

## Chapter 23

# Legitimacy Acquisition and Social Enterprises

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### ABSTRACT

*Social enterprises typically are founded to fulfill social objectives that are underserved by the state and the private sector. Social enterprise sustainability often hinges on the continuing legitimation by multiple stakeholders who may have conflicting interests. Without such legitimacy, the enterprise will neither attract resources to sustain itself, nor will it be able to serve its constituents according to its original mission. Several authors on corporate social opportunity and social enterprise have recognized legitimacy as essential for the organization. However, few have examined how social enterprises establish socio-political, pragmatic, normative, and cognitive legitimacy. In this chapter, the authors explore the question of legitimacy acquisition by social enterprises founded and managed by social entrepreneurs. The chapter presents three cases of social enterprise in India, which serve in agriculture, healthcare, and housing. The case studies demonstrate that the process of legitimacy acquisition for a social enterprise parallels that of a profit-oriented entrepreneurial organization with some significant differences. Implications for legitimacy and sustainability of social enterprise are discussed.*

### INTRODUCTION

Sweeping economic reforms in many developing countries have substantially reduced poverty level in terms of per capita income. Celebration of this accomplishment, however, often conceals a broad

range of deeper and persistent socio-economic problems in these societies. The problems can range from illiteracy and unemployment to lack of housing, little access to basic services, and poor infrastructure. Market and government failure in these significant areas has created a wide space

DOI: 10.4018/978-1-4666-2952-3.ch023

that is being slowly filled by social entrepreneurs. Typically, small social enterprises provide goods and services that the larger commercial firms are loath to provide for reasons of pricing and profit, or where government intervention was ineffective.

A social enterprise is an organization that most people intuitively understand but for which few offer a precise definition. The numerous definitions in the nascent field originate in different ideologies (Rory, 2007). The conception of a social enterprise seems to differ across countries and cultures. For instance, in the USA, a social enterprise can range from philanthropic activities carried out by a unit of a private sector corporation to a non-profit organization whereas in Europe, fulfillment of social objectives is emphasized compared to revenue generation (Kerlin, 2006). Although early treatments of social enterprise eschewed extensive references to financial goals and proscribed surplus distribution (e.g. Haugh, 2005; Pearce, 2003), more recent writings have acknowledged that a social enterprise needs to be sustainable, and therefore, a balance between financial and social goals needs to be achieved (Rory, 2007; Spear, Cornforth & Aiken, 2009; Sud, Vasandt & Baugous, 2008). There appears to be an emerging consensus that social enterprises are founded by innovative entrepreneurs who explore and exploit an opportunity while serving a social objective (Dees, Emerson & Economy, 2001; Rory, 2007; Sud, Vasandt & Baugous, 2008).

Social enterprise is viewed as a sustainable organization that fulfils a social objective while effectively dealing with multiple and conflicting interests. Sustainability calls for financial stability and operational viability. However, financial goals might at times conflict with the stated social objectives whose fulfillment is essential for keeping another group of stakeholders satisfied. The legitimacy and hence the sustainability of the enterprise thus is predicated on achieving a balance between these interests. Social enterprise as an organizational form has proliferated and as a consequence, evolved from the archetypal donor-

driven non-profit entity to the more atypical entrepreneurial organization. This fundamental change brings about concomitant changes in the demands placed on the enterprise for its legitimacy and sustainability (Sud, Vasandt & Baugous, 2008).

In this chapter, we explore the question of legitimacy acquisition by social enterprises founded and managed by social entrepreneurs. Specifically, the paper addresses two questions: What is the process through which a social enterprise acquires legitimacy in an emerging economy? Does this legitimacy pose a threat to the enterprise's founding mission?

The nature of social enterprise has evolved from a subsidized non-profit organization to that of the efficient organizational form which does not necessarily always earn and distribute profits but is ideologically and operationally closer to the "for-profit" model. This evolutionary trajectory is driven by isomorphic pressures exerted by the stakeholders and is necessary for the enterprise to sustain its legitimacy and operations (Sud, Vasandt & Baugous, 2008). Legitimacy for a social enterprise hinges on endorsement by several stakeholders who might, have conflicting priorities and objectives. Lacking this legitimacy, the enterprise will neither attract resources to sustain itself nor will it be able to serve its constituents according to its original mission.

Corporate social opportunity and social enterprise researchers have recognized legitimacy as an essential component for the proliferation of organization (Dees et al, 2001; Sud, Vasandt & Baugous, 2008). Literature addresses the legitimacy of non-profit organizations in more advanced economies context, where donors and funding agencies are more widely distributed and deployment of resources is less problematic (Sud Vasandt & Baugous, 2008). In the developing world, the claims of various stakeholders can be more complex and need to be addressed in a context-specific manner.

To this end, we first present a brief literature review on the question of legitimacy in entre-

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