015; Taylor and Taylor, 2014).

The paper is structured as follows: it begins with a literature review which highlights the key theoretical frameworks identified in the literature with relevance to third sector organisational

performance, drawing on stakeholder theory, agency theory, resource dependence theory, contingency theory and institutional theory. The methodology outlines the approach which uses data from interviews carried out with third sector organisations in Scotland in the field of health and social care. The findings report on the qualitative data and the subsequent discussion reflects on the implications for theory and concludes with considerations for future research relevant to the theory underpinning third sector organisational performance.

## **2.0 Theoretical perspectives on third sector organisational performance and quality:**

### **2.1 Stakeholder Theory**

Using stakeholder theory as a theoretical lens for third sector organisational performance (TSOPM) has received some attention from researchers in the field (Gomes and Gomes, 2015; Gomes and Gomes, 2011; Taylor and Taylor, 2014). Stakeholder theory was established by Freeman (1984) and has potential for enhancing value for stakeholders as it allows for the simultaneous attention to their needs (Freeman, 1984; Conaty and Robbins, 2021). The third sector stakeholder base is very broad including beneficiaries, funders, regulators, commissioners, staff and volunteers (Bovaird, Dickinson and Allen, 2012; LeRoux, 2009; Taylor and Taylor, 2014). These stakeholders hold conflicting demands of measurement requirements with different outcome perspectives leading to difficulty in managing performance dynamics (Conaty and Robbins, 2021; Taylor and Taylor, 2014). Although stakeholder theory therefore may support the development of the conceptual foundations of performance measurement in the third sector (Taylor and Taylor, 2014), there is slow growth in the application of empirical data, despite being well established in other domains (Gomes and Gomes, 2015; Greiling and Stötzer, 2016; Conaty and Robbins, 2021). Stakeholder participation is a potential key success factor of TSOPM, due to performance measurement being linked to stakeholders' requirements for TSO accountability (Lee, 2021; Beer and Micheli, 2017; Lee, 2020). On one hand research points to an underpinning stakeholder theory perspective being likely to improve the development of third sector performance (Gomes and Gomes, 2015; Taylor and Taylor, 2014), however, a contrasting view is that a central deficiency of stakeholder theory is the difficulty of accurately identifying all stakeholders (Tucker, 2010).

Understanding stakeholder salience supports understanding of how TSOs are accountable to their stakeholders (Conaty and Robbins, 2021). Developing an understanding of stakeholder salience within stakeholder theory is an approach developed by Mitchell, Aigle and Wood

(1997), who posit that the attributes of power, legitimacy and urgency support the categorisation of stakeholders, and thus, their stakeholder salience. However, it is argued that stakeholder salience in the third sector is sensitive to perspective: predictions formulated from stakeholder theory need to account for the salience of stakeholders to the organisation (Shea and Hamilton, 2015). While there is an argument that third sector organisations may prioritise small sections of powerful stakeholders over sustained periods of time (Coule, 2015), other research suggests that this is only the case for a small proportion of organisations, with most able to successfully balance responsiveness to both clients (typically considered to be high in legitimacy and urgency but lacking power) and funder interest, not just those that hold the most financial power (LeRoux, 2009; Leipnitz, 2014). In the context of an overall increase in the quantity of performance reporting required from TSOs, improving understanding of stakeholder salience could support organisational improvement where TSOs aim to achieve legitimacy to their stakeholders through positive messages about their actions (Dhanani and Connolly, 2012; Conaty and Robbins, 2021; McConville and Cordery, 2021).

## 2.2 Agency Theory

Agency theory has been applied to improve understanding of performance measurement in TSOs (Lee, 2021; Coule, 2015; Carman, 2010). Agency theory describes the behaviours between organisations and their stakeholders and may be helpful in explaining the relationships between the ‘principal (or the funders)’ and the ‘agent (or the third sector organisation)’ (Gomes and Gomes, 2015). It suggests that the principal and agent may have different goals, interests and motivations (Carman, 2010). For example, TSOs may misrepresent their abilities to funders in order to secure funding or may not carry out the work to the required level (Carman, 2009). Problems can arise therefore when parties have divergent interests, the agent may have an advantage over the information being held within their organisation (Gomes and Gomes, 2011), or be perceived as being self-interested (Yang, 2009; Lee, 2021). From this perspective, measurement is externally imposed on TSOs by funders as a mechanism of accountability (Carman, 2010), however, there is a risk that self-interested agents (i.e. the third sector organisation) may misreport, or even cheat, due to information asymmetry (Yang, 2009).

It therefore takes time and resources to minimize these problems through the implementation of performance management systems (Carman, 2010). If, as it is proposed, that according to agency theory people are individualistic and motivated primarily by self-interest there is therefore goal conflict between agents and principals, and agents will not always act in the best

interests of principals (Coule, 2015; Lee, 2021). According to agency theory, performance based accountability systems are a necessity for funders (Gomes and Gomes, 2011). However, funders do not typically invest in the performance systems for the third sector, this means that many such systems are designed in house by third sector organisations with limited resources (Carman, 2010). Funders take many other aspects into account in their organisational decision making, for example, reputation, values and networks, and performance data may have a small impact on funder decisions than previously considered, this may be impeding attempts to incorporate diverse dimensions of nonprofit performance into the measurement system (Lee, 2021; Carman, 2010).

### 2.3 Resource Dependence Theory

Resource dependence theory provides a theoretical basis for understanding relations within an organisation's systems that enable co-ordination and change (Wellens and Jegers, 2011). It describes how organisations and stakeholders interact to exchange resources (Gomes and Gomes, 2011; Callen, Klein and Tinkelman, 2010b) and, as TSOs operate in a resource scarce environment, they must respond to resource providers' demands to reduce resource uncertainty and increase the opportunities for sustainability (Lee, 2021). Organisations must interact in their environment with others controlling scarce resources that ensure survival and will then change structures, behaviours and attempt to alter relationships with other organisations to obtain much needed resources (Wellens and Jegers, 2011). As TSOs are service providers in resource scarce environments, they must be compliant with the demands of resource providers to deal with the resource dependency (Lee, 2020; Callen, Klein and Tinkelman, 2010a).

From a resource dependency perspective, as TSOs are dependent on government funding it means they must be compliant with the resulting accountability demands from those funders (Thomson, 2010), and performance measurement has been proposed as a tool for responding to the accountability pressures (Lee, 2021). Resource dependence theory suggests that organisations work to preserve themselves against environmental uncertainty by consciously managing their external dependencies and suggests that financial performance is reliant on a strategy of placing some stakeholder interests over others (LeRoux, 2009). Key stakeholders, as resource providers, could cut off the flow of resources when their interests are not considered carefully (Gomes and Gomes, 2011). Organisations will favour certain stakeholders depending on the extent to which they are dependent on those stakeholders for resources critical to survival (LeRoux, 2009).

## 2.4 Contingency Theory

Contingency theory of performance measurement is based on the principle that particular features of a measurement system and its effectiveness are dependent on organisational and contextual factors (Wadongo and Abdel-Kader, 2014). There have been calls for contingency research on performance measurement to be extended to the third sector as, unlike in the for profit and public sector where a number of contextual variables influencing the use of performance measurement systems have been empirically studied, this has not been the case in the third sector (Wadongo and Abdel-Kader, 2014; Ferreira and Otley, 2009; Chenhall and Langfield-Smith, 2007).

Contingency theory has its origins in organisational theory and represents the positivist extreme of a theoretical spectrum when compared with an interpretive approach such as institutional theory (Tucker, 2010; Chenhall, 2003; Wadongo and Abdel-Kader, 2014). To consider contingency theory as a viable theory for the third sector the differences between for profit organisations and TSOs need to be addressed as approaches developed in the for-profit sector cannot be automatically transferable to the TSO environment (Tucker, 2010; Wadongo and Abdel-Kader, 2014). Contingency theory isolates and examines how contextual variables, in this case sector based differences, can influence the way organisational performance is viewed, defined, and measured in the not for profit sector (Wadongo and Abdel-Kader, 2014). Contingent factors for the third sector may include the existence of multiple stakeholders with different goals posing practical difficulties about what constitutes performance; a strong organisational culture which dominates in TSOs and which may be incompatible with private sector approaches to conceptualizing performance; and less control over resources, for example, funding may be seen as conditional upon particular performance outcomes (Tucker, 2010). Extant research on the application of contingency theory has been critiqued for having both methodological and theoretical weaknesses (Ferreira, 2010) and the lack of applied third sector research with contingency theory restricts understanding of its potential relevance (Chenhall and Langfield-Smith, 2007; Wadongo and Abdel-Kader, 2014). However, there is still an argument that it has potential relevance in a complex third sector landscape and could support a better understanding of the relationship between contextual variables and performance measurement (Wadongo and Abdel-Kader, 2014; Tucker, 2010).

## 2.5 Institutional Theory

According to institutional theory, organisational behaviour and structure is shaped by the environment; isomorphic pressures compel organisations to conform to conventional standards and beliefs, which are then further reinforced by institutional forces in the environment (DiMaggio, 1983; Meyer and Rowan, 1977; Carman, 2010). There is some consensus that institutional theory is a sufficiently broad lens with which to examine third sector performance, with the potential to explain why we have performance based accountability systems (Tucker, 2010; Greiling, 2010; Herman and Renz, 2008; Paton, Foot and Payne, 2000; Carman, 2010). Organisations may adopt performance measurement approaches for the purpose of achieving an award or standard, rather than supporting improvement; an institutional theory perspective points to a response to external pressure; not resulting in any substantive change in practice, but in order to assert legitimacy with funders and stakeholders (MacIndoe and Barman, 2013; Meyer and Rowan, 1977; DiMaggio, 1983). In some cases TSOs later institutionalise those approaches as part of practice (Carman, 2010; Liao, Soltani and Yeow, 2014; Herman and Renz, 2008). Institutional pressures coming from government may have a significant influence on the use of performance information but the impact of those pressures is less understood (Lee, 2020).

Coercive pressures can drive third sector organisations to adopt what they perceive they are required to adopt due to industry established best practice to achieve legitimacy (Tucker, 2010). Performance expectations, from funders and stakeholders, can be considered as a form of coercive isomorphism; conforming to isomorphic pressures can be a defence mechanism against organisational failure (DiMaggio, 1983; Lee, 2020; Gomes and Gomes, 2011; Tucker, 2010). Mimetic isomorphism may account for why third sector organisations adopt particular approaches to performance: it legitimizes a third sector organisation to its stakeholders by keeping up with best practice (Tucker, 2010; Herman and Renz, 2008). There is evidence that third sector organisations are inclined to imitate established views of effectiveness when they have originated in the for profit sector, in particular, when there is uncertainty about the best approaches or in order to maintain legitimacy (Tucker, 2010). Normative isomorphism is the pressure to conform which arises from dominant values and accepted practices of a peer group or professional body (DiMaggio and Powell, 1983; Tucker, 2010). There is less empirical evidence to support the influence of normative isomorphism in the third sector, but the claim is inferred from a line of argument that holds that professionals coming to the third sector from private sector organisations will bring their management practices with them (Tucker, 2010).

## 2.6 Summary

This review of the literature has drawn on the theories that lend support to understanding the relationship between a third sector organisation, its environment and its stakeholders, ultimately informing its performance measurement approaches. The research reveals a complex multi-stakeholder service delivery environment in which TSOs must be responsive to many stakeholders' performance requirements to ensure sustainability and organisational effectiveness. Third sector organisations require greater clarity in the development of their performance requirements and a first step would be an improved understanding of the theoretical frameworks underpinning those approaches, however, the literature reveals wide variation in the understanding of the potential theoretical applications.

## 3.0 Methodology:

This research aimed to explore and understand the theories underpinning third sector organisational performance measurement. Due to the relative scarcity of interpretive and applied studies in third sector management in the field of health and social care an exploratory investigation was undertaken, focusing on Scottish third sector organisations (Dickinson, 2012; Bach-Mortensen and Montgomery, 2019). Capturing perspectives from a number of third sector organisations ensured a comparison of those viewpoints as well as an exploration of their commonalities. The third sector organisations selected were working within the same regulatory and funding environment and had established partnerships and collaborative working practices (Dutton *et al.*, 2013; Bach-Mortensen and Montgomery, 2019). All the organisations received their funding from a complex mix of local authority, trusts, foundations and grants, corporate funders, small and large donors. The regulated Scottish third sector delivering social care, has been through a period of significant change and uncertainty, navigating the impact of policy reforms and the outcome of funding cuts with significant implications for the measurement of performance (Dutton *et al.*, 2013; Pearson and Watson, 2018; Hendry *et al.*, 2021).

The participating third sector organisations provided a range of services including learning disability, children's and families' services, rehabilitation and support for people with disabilities, supported employment, services to the homeless and supporting individuals with mental health issues and drug or alcohol dependency. They were connected and engaged as participants through their membership of a partner organisation which hosted collaborative training and membership activities supporting performance improvement. Recruitment took



place through the partner organisation which supported third sector training and development for its members. Individual representatives of those organisations with lead responsibility for performance and quality were invited to take part in interviews. This aligns with other research methodologies where those with responsibility for management decisions in relation to performance and quality are accepted as most appropriate to interview (Liao, Soltani and Yeow, 2014). Individual expert interviews and group interviews formed the core elements of the research design (Flick, 2014). In total sixteen third sector organisations participated in interviews, all of which were classified as medium, large, major or supermajor in terms of income. Semi-structured interviews, participant observation and group interviews were used for data collection. There were thirteen individual interviews, and two group interviews which took place alongside three group observations of network meetings, this allowed for triangulation in order to support validity and reliability (Denzin and Lincoln, 2011).

The interviews were recorded and supported by field notes made at the time of the interview and transcribed. This was helpful from the point of view of forming early reflections and analysis on the data and is recommended by Miles et al., (2013) as an approach to support later, deeper analyses. Data was analysed employing interpretive approaches (Bryman, 2004). Data analysis began in the early stages of data collection beginning with coding the transcripts and moving to interpreting the data. The qualitative data analysis process comprised of first cycle coding which allowed for a list of start codes to be generated from the data and ensured that data could be clustered into segments (Miles, Huberman and Saldana, 2013). Next, second cycle coding took place which grouped the summaries into smaller numbers of themes, in this second step, second order themes were generated to link more closely to theory (Gioia, Corley and Hamilton, 2012; Miles, Huberman and Saldana, 2013; Strauss and Corbin, 1994).

#### **4.0 Findings:**

To address the research aim participants were asked to share their perceptions of how organisational performance measurement was undertaken in their respective organisations. Working across a range of different types of service provision but within the common framework of the regulated third sector landscape, key findings which inform the theoretical underpinnings of OPM are addressed here. Fundamental to the discussions around performance the issue of managing and engaging with stakeholders and their relationship with the organisations was dominant.

## 4.1 Performance measurement through stakeholder engagement

### 4.1.1 The prioritisation of stakeholders

In order to deliver their organisational performance initiatives, understanding how stakeholder relationships were prioritised was of central concern for participants. Managing stakeholder relationships with those who had legitimacy and urgency, but low power, i.e., the beneficiaries, was considered a challenging aspect of stakeholder management for interviewees, as described here by a specialist from a large third sector organisation.

*The service users we are working with have disabilities or a long-term physical health condition, or are socially excluded, so there are major barriers and there are multiple barriers as well, so it is really about trying to address those barriers and showing the journey, and that in itself shows the funder, stakeholder, that you are achieving it (Quality and Performance Specialist, Supported Employment Charity).*

The TSOs aimed to be responsive to the needs of both clients (service users, or beneficiaries) and funders, especially as the funders held a position of high power while beneficiaries were in a position of legitimacy. When considering how to prioritise stakeholders, interviewees were primarily concerned with how to ensure the salience status of their beneficiaries was at least of equal status with more powerful stakeholders.

*I think the words that interest me are 'range of stakeholders'... I think the user involvement bit of that is most interesting, so I think performance for the people we serve as well as the people that fund us... (Chief Executive, Third sector support agency).*

Ensuring that beneficiaries were accorded an equal status with the funder was a dominant theme. However, the relationship with funders was referenced differently, in particular in terms of the dynamics, the power and urgency.

*Funding is the biggest [challenge] the sector is always going to moan about it, you don't have consistency of funding, there are very few funders who will fund you for more than one year ...I think 3 years if you are lucky, if it's a local authority, but due to*

*your funder you are having to evaluate the targets, you can lose funding (Quality & Performance Specialist, Supported Employment Charity).*

Managing stakeholder relationships, in this case with the care regulator, could have consequences for the viability of the service, as one interviewee expressed it:

*If someone is looking for a care service for themselves or a relative, that would be a natural port of call for them to look at - how's the organisation doing? what grades are they getting? what are they actually saying about them? So that is quite an important one for us, in that sense, because it will hopefully bring in business if we are getting good results (Quality & Performance Specialist, Social Care Charity).*

Good stakeholder management and relationships could therefore support future commissioning of services and business development through strong performance outcomes. Interviewees discussed how they prioritised organisational stakeholders. This was not typically a formalised process for any organisation and it was subject to continuous change due to competing demands changing the way stakeholders are managed. A stakeholder may not have had previously had an urgent claim on the organisation, but in the event of a change of circumstances the stakeholder relationship would need to be adapted accordingly, as the quality and performance specialist of a major organisation reflected:

*It looks great, I know, so simple on paper, so simple in my head, but things like time and competing priorities and they can change very quickly. So, yeah, because as soon as you've stumbled across a major issue, then actually you need to, in terms of due diligence, liability, exposure to risk, that then becomes, quite rightly, the priority (Quality & Performance Specialist, Learning Disability Charity).*

Managing collaborative relationships with other partner agencies was key for good stakeholder management practice amongst organisations. One interviewee stated that the need to work better at collaborative practice between stakeholders was a substantially growing requirement, and partner agencies described how they supported organisations to work together. Despite the understanding that an organisation may find itself competing against a collaborating

organisation for new business, there was still a willingness to share good practice, something that most considered to be unlikely to happen beyond the third sector. Sharing good practice with other external stakeholders may not always be organised strategically but was taking place across inter-organisational ‘peer’ groups. As an interviewee from a large third sector organisation reflected:

*It is very much you try and share good practice.... even though we are pitched against each other...if this was the private sector we probably wouldn't have the relationships we do have, because it wouldn't be allowed. (Quality & Performance Specialist, Supported Employment Charity).*

Those with responsibility for performance and quality were therefore often able to flexibly work alongside their external stakeholders, despite the potential divergent pressures.

#### 4.1.2 The salience status of stakeholders

There was evidence that TSOs organisations were prioritising the beneficiaries’ requirements over those of the regulatory body.

*It has taken us a while to start to get the message across that, you know, we are looking at quality in terms of outcomes for people who use the service, not in terms of compliance with the care inspectorate (Quality & Performance Specialist, Group Interview)*

Third sector organisations aimed to do more than meet the performance requirements of the regulator, but also to raise standards for high quality service provision.

*Are we talking about compliance with regulatory requirements, are we talking about delivering a good quality service, are we talking about making a difference to people's lives, and are those three the same things? (Chief Executive, Third Sector Support Agency).*

This reveals a tension between the performance requirements of the powerful stakeholders against the requirements of the beneficiaries. The third sector organisation was situated at a

locus point from the perspective of understanding; the salience status of the regulator and the beneficiaries were of equal, or normative, importance from the TSO's perspective.

Prioritising stakeholders on the basis of legitimacy and urgency (rather than power) meant focusing on the stakeholders who were core to the organisation's mission. Organisations could work to ensure that the less powerful beneficiaries' salience status was not seen as secondary to the more powerful stakeholders (funders and regulator) in any way. Whilst managing stakeholder relationships was time consuming, the investment in the process ensured that the more powerful stakeholders could understand the perspective of the beneficiaries. An interviewee described a proactive approach to managing their relationship with funders, offering a pragmatic method of delivering, in the first instance, what the funder might want, in terms of statistics.

*We are moving away from that to the client journey, the customer journey, to show that, yeah, we have hit the targets, but it's back to that, how do you know what you are doing is actually why that person has progressed...so we are trying to be proactive about that as well (Quality & Performance Specialist, Supported Employment Charity).*

This shows the third sector organisations taking a proactive lead in managing relationships with their funders. This perspective was further elaborated on by a Quality and Performance Specialist in another TSO.

*I think it doesn't give a picture of what I see, as what I want to see as a quality journey for the organisation, I want the bigger picture, I want why we are doing it and how we are getting there, and the processes and all the rest of it... but yeah, you still have to hit your KPIs at the end of the day because your funders demand it, or you haven't got an option, people demand things, you are not going to miss that...but just to focus on that from the language. it is the hard line KPIs at the end of the day, which isn't really just about this... (Quality & Performance Specialist, Children's Charity)*

This again reflects the tension between compliance, the management of high power stakeholders and the emphasis on culture which supports the organisational mission.

Interviewees described the conflict and tension between the relationships with stakeholders that they were working to manage most effectively. There was a continual drive to ensure that stakeholders were managed in such a way that beneficiaries were prioritised, even though this might mean challenging existing stakeholder management practices to ensure that the organisational mission remained at the forefront.

#### 4.1.3 Managing stakeholders and performance measurement approaches

One organisation reported undertaking a formal stakeholder survey to respond to changing performance requirements; managing those competing requirements was a complex task but necessary for sustainability. A quality and performance specialist made clear where the priorities for their organisation lay.

*Our business is people and providing support for people....  
we have to juggle that (Quality & Performance Specialist,  
Learning Disability Support Charity).*

Third sector organisations had applied performance measurement practices which would appeal to funders such as the EFQM Excellence Model (Bititci *et al.*, 2012). They showed that they were making pragmatic choices to secure funding and ensure viable service provision. However, interviewees found the commissioning system to be a long way from supporting the service excellence they aimed for.

*The charity sector tends to be very responsible in terms of  
wanting to deliver the best it can rather than looking to the  
contract and saying "all we are required to deliver is this?"  
So why deliver any more than that? (Chief Executive,  
Children and families charity).*

This critique of the level of service quality required by commissioners suggests that other sectors would be prepared to deliver to a lower standard than a third sector organisation. Some TSOs reported efforts to make a distinction in the differences between their stakeholder groups had, at times, become a distracting process. This aligns with the literature which recognises the broad nature of the third sector stakeholder base (Taylor and Taylor, 2014), but has not focused on how third sector organisations should manage any conceptual confusion.

## **5.0 Discussion:**

This paper set out to explore relevant theoretical approaches to third sector organisational performance by gathering qualitative evidence from regulated Scottish third sector organisations in the field of health and social care. Understanding organisational performance is essential for a sector which is providing vital welfare services to society. The theories which are most evident from the literature were initially explored, namely, stakeholder theory, agency theory, resource dependence theory, contingency and institutional theory. Empirical data was drawn from Scottish third sector organisations to explore the relevance of how performance is applied and to support a better understanding the relevance of the theoretical perspectives.

Agency theory proposes that principals and agents may have divergent interests and goal conflict can result (Carman, 2010; Gomes and Gomes, 2015; Lee, 2021), however, discussions from the participants showed relationships between those stakeholder groups were more multi-faceted than agency theory allows for. Measurement may be externally imposed on TSOs by funders, but TSOs are in many cases working to ensure stakeholder relations are managed collaboratively and the self-interested approach of agency theory is a less appealing lens with which to view TSOPM. Understanding resource dependency throws a light on the TSO environment, in which resources are scarce and organisations must compete for those scarce resources (Gomes and Gomes, 2011; Lee, 2021). However, the performance based accountability described as part of resource dependency – with sanctions for non-compliance – was not evident from the TSOs in this sample, which were navigating complex relationships with their external stakeholders and focusing on relationship building. According to institutional theory organisational behaviour is shaped by the environment and organisations must conform to conventional standards (DiMaggio and Powell, 1983; Lee, 2020; Tucker, 2010). There is certainly a case to be made for organisations adopting performance measurement approaches in order to seek legitimacy from funders and then institutionalise those practices (Liao, Soltani and Yeow, 2014) however, the organisations were working with their funders and their competitors in a more nuanced way and there was little evidence of organisational inertia which may result due to institutionalised behaviour (Gomes and Gomes, 2011). The positivist approach of contingency theory in general has only been applied at a conceptual level to third sector organisational performance and with evidence of TSOs working to manage sector difference and funders' performance requirements there seemed limited application of its potential relevance (Tucker, 2010).

Dominating the discussions from participants was developing an understanding of how stakeholder relationships were prioritised for the purposes of performance with a recurring theme of recognising stakeholder salience through the concepts of power, legitimacy and urgency (Mitchell, 1997; Taylor and Taylor, 2014; Conaty and Robbins, 2021). TSOs showed that they prioritised the salience status of the beneficiary (Martin, 2011), going beyond the contractual requirements of those commissioning services to do so. Managing responsive stakeholder relationships to beneficiaries, whilst still being able to deliver performance requirements to the regulator and funder was a significant challenge and TSOs were reframing funders expectations and reprioritising their beneficiaries (LeRoux, 2009). Overall, there was not widespread use of structured approaches to managing stakeholder relationships. It would be beneficial to explore further how much organisations are relying on a ‘successful informality’ among its stakeholders, as opposed to taking an even slightly more managed approach.

Third sector organisations were working normatively towards their stakeholders for whom they have performance measurement demands (Thomson, 2010). In some cases organisations were working to manage their stakeholder relationships by informing their instrumentally driven funders to consider more normative approaches to their performance demands (LeRoux, 2009). In other words, it was considered that funders in a position of high power could transmit their practices from the business sector and drive TSOs towards a more instrumental approach (Thomson, 2011; LeRoux, 2009). The evidence points to more subtle approaches from the organisations to prioritise lower power stakeholders and ensure they are given an equal status with other stakeholders. Furthermore, it was suggested that some funders may be aligning their position towards the TSOs more normative approach. The landscape of relationships between stakeholder groups – moving away from a more compliance and accountability driven motivation towards a more ethical, normative approach is likely to lead to a shift in approaches towards developing performance measurement (LeRoux, 2009). The perspective of the beneficiary was also central to many performance related decisions made by the TSO (Martin, 2011). It is likely that the more ethical perspective of stakeholder theory will hold relevance to improving our understanding of how third sector organisations tackle their performance measurement challenges. The research concurs with other research in this field that an underpinning stakeholder theory perspective is likely to improve the development of third sector performance (Gomes and Gomes, 2015; Taylor and Taylor, 2014; Conaty and Robbins, 2021), and notes that TSOs are effectively managing their stakeholder relationships to the



benefit of mission and the beneficiary and ultimately performance (Tucker, 2010).

## 5.1 Conclusion

Recognising tensions between interpretive approaches, such as institutional theory, and positivist approaches such as contingency theory, a case is made for the application of stakeholder theory. Stakeholder theory has significant resonance for quality and performance and underpins the multi-stakeholder service delivery environment of the third sector. Improving understanding of the multiplicity of stakeholders' competing claims will contribute to supporting the sustainability of third sector organisations. The research provides supporting evidence that organisational excellence in the third sector will be enhanced with an applied understanding of stakeholder theory and management.

## 5.2 Research Implications and Limitations

This research drew on several potential theories which have been considered applicable in the literature to third sector organisational performance. While the list of theories itself was selective, more detailed empirical research could be undertaken with each theoretical framework to assess their applicability. Because the purpose of interpretive research is to give meaning to the phenomena under study, it cannot be assumed that the research findings will be applicable to other environments. It is not suggested that these findings are representative of other clusters of third sector organisations, either in Scotland or further afield, but it could certainly be used to complement further research in this under-researched field. This research is drawn wholly from the perspective of the third sector organisations. Further research is needed to draw on perspectives from the other key stakeholders, i.e., the funder, the regulator and the beneficiary, to gain a more complete picture of stakeholder perspectives influencing performance measurement and to explore the facets of stakeholder theory that could aid knowledge in this field. This research moves forward our understanding of how stakeholder theory could be applied to performance measurement in the third sector and gives direction for future theoretical research.

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