If not for profit,
for what and how?

Towards tailor made stakeholder interaction for social enterprises
(work in progress)

Arno GEURTSEN & Ans VERSTRAETEN
Vrije Universiteit Amsterdam, Zijlstra Center for Public Governance and Control

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Abstract:

Social enterprises are focused on creating public value. Public value can be described as 'what adds value to the public' and 'what is valued by the public'[1].

This interpretation leaves social enterprises with a problem. Due to the fact that these organizations are confronted with a complex multi-stakeholder environment, it is important to assess for which stakeholders the organizations should create public value, and what public value exactly means to the different stakeholders. This assessment is important because stakeholders determine whether a public organization is operating legitimate. When an organization is not operating in a legitimate way, stakeholders may withdraw their support, therewith threatening the autonomy or continuity of the organization[2].

In our research we elaborate on the aspects of legitimacy, public value and the interaction with stakeholders in order to fill in the relationship between public value, legitimacy and support.

We have found that stakeholder interaction at least consists of the choice of stakeholder groups, the assessment of their expectations and stakes, the way the organization should interact and the moments the organization should interact. We state that expectations and stakes towards public value are similar with aspects of reputation, due to the fact that it is hard to judge the choices, products and services and values and norms of social enterprises.

In our view, it is certainly possible to set up stakeholder interaction in an effective way. We think that the next challenge should be about the topics discussed with various stakeholders.

Keywords:
Legitimacy, stakeholder interaction, public value, reputation.

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[1]Benington, J., & Moore, M. H. (2010). Public value: theory and practice: Palgrave Macmillan.
[2] Pfeffer, J., & Salancik, G. R. (2003). The external control of organizations: A resource dependence perspective: Stanford Business Books.

INTRODUCTION

What creates public value? About twenty five years ago Dutch social enterprises did not have to bother answering this question. These organizations operated under the rules and guidelines of central government. When they acted accordingly, these organizations were legitimated. In the late 80's, this system of welfare became untenable. The government was and is no longer able to provide for the complex social needs of society. Moreover, individual citizens want control over matters that affect them. The strategy of the Dutch central government is less government with a shift of autonomy to social enterprises. A social enterprise is an organization with a primarily social purpose rather than to maximize profit for the shareholders and owners.

As social enterprises gained more autonomy, they became more responsible for the creation of public value. Social enterprises should consider the meaning of public value. Benington and Moore (2010) define public value from two dimensions. First, what the public values and secondly what adds value to the public. The first part of the definition emphasizes the individual interests and needs of current users of social enterprises. The second part focuses on the broader public interest and longer term needs including those of the generation to come[3].

In the past, several attempts have been made to express public value in one key indicator. Nowadays is clear that one figure does not cover the complexity of the concept of public value. Due to the fact that social enterprises are confronted with a complex multi-stakeholder environment, it is important to assess for which stakeholders the organizations should create public value and what public value exactly means to the different stakeholders. This assessment is important because stakeholders determine whether a public organization is operating legitimate. When an organization is not operating in a legitimate way, stakeholders may withdraw their support, therewith threatening the autonomy or continuity of the organization[4].

There are several examples over the last five to ten years that illustrate the above and where social enterprises did not meet the public value. The next two examples also stress the importance of stakeholder interaction.

In 2011, a report stated that students from a Dutch university of applied sciences graduated although they had not really earned it. It turned out that the board focused more on foreign expansion than on the quality of education and research. The media paid much attention to this scandal. The public was outraged because they value the quality of education from a university. Potential students were not interested any longer and they registered elsewhere. Therewith endangering the continuity of this university. The university responded surprised. They were convinced that they had complied with the standards. It seemed like they did not feel responsible while the stakeholders blamed them for this scandal.

Also in the year 2011, an incident occurred concerning a charity organization focusing on breast cancer. A news program stated that most of the donations were used for information and awareness about breast cancer. Stakeholders however were convinced that their donations were used for scientific oncological research. Although the mission is stated clearly on their website donors of this charity organizations were surprised completely by this information. This example shows that the stakeholders assign value to scientific research. However an incident like this can cause stakeholders to withdraw their support and stop donating to the charity organization. In this case the organization interacted with their stakeholders by adapting their website so that information about the expenditures became more transparent.

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[3] Benington, J., & Moore, M. H. (2010). Public value: theory and practice: Palgrave Macmillan.
[4] Pfeffer, J., & Salancik, G. R. (2003). The external control of organizations: A resource dependence perspective: Stanford Business Books.

A social enterprise cannot decide itself what kind of public value it needs to create. To find out what the public values or what adds value to the public the stakeholders must be involved. This stakeholder interaction seems to be a challenge for most social enterprises, because these organizations are not accustomed to interact with their stakeholders. Therefore, we focus in this paper on the stakeholder interaction of social enterprises to add public value. Our main research question is: 'How should stakeholder interaction be set up for a social enterprise in order to add public value and therewith operate in a more legitimate way according to stakeholder opinions?'

The aim of our research is to describe, explain and understand the way social enterprises interact with their stakeholders as it relates to public value, legitimacy and support. In this paper we address the following topics. First, we elaborate on the theoretical aspects of public value, legitimacy, reputation and stakeholder interaction. Secondly, a brief description is presented of social enterprises in the Netherlands. The third part describes the method of our research. After the third part the empirical results are presented. Finally, the main research question is answered. Also final remarks and suggestions for further research are discussed in the last part.

PUBLIC VALUE AND LEGITIMACY OF SOCIAL ENTERPRISES

Public value

Social enterprises are supposed to create public value. Public value can be defined as "what adds value to the public and what is valued by the public"[5]. The "strategic triangle" concept of Mark Moore forms the basis of our ideas.
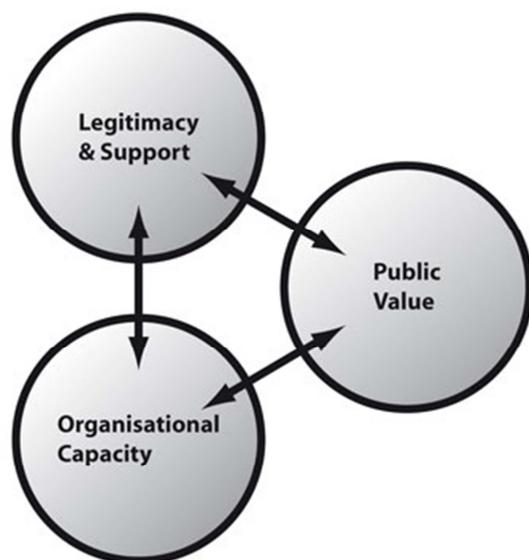

Figure 1. The strategic triangle (Moore, 1995).

In this model, the concepts of public value, legitimacy and support, and organizational capacity relate to each other. A social enterprise creates public value when it provides value according to the needs of stakeholders. Then the social enterprise will be legitimated by their stakeholders and receive support. Finally, organizational capacity is necessary to achieve the social needs[6].

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[5] Benington, J., & Moore, M. H. (2010). Public value: theory and practice: Palgrave Macmillan.
[6] Moore, M. (1995).Creating public value: Strategic management in government. Harvard University Press.

Legitimacy

Legitimacy is a well known topic. Suchman defines legitimacy as "the generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially construct system of norms, values, beliefs and definitions"[7]. Legitimacy is the result of a social evaluation. In the legitimating process, the stakeholders take various aspects into account. The result of this process can change over time, because the opinions and ideas in society alter the prevailing norms and values.

Suchman distinguishes three forms of legitimacy: pragmatic, moral and cognitive legitimacy[8]. These forms of legitimacy provide insight into how social enterprises obtain legitimacy.

Pragmatic legitimacy is related to the direct needs and interests of the stakeholder. Every social enterprise has many stakeholders who depend on the products and services delivered[9].

Moral legitimacy includes the evaluation of the processes, outputs and outcomes of the social enterprise. The stakeholders assess the organization on the choices made and whether outcomes are desirable. The stakeholder passes judgment on outputs, procedures, structures and representatives compared to what is normal[9]. What is regarded as normal or desirable can vary in a group, individual or society[10]. It is not easy to determine what the stakeholder takes into consideration when he tries to establish the legitimacy of a social enterprise. Obtaining this type of legitimacy has consequences for the content of the information provided by social enterprises.

Cognitive legitimacy is less tangible but also the most essential for a social enterprise. If this form of legitimacy is present there are no questions about the ins and outs of the social enterprise. There is a kind of "taken-for-grantedness", the organization is a necessity for society. Cognitive legitimacy helps in the prevention of questions by the public[10]. This form is important because if an organization is not legitimate in a cognitive way there will be so many questions to answer that it is impossible for a social enterprise to add any value to the public.

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[7] Suchman, M. (1995). Managing legitimacy: Strategic and institutional approaches. *Academy of Management Review, 20*(3), 571-610.

[8] Deephouse, D., & Suchman, M. (2008). Legitimacy in organizational institutionalism. *The Sage handbook of organizational institutionalism*, 49-77.

[9] Suchman, M. (1995). Managing legitimacy: Strategic and institutional approaches. *Academy of Management Review, 20*(3), 571-610.

[10] Bitektine, A. (2011). Toward a Theory of Social Judgments of Organizations: The Case of Legitimacy, Reputation, and Status. *The Academy of Management Review (AMR), 36*(1), 151-179.
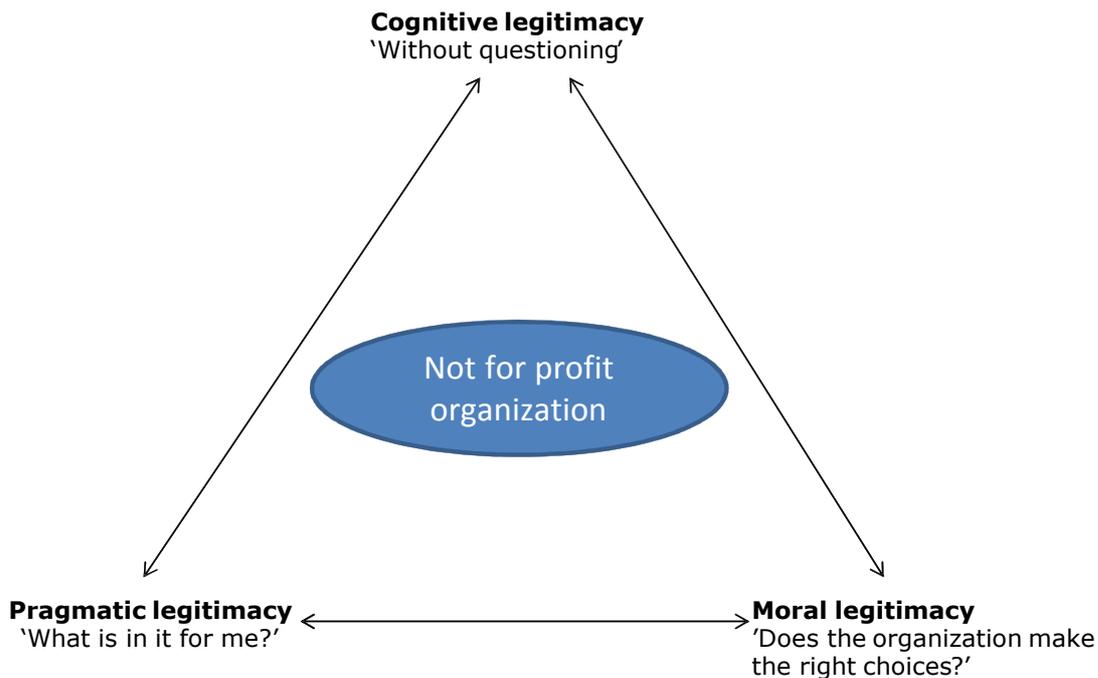
Cognitive legitimacy
'Without questioning'

Not for profit
organization

Pragmatic legitimacy
'What is in it for me?'

Moral legitimacy
'Does the organization make
the right choices?'

Figure 2. Kinds of legitimacy (Suchman, 1995).

The process of legitimating is twofold and a customized process[8]. In the first place, it is important that the organization interacts with the stakeholders in the correct manner[11]. The interaction with stakeholders can be designed by involving, informing, consulting, collaborating or empowering stakeholders when an organization takes decisions or sets goals [9,10,11,12]. Besides the way the stakeholder should be interacted with, it is also important to assess when to interact with the stakeholder. There are some natural interaction moments: during strategy formulation, annual budgeting process, the start of a project and other formal or informal meetings.

The second part is about achievement. The stakeholder wants to see his expectations regarding performance and appearance confirmed. This part of the legitimating process is excluded of this paper.

Reputation

Besides legitimacy, reputation is a critical factor for social enterprises. The concept of reputation enables stakeholders to legitimate social enterprises. Therefore, we elaborate on reputation at this point in this paper before we describe the theoretical point of view on stakeholder interaction in the next section.

There are several definitions for reputation[13]. All of these definitions are based on experiences with an organization in the past. There is also a common understanding that reputation can be labeled as a judgmental process by stakeholders.

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[11] Bryson, J. M. (2004). What to do when stakeholders matter. *Public management review, 6*(1), 21-53.

[12] Rüegg-Stürm, J. (2005). The new St. Gallen management model: basic categories of an approach to integrated management: Palgrave Macmillan Basingstoke.

[13]- Bitektine, A. (2011). Toward a Theory of Social Judgments of Organizations: The Case of Legitimacy, Reputation, and Status. *The Academy of Management Review (AMR), 36*(1), 151-179.

  - Davies, G., Chun, R., da Silva, R. V., & Roper, S. (2004). A corporate character scale to assess employee and customer views of organization reputation. *Corporate Reputation Review, 7*(2), 125-146

  - Fombrun, C. J., & Gardberg, N. (2000). Who's tops in corporate reputation? *Corporate Reputation Review, 3*(1), 13-17.

  - Fombrun, C. J., Gardberg, N. A., & Sever, J. (2000). The reputation quotient: A multi-stakeholder measure of corporate reputation. *Journal of Brand Management, 7*(4), 241-255.

Of course there are differences between the several definitions. Some researchers state that reputation is gradual[14]. Others share the opinion that each organization has a reputation, independent of the availability of a competitor[15]. Stakeholders tend to label an organization and give it a first reputation based on expectations of others[15].

According to studies of Zyglidopoulos on the question whether a stakeholder bases his judgment on facts or on opinions of himself or others, or a combination of both, we describe reputation as 'the set of knowledge and emotions held by various stakeholder groups concerning aspects of the firm and its activities'[16].

Unlike profit organizations, where reputation is measured by how stakeholders look to financial stability, product quality and other related issues[17], other aspects are relevant to determine the reputation of social enterprises. Davies (2004) distinguishes more qualitative aspects of reputation related to the manufacturing process. These aspects describe the features a social enterprise. The aspects are:
- Agreeableness
  An agreeable organization can be characterized as friendly, open, pleasant and straightforward. The organization is concerned and reassuring, supportive, honest, sincere and trustworthy.
- Enterprise
  An enterprising organization is cool, trendy and young, does up to date things and is innovative, daring and extravert.
- Competence
  A competent organization is ambitious and wants to achieve things, the organization is rather technical, secure and hardworking.
- Chic
  A chic organization is charming, stylish and elegant, but also prestigious, exclusive and refined. It could be snobby and elitist.
- Ruthlessness
  A ruthless organization is rather arrogant, and aggressive. It is also authoritarian, inward-looking and controlling.

The importance of reputation lies in the fact that stakeholders form an opinion about an organization based on the aspects mentioned above. When this opinion is formed, stakeholders also expect organizations to act accordingly. When the organization does not act or react as supposed, it has a serious problem, causing a loss of reputation and therewith endangering their autonomy or continuity[18], followed by loss of access to resources.

- Suchman, M. (1995). Managing legitimacy: Strategic and institutional approaches. *Academy of Management Review, 20*(3), 571-610.
- Sztompka, P. (1999). *Trust: a sociological theory*: Cambridge University Press.
- Zyglidopoulos, C. (2001). The reputational impact of accidents. *Business and Society, 40*(4), 416–441.
- Zyglidopoulos, S. (2003). The issue life-cycle: Implications for reputation for social performance and organizational legitimacy. *Corporate Reputation Review, 6*(1), 70-81.

[14] Fombrun, C., & Shanley, M. (1990). What's in a name? Reputation building and corporate strategy. *Academy of management journal*, 233-258.

[15] Deephouse, D., & Carter, S. (2005). An Examination of Differences Between Organizational Legitimacy and Organizational Reputation*. *Journal of Management Studies, 42*(2), 329-360.

[16] Zyglidopoulos, S. (2003). The issue life-cycle: Implications for reputation for social performance and organizational legitimacy. *Corporate Reputation Review, 6*(1), 70-81.

[17] Fombrun, C. J., & Gardberg, N. (2000). Who's tops in corporate reputation? *Corporate Reputation Review, 3*(1), 13-17.

[18] - Desai, V. M. (2011). Mass Media and Massive Failures: Determining Organizational Efforts to Defend Field Legitimacy Following Crises. *The Academy of Management Journal (AMJ), 54*(2), 263-278.
- Pfeffer, J., & Salancik, G. R. (2003). The external control of organizations: A resource dependence perspective: Stanford Business Books.

At the start of this paragraph we stated that reputation enables the concept of legitimacy. Now we are able to underpin this statement.

Especially cognitive legitimacy is very similar to reputation when it concerns aspects of the social enterprise related to the past performance. The evaluation of reputation resembles that of cognitive legitimacy because the criteria of assessment overlap[19].

However, there are differences. Cognitive legitimacy is determined by examining the similarities between organizations. While reputation emphasizes the differences between organizations[19].

The assessment process is also different. Legitimacy is the result of a social evaluation of norms and values. Reputation is a social comparison of an organization's behavioral attributes[20]. These behavioral attributes can be recognized in the aspects of reputation from Davies (2004).

The aspects of reputation represent a general image of a social enterprise. This image is shared among stakeholders and leads to trust and legitimacy[21].

In our opinion, a stakeholder gives the organization a positive reputation when the organizations behavioral attributes match the norms and values the stakeholders consider important.

Therefore by classifying the organizations with the aspects of reputation the cognitive legitimacy becomes more visible.

Public value, legitimacy and reputation are formed in the environment of a social enterprise and not by the organization itself. The perceptions of stakeholders are of central importance for the existence of a social enterprise. In the next section stakeholder interaction will be described.

STAKEHOLDER INTERACTION

Recognizing multi-stakeholder complexity[22,23,24], it becomes clear that the legitimacy of the organization depends on the judgment of various stakeholder groups. These groups can pursue different and even conflicting stakes[19,22,25].

To set up interaction with stakeholders a social enterprise should identify their stakeholders. There is no default list of stakeholders where an organization should reckon with.

There are various methods for selecting stakeholders[24,26]. Bryson, for example, selects stakeholders on the aspects power, interests, available sanctions, dependency, vulnerability and gravity of the organization in relation to its stakeholders. Using these criteria results in a list with stakeholders. The idea behind this labeling is that every stakeholder should be involved differently[27].

[19] Bitektine, A. (2011). Toward a Theory of Social Judgments of Organizations: The Case of Legitimacy, Reputation, and Status. *The Academy of Management Review (AMR), 36*(1), 151-179.

[20] Deephouse, D., & Carter, S. (2005). An Examination of Differences Between Organizational Legitimacy and Organizational Reputation*. *Journal of Management Studies, 42*(2), 329-360.

[21] Luoma-aho, V. (2007). Neutral reputation and public sector organizations. *Corporate Reputation Review, 10*(2), 124-143.

[22] Bryson, J. M. (2004). What to do when stakeholders matter. *Public management review, 6*(1), 21-53.

[23] Minderman, G. (2012). *Waar is de raad van toezicht?* : Boom/Lemma.

[24] Mitchell, R. K., Agle, B. R., & Wood, D. J. (1997). Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. *The Academy of Management Review, 22*(4), 853-886

[25] Deephouse, D., & Suchman, M. (2008). Legitimacy in organizational institutionalism. *The Sage handbook of organizational institutionalism*, 49-77.

[26] Bryson, J. M. (2004). What to do when stakeholders matter. *Public management review, 6*(1), 21-53.

[27] Fung, A. (2006). Varieties of participation in complex governance. *Public Administration Review, 66*, 66-75.

In our search for how stakeholders should be interacted with, we were not able to establish the relationship between stakeholder importance and ways of interaction. There is research on differences between stakeholder interaction. Bryson (2004) distinguishes between informing, consulting, collaborating, and empowering.

The St. Gallen management model by Rüegg-Stürm (2003) describes the complexity of stakeholder interaction through formulating questions on who to interact with, at what moment, how and when. According to the St. Gallen management model stakeholders should be interacted with at three moments, when an organization formulates its mission statement, when strategic decisions are made and when operational plans are drawn up[28]. These three moments coincide with the management cycle of an organization. Bryson (2004) adds more informal moments such as the start of a project or informal meetings with agendas which are of concern of stakeholder groups.
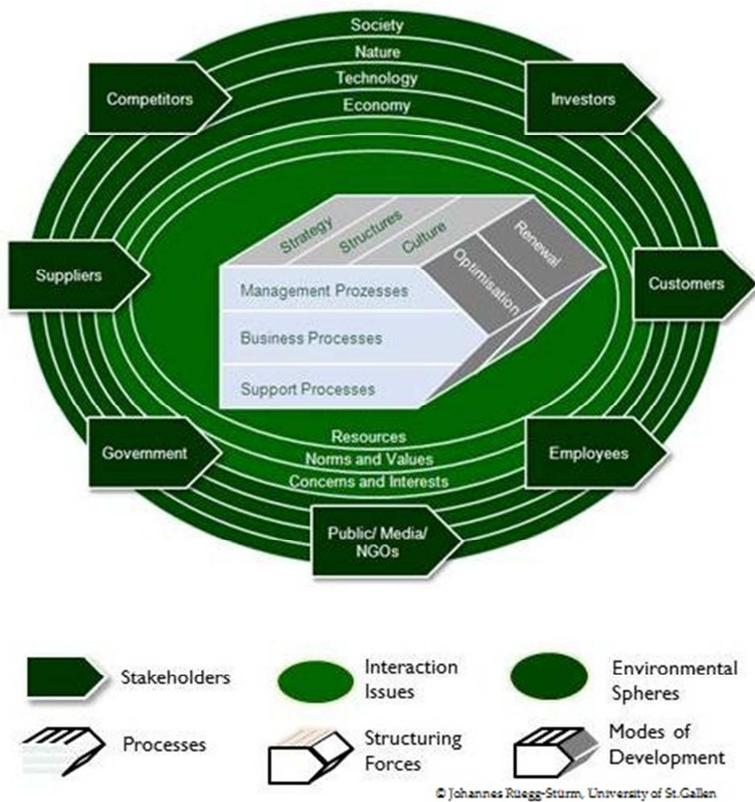

Figure 3. St. Gallen Management Model (Rüegg-Stürm, 2003).

Based on the theory of public value, legitimacy and stakeholder interaction we conclude that it is important to interact with the right stakeholder at the right moment in the proper way.

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[28] Rüegg-Stürm, J. (2005). The new St. Gallen management model: basic categories of an approach to integrated management: Palgrave Macmillan Basingstoke.

COMBINING PUBLIC VALUE, LEGITIMACY AND STAKEHOLDER INTERACTION

So far in this paper, we have described the concepts of public value, legitimacy and stakeholder interaction separately. From our beliefs that public value and legitimacy are assessed by the stakeholder, we want to combine Suchman's concept on legitimacy and Moore's concept on public value. In Moore's model, when a social enterprise starts 'producing' public value the stakeholders will support and legitimate the organization. In Moore's latest book "recognizing public value" the Public Value Account is introduced as an instrument for dialogue with stakeholders on public value.

The process of valuation by stakeholders is no part of Moore's model. We know that every stakeholder has its own perception of social enterprises. Besides these perceptions, the stakeholders all have different values and these can change over time. Therefore we can state that what is valued by the public also changes over time. It is not that simple for an organization to produce public value when norms and values of the authorizing environment change.

As mentioned before, Suchman (1995) distinguishes three forms of legitimacy. In his definition of legitimacy he describes the role of the public and the social evaluation that takes place and changes in time. The norms and values within the social evaluation play an important role in the legitimating process as described by Bitektine (2011).

Combining public value and legitimacy by introducing norms and values of the public and social evaluation into the model differentiates the concept of public value and makes it more applicable. In this adapted model public value is created when the products, services and choices and the organizational capabilities are in accordance with the expectations and stakes of stakeholders given certain norms and values.

From now on we distinguish three types of public value combined with the three forms of legitimacy introduced by Suchman (figure 4).
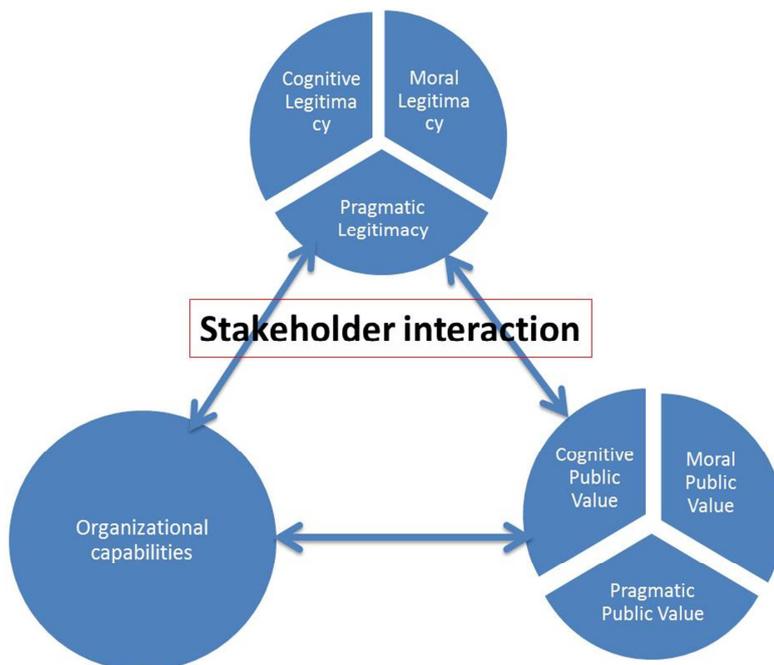

Figure 4. Model combining Public Value and Legitimacy (Moore, Suchman).

The first type of public value is quite the same as the pragmatic legitimacy of Suchman. Moore uses the concept of public value in this way. Social enterprises affect the needs and interests of the stakeholder directly. Like pragmatic legitimacy we call this form pragmatic public value. Stakeholders do expect the organization to deliver products and services. The social enterprises have to provide these products and services in the most efficient and effective way. The valuation of the organizations is highly dependent on matching expectations with actual service levels.

The other two forms of public value resemble moral and cognitive legitimacy related to social norms and values.

The second kind of public value is called 'moral public value'. This form is focused on the choices a social enterprise makes and whether outcomes are desirable. In the light of public value it is important to know what stakeholders expect the social enterprise to choose. It is not easy to determine the expectations of the stakeholders. Even when the social enterprise and the stakeholders get into a dialogue about processes, outputs and outcomes public value has still two dimensions: what adds value and what is valued. To establish the moral public value a social enterprise should explain her choices to the public and the public should give their opinion on the two dimensions. This will be a complex dialogue.

The third dimension of public value, the cognitive public value, is just as cognitive legitimacy difficult to describe. The social enterprise is considered inevitable and necessary for society. A dialogue about the "taken-for-grantedness" of the organization is probably not the way to establish the cognitive public value of a social enterprise. The central question for such a dialogue should be: "What does the social enterprise cause to rock to its foundations?". Using this question, everybody knows or should know what causes stakeholders to lose their faith in the social enterprise.

We expect the adapted model enables us to operationalize public value. In our findings of this paper we want to test this adapted model by looking at the selection of stakeholders, the interaction with stakeholders and the creation of public value and gaining legitimacy.

DESCRIPTION OF SOCIAL ENTERPRISES IN THE NETHERLANDS

We think it is important to give some background about the Dutch social enterprises in order to fully understand our research. The development of this type of organization is not the same in every country.

Until the 1980's many organizations that nowadays are called social enterprises were part of national, regional or local government. Central government was convinced that liberalizing these social enterprises would enhance efficiency and effectiveness. After the liberalization different types of social enterprises emerged. Some organizations became private organizations with public goals, other organizations stayed governmental. Sometimes this division changed over time. At this moment some organizations are still governmental, while others are more or less privatized.

However we can distinguish a number of similar characteristics:

- A social enterprise is a private organization. The main objective is not power or profit but the delivery of goods and services to thereby fulfill a social value which is perceived and legitimized by its stakeholders. The financing of operations and financial position are a precondition to achieve the objectives. The revenues come from various sources of funding[29,30].

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[29] Waal, de, S.P.M., Schuyt, Th.N.M., Verveen, P.A. (1994). Handboek maatschappelijk ondernemerschap. Houten/Zaventem: Bohn Stafleu Van Loghum.
[30] Mouwen, C.A.M. (2006). Strategie-implementatie, sturing en governance. Assen: Koninklijke Van Gorcum BV.

- Social enterprises are accountable to the government and their stakeholders. Accountability guidelines are defined per sector (e.g. healthcare, education, charity). It is striking that these guidelines often include the interaction with stakeholders.

For our research, we focused on these social enterprises. They wonder how to shape stakeholder interaction in order to add public value and enhance their legitimacy.

METHODOLOGY AND DATA COLLECTION

For this research we have used a deductive research strategy. On the basis of an extensive literature research we have established that public value, legitimacy and reputation are formed by the stakeholders and not by the organization on its own. Also multi-stakeholder complexity is a widespread phenomenon. We know that every stakeholder has its own perception of social enterprises. Besides these perceptions, the stakeholders all have different values and these can change over time. So, all stakeholders are different and for a social enterprise it is impossible to please them all. Still, for the existence of a social enterprise interaction with stakeholders is of central importance.

With this research we want to assess if stakeholder interaction is a combination of the following questions:
1. Which stakeholders are considered to be important for a social enterprise?
2. Which stakeholders want interaction at what moments?
3. Which stakeholders want interaction in what way?
4. Which norms and values are considered to be important?

In 2012, the data collection started. The main research domain is the social enterprises in The Netherlands. Our aim is to collect a diversity of data among different organizations throughout the whole sector. It is not possible to conduct a research that big. That is why we conducted small studies. A positive effect of this approach is the possibility to learn and correct our methodology over time.

We started our research at two university hospitals performing case studies. We have chosen these university hospitals because they have a wide range of tasks in society and have a wide variety of stakeholders. We also knew that both are engaged in stakeholder interaction.

For these case studies, we used closed questionnaires. The first question focused on the selection of stakeholders. The following questions dealt on aspects of reputation, forms of interaction, and moments of involvement. The main conclusion of this research was that the method we introduced for selecting stakeholders based on the categories of Bryson was understandable and applicable. A remark from these case studies was that stakeholder selection cannot be limited to one organizational level. Products and services are delivered at an operational level. Choices usually are made at management or board level. The results showed that stakeholders had contact with employees on different organizational levels. Therefore stakeholder interaction takes place on any organizational layer.

Furthermore we learned from the university hospitals that the aspects of reputation are recognized as important aspects for stakeholders and represent opinions about the organization. The findings from this study confirmed our thoughts and justified further research.

A second empirical study was conducted at Dutch charity organizations. We broadened our research to organizations and their stakeholders. The 18 respondents from the charity organizations filled in a standardized questionnaire with closed questions completely. The questionnaire is divided in three main dimensions: general, aspects of reputation and stakeholder interaction. Our questionnaire is based on the same literature studies we used for the first research among university hospitals.

The participating social enterprises of the charity branch were asked to put together a list of important stakeholders. This list ought to be based on the criteria mentioned in our theoretical part. To support the organizations we added certain categories of stakeholders (competitors, investors, customers, employees, public, media, government, suppliers).

The stakeholders on the lists of the organizations were invited to participate in the research. They also received a standardized questionnaire. In total we approached 398 stakeholders from one branch (charity), 50,7% responded. A fully completed questionnaire was submitted by 137 stakeholders. Among the initially invited stakeholders was a large amount of donors. Remarkably most of them didn't respond. After we corrected for these quantities the response resulted in 46,4%. This response is just a small quantity of a large group of stakeholders and therefore not representative for the whole group.

The invited stakeholders are all known by the charity organizations. The opinion of stakeholders unfamiliar to the involved charity organizations is no part of this research.

In this study we were able to ask the social enterprise and their stakeholder the same questions about reputation and stakeholder interaction. We asked the stakeholders what they expect and what they experience. We were curious if we would find differences between the organizations and their stakeholders.

At this moment data are gathered from vocational organizations. In this paper only preliminary results from these organizations are used.

The data used in this paper is gathered from 38 social enterprises in three branches: healthcare, charities and education.

Our study focuses on two aspects of the strategic triangle: public value and legitimacy and support. The organizational capacity has not been object of our study due to the fact that the resources of each organization are different.

RESULTS

It is our purpose to answer the main research question with the results from the four questions we formulated in the methodology and data collection part. The main research question is:

"How should stakeholder interaction be set up for a social enterprise in order to add public value and therewith operate in a more legitimate way according to stakeholder opinions?".

In the following part of this paper the results will be presented along the following questions:
1. Which stakeholders are considered to be important for a social enterprise?
2. Which stakeholders want interaction at what moments?
3. Which stakeholders want interaction in what way?
4. Which norms and values are considered to be important?

Which stakeholders are considered to be important for a social enterprise

For the stakeholder selection we introduced a method using the aspects of Bryson (2004): power, interests, available sanctions, dependency, vulnerability and gravity. Most participating organizations used this method and came up with a stakeholder list. The main categories we presented were recognized by the various social enterprises. The detailed lists differ per organization depending on their particularities and environment.

For charity organizations the most important stakeholder groups are partners and donors. A university hospital stated referrers, insurance companies and students as most important. And as for vocational organizations, they are the most influenced by trade and business organizations, other education organizations, students and alumni and the Inspectorate for Education.

Which stakeholders want interaction at what moment and in what way

As mentioned in the theoretical part of this paper, interaction is divided in two: the moment and the form.

Our results show that each stakeholder group requires a different amount of interaction at different moments. There is a gap between the actual and wanted interaction (table 1).

Stakeholder groups	Little interaction		Much interaction	
	Actual	Wanted	Actual	Wanted
Partners	51%	44%	49%	56%
Donors	97%	91%	3%	9%
Financers	75%	58%	25%	42%
Employees	56%	53%	44%	47%
Social organizations	87%	75%	13%	25%
Government organizations	56%	44%	44%	56%

Table 1. Wanted and actual interaction.

More than 67% of the stakeholders of the charity organizations think it is important to interact with the organization. According to the results most of the time interaction occurs at informal moments, such as starting a project, activities a stakeholder plays part in (graph 1). The perceptions of the organization and stakeholders are different. In the perspective of the organization there is more frequent interaction than in the perception of the stakeholders.

On which of the following moments did the organization try to contact you?
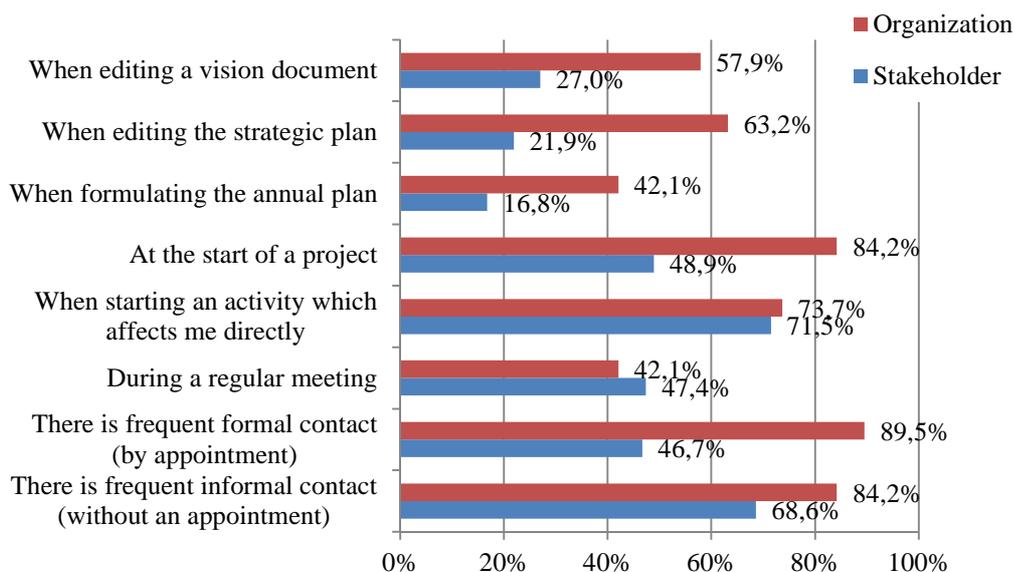
Graph 1. Moments of interaction.

Involvement at decisive moments of the organization takes places when strategic plans or operational plans are drawn. Especially at these moments a stakeholder should want their opinion to be taken into account. Mainly employees, governmental organizations and partners want their opinions considered by the organization. Remarkably donors and social organizations do not want much interaction nor want they taken their opinions into account.

The hospitals from our research above all involve their professionals and support staff when strategic plans or operational plans are drawn.

Vocational organizations state they interact a lot with trade and business organizations, other education organizations, students and alumni. During the strategic process the stakeholders of vocational organizations are involved. When the vocational organizations draw up a school curriculum they interact with trade and business organizations, other educational organizations and students. Other moments for stakeholder interaction mentioned are bilateral consultation and joint projects.

The stakeholder groups involved in decision-making moments are often internal, nearby or interested in specific business goals of social enterprises.

Besides the moments of interaction, the form of contact is also a part of stakeholder interaction. In our questionnaire we used the categories of Bryson (2004): inform, consult, involve, collaborate with or empower.

Our data contains responses from charity organizations and hospitals and the participating stakeholders from charity organizations. The charity organizations are convinced they use all forms frequently, except the exertion of control (empowerment). The perspective of the stakeholder is quite different. They experience a lot of exchanging information and consulting. Stakeholders experience hardly any dialogue or empowerment.

The actual situation does not need to be a problem if the stakeholder experiences the form of interaction he actual wants.

To localize any gaps we asked for the forms of interaction considered important. All kinds of interaction are valued important by stakeholders as well as the organizations, apart from the empowerment (graph 2).

Which form of contact do you consider to be important?
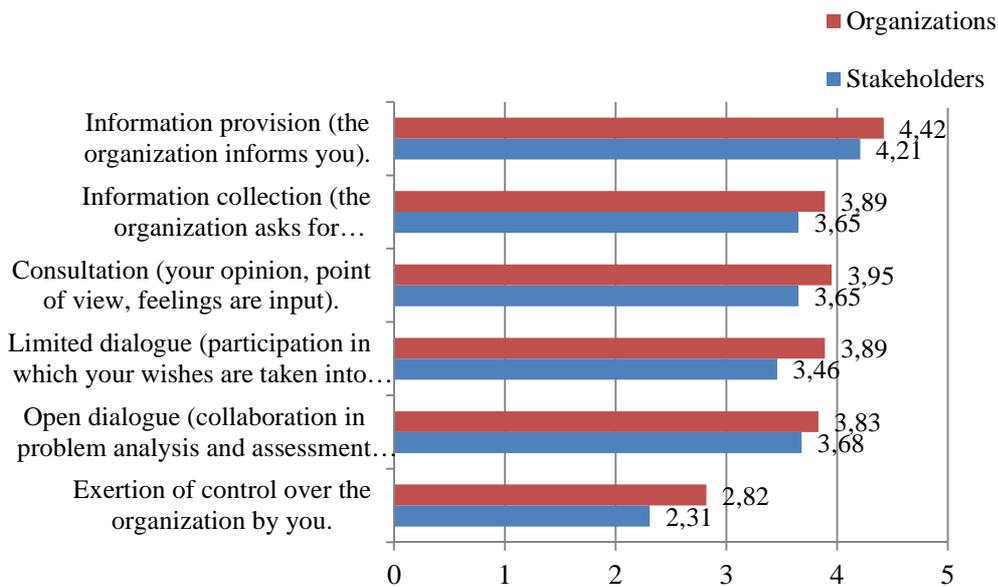
Graph 2. Forms of contact.

The hospitals state they inform their stakeholders. In a few cases professionals and students are collaborated with or empowered.

Which norms and values are considered to be important

We asked the organizations and their stakeholders what kind of reputation is expected and experienced at this moment.

In the first place, stakeholders expect the charity organizations to be reliable. Furthermore they expect the organization to operate in a trustworthy and social responsible way. The experiences are slightly different. The stakeholders experience the charity organization reliable and trustworthy. However, the third most experienced aspect of reputation is agreeable.

Charity organizations think stakeholders expect and experience them to be reliable, trustworthy and honest.

Besides the results on the complete group of respondents we looked into the data per stakeholder group. Trustworthiness, reliability and social responsibility seem to be the most important aspects in every subgroup.

On the issue of reputation we also questioned two university hospitals and some vocational organizations.

The university hospitals mention the aspects agreeable, competence, enterprising and innovative. For the majority of stakeholders competence and enterprising are important because they want good care and cure. Innovative is most important for the image professional and students have of the hospital.

Vocational organizations state that their stakeholders expect the organization as competent. The most important issue they expect from vocational organizations is proper education of the students.

For both the university hospitals and the vocational organizations data from stakeholders are not yet available.

ANALYSIS AND CONCLUSIONS

This paper started with the following main research question:
"How should stakeholder interaction be set up for a social enterprise in order to add public value and therewith operate in a more legitimate way according to stakeholder opinions?".

Based on our theoretical part we conclude that it is important to interact with the right stakeholder at the right moment in a proper way to gain legitimacy by adding value to the public. Another important conclusion is that public value and legitimacy are established by the stakeholder and not by the organization itself. The different stakeholders can pursue different and even conflicting stakes.

To set up an appropriate stakeholder interaction, it is important to identify these different interests of the stakeholders. However, it remains a complex task to produce public value when the social evaluation by the authorizing environment changes over time. Therefore, stakeholder interaction is not a one-off task but an ongoing process.

Our research focused on the four dimensions of stakeholder interaction. As we are still collecting data and just have results from a limited number of social enterprises and stakeholders, the results cannot be considered representative of the overall sector. Still, some conclusions are worth presenting.

Most of the donors did not respond. We hypothesize that these so-called dormant stakeholders assume that the social enterprise operates according to their values. As long as the social enterprise is not negative in the media the dormant stakeholders will support the organization. A dormant stakeholder may become very important in an instant. In this finding we see a reference to cognitive legitimacy.

There are stakeholders who want their opinions taken into account and others who don't. These differences show that some stakeholders emphasize on moral legitimacy.

Each stakeholder has its own preferences regarding the interaction with the social enterprise. The desired and actual interaction should be as consistent as possible. Inconsistent interaction can cause irritation to stakeholders. This can eventually lead to discontinuation of support and loss of legitimacy.

From our research, we conclude that it is possible for a social enterprise to set up meaningful stakeholder interaction which should lead to legitimacy.

When a social enterprise selects the right stakeholder it has to assess how and when the stakeholders want to have interaction in order to start the actual process of stakeholder interaction. All dimensions of stakeholder interaction should be arranged in the right way to gain knowledge about the granted legitimacy and expected public value.

This all seems very straightforward but setting up stakeholder interaction is not a matter of applying a template. Stakeholder interaction needs to be customized because different interests are at stake, social values change over time, stakeholders interact on different organizational levels and stakeholders form their opinion in different ways. One approach doesn't fit all.

A social enterprise can easily get caught up in a tangle of interaction with various internal and external stakeholders if they are not critical in their stakeholder selection. As a result, they could lose sight of the necessary public value and still lose their legitimacy. To address the above situation, there is an increasing trend towards multi-stakeholder platforms at national, regional and local level. The

purpose of this platform is to add public value through co-production and coordination between stakeholders and social enterprises.

It would be interesting to explore to what extent these platforms are custom made and what impact they have on public value and the legitimacy of the separate social enterprises.

To understand our findings, we asked ourselves: "So what?". We want to answer this question from two perspectives. First, we want to determine whether our ideas are new. Second, whether the ideas are of any relevance to other researchers and social enterprises.

From a theoretical viewpoint we think the link between the type of stakeholder, the type of legitimacy and public value clarifies the debate on stakeholder interaction. Until now we did not find any theory trying to relate the type of stakeholder and the stakeholder interaction. Our preliminary findings indicate that it is meaningful to differentiate between stakeholders that value the pragmatic aspects of the organization and stakeholder groups that value the moral aspects of the organization. Some stakeholders are not able or do not consider themselves competent to discuss certain topics, while others consider themselves the right partner to discuss these topics

Our findings also have a societal relevance. At this moment, many politicians, organizations representing supervisory boards discuss the embedding of the stakeholder in the governance of social enterprises. This discussion is fed by many incidents that occurred the last two to three years. This discussion has a rather institutional approach. Many parties try to institutionalize the stakeholder interaction by installing some kind of stakeholder board. This stakeholder board is the counterpart of the stockholder meetings in the private sector.

Looking at our findings, the main question should be: 'Which stakeholder should be part of this stakeholder board and what topics should be discussed with which stakeholder groups?'. We are able to state that there is no such thing as a one size fits all approach. Every social enterprise operates in a different environment, which causes the organizations to be forced to make unique choices. Because of this the social enterprises are faced with a new challenge. On the one hand, our results indicate that it is possible to establish which stakeholders should be involved at what moment. Using these selection methods enables an organization to set up a proper stakeholder interaction. On the other hand we conclude that a critical selection of stakeholders and interaction moments alone is not enough. The topics to be addressed are certainly just as important for effective stakeholder interaction.

A topic which was, until now, not part of our discussion but also becomes important is displayed in the following questions: "What level of interaction is enough? How many stakeholders should be involved at what moment? How many stakeholders should affect the mission statement or the strategic plan?". At this moment this questions receive much attention. We did not find any research on these questions, so it would be interesting to expand our research in this direction.

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