Balancing a Neoinstitutional Dilemma: Governing Nonprofit Organizations for Legitimacy and Effectiveness
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Statement of Issues to be Considered

In this paper we ask the question, how can those charged with the governance of nonprofit organizations effectively manage a key dilemma posed by neoinstitutional theory – that attention to external stakeholders’, especially resource providers, conceptions of legitimate organizational action will detract from the organization’s efficiency (Meyer & Rowan, 1977). This dilemma is consistent with recent conceptions of nonprofit effectiveness as being socially negotiated (Herman & Renz, 2000), and of accountability being broadened from fiscal to performance and discretionary issues (Behn, 2001; Kearns, 1996). These conceptions indicate that nonprofit organizations are experiencing increasing demands to negotiate their legitimacy by adhering to expected practices, while simultaneously improving their effectiveness and efficiency. Indeed, empirical research indicates that the dilemma is one with which many nonprofits in strongly institutionalized fields, such as social services, struggle (c.f., Alexander, 1999a, 1999b). A need to avoid tradeoffs in the face of this dilemma is beginning to elicit responses by nonprofit boards and CEOs that are revealing an expanded and integrated sense of organizational legitimacy and ways to achieve it.

Overview of Relevant Literature

Early discussions of neoinstitutional theory concentrated on the nonprofit sector. The sector is heavily institutionalized, rendering the theory highly relevant. The essence of the theory is that the survival of organizations is determined not only by their actual performance but also, and perhaps more strongly, by whether they are perceived by key social actors as legitimate and worthy of support. Consequently, according to the theory, organizations conform to practices that are perceived as signals of legitimacy, producing isomorphism (DiMaggio & Powell, 1983: Deephouse, 1996) – a homogeneity of practices across organizations in a particular institutionalized field.

There have been surprisingly few studies applying neoinstitutional theory to the problems of leading and managing nonprofit organizations. In part, this is due to the sociological approach to institutional theory emphasizing that environmental factors determine organizational forms, providing relatively little room for discretionary action on the part of managers (Zucker, 1987). It appears that this approach has dominated in the nonprofit literature. Suchman (1995) points out the differing approach to institutional theory taken by scholars of organizational strategy. They see significant room for managerial agency – that is, for action and decision-making by organizational leaders.

The Managerial Dangers in Conforming to Practices that confer Legitimacy

Organizational legitimacy can be defined as a general perception that the organization is acting appropriately, that it is meaningful and valuable, given a prevailing set of values and beliefs (Suchman, 1995). As such, and in keeping with resource dependency theory (Barney, 1991), legitimacy is argued to be critical to an organization’s survival when this perception is held by actors such as foundations, United Ways, and governmental units that control resources needed by the organization. These actors are in a position to coerce nonprofit organizations to adopt commonly favored practices, lest they lose their legitimacy. The dilemma posed in the first paragraph of this proposal manifests itself in common understandings of best practices among nonprofit organizations, such as the efficacy of strategic planning, performance metrics and governance. Key social actors treat these practices, and others, as indicators of an organization’s legitimacy and can withhold resources from organizations that fail to display the practices. In addition to coercion, DiMaggio and Powell (1983) note two other sources of prescriptive pressure. One is that professions create normative expectations that their members will utilize accepted practices, a phenomenon heightened in the nonprofit sector by the professionalizing of nonprofit management. The second is mimicry, whereby organizational leaders attempting to cope with uncertainty mimic the actions taken by other organizations.
If the organizational structures and processes that are transmitted through coercive, normative and mimetic forces were truly effective in producing organizational performance, there would seem to be no dilemma for nonprofit organizations. However, the use of nonprofit board and management practices widely perceived as correct have been found to be largely unrelated to organizational effectiveness (Herman & Renz, 2004). Indeed, Meyer & Rowan (1977) have argued that any attention to externally-mandated ways of functioning is, per se, organizationally inefficient, in part due to the displacement of goals (Selznick, 1949) and deflecting of resources. In addition, there are problems due to imperfections in the prescribed practices. A fundamental problem is that the value of an innovative practice is often over-estimated by its innovators and first proponents, with more realistic assessments of its value coming only after many years have passed and the practice has become taken-for-granted as effective. Such practices merit Meyer and Rowan’s labels of myth and ceremony. They take on symbolic value among leaders in organizational circles as indicators of competent practice. Perhaps the most important long term problem is that the loss of diversity in the case of extreme rigidification of an institutional field results in diminished societal capacity to respond to future unknown contingencies (Scott & Meyer, 1991). This is especially poignant in the nonprofit sector where many missions are aimed at solving critical social problems that often emerge from the unique conditions of an era – conditions that are impossible to foresee and may require novel organizational forms and practices.

A strategic management perspective holds that organizational leaders can choose from a range of actions in responding to external pressures (Oliver, 1991; Suchman, 1995; Bresser & Millonig, 2003) and, hence, to the dilemma posed above. The research described in this paper investigates how leaders can engage in actions that respond to external expectations while simultaneously addressing organizational effectiveness.

**Methods Used and Expected Results**

Drawing on a protracted ethnographic study of a nascent organization (Morrison, 2002), we describe and analyze methods of blending formal and emergent strategizing by which nonprofit organizational leaders effectively negotiated demands of multiple stakeholders in a manner that achieves a *broad legitimacy* – one that demonstrates symbolic as well as substantive organizational performance. These descriptions and analyses are based on rigorous ethnographic methods (Van Maanen 1983) that grounded findings in the realities of practice, the routinized carrying-out of everyday activities (Bourdieu, 1977; Reckwitz, 2002). This particular ethnography systematically probed the lived worlds of leaders who were struggling to satisfy the demands of stakeholders. In keeping with the study’s ethnographic methods, one of the authors became a participant observer, utilizing lengthy, continuous, first hand involvement with a chair/chief executive pair in one organization.

Our method emulated the set of “direct research” activities outlined by Mintzberg (1983), such that the research was as purely descriptive as we were able to make it; relied on the simple “inelegant” strategy of very small sample sizes to pursue an understanding of complex, multivariate situations; was as purely inductive as possible, yet systematic in nature; and was measured in terms meaningful to organizational members. The participant observer entered into the work setting without theoretical preconceptions. The initial intent of the study was quite different than that addressed in this paper; it was to gain understanding of the relations of the CEO and board chair. The paper presents a detailed narrative description of real-life interactions of this pair to convey its key concept: *blended strategizing* as a method for achieving *broad accountability* and *broad legitimacy*. We compare this method to the types of managerial strategies postulated by Oliver (1991), Suchman (1995) and Bresser and Millonig (2003) to be available for securing legitimacy. We extend their models by arguing that the successful pursuit of a broad legitimacy involved the organizational leaders becoming *competent social agents* on behalf of their organization. Through their continual assessment of organizational success and failure, and their strategizing about how to interact effectively with key stakeholders, the governing leaders of the organization developed and displayed a competence in both negotiating and producing organizational performance. We argue that becoming competent social agents is a fundamental requisite for nonprofit leaders who are seeking to produce effective governance in contemporary society.

**REFERENCES**


