



UNIVERSITÀ
DEGLI STUDI
DI UDINE

Università degli studi di Udine

The New Era of Stakeholder Engagement: Gaining, Maintaining, and Repairing Legitimacy in Nonprofit Organizations

Original

Availability:

This version is available <http://hdl.handle.net/11390/1146527> since 2021-03-11T17:39:41Z

Publisher:

Published

DOI:10.1080/01900692.2018.1491593

Terms of use:

The institutional repository of the University of Udine (<http://air.uniud.it>) is provided by ARIC services. The aim is to enable open access to all the world.

Publisher copyright

(Article begins on next page)

**The new era of stakeholder engagement: Gaining, maintaining, and repairing legitimacy in
nonprofit organizations**

Chiara Leardini

Sara Moggi

Gina Rossi

All rights reserved. This file is circulated by the authors with the sole purpose of facilitating collaborative peer discussion. For any comments, please write to:

chiara.leardini@univr.it
sara.moggi@univr.it
gina.rossi@uniud.it

For any other purpose, including quoting, please refer to the published version.

Please cite as:

Leardini, C., Moggi, S., & Rossi, G. (2019). The new era of stakeholder engagement: Gaining, maintaining, and repairing legitimacy in nonprofit organizations. *International Journal of Public Administration*, 42(6), 520-532.

The new era of stakeholder engagement: Gaining, maintaining, and repairing legitimacy in nonprofit organizations

Abstract

The need for nonprofits to foster legitimacy within their communities has led to growing calls for mechanisms of good governance based on the engagement of stakeholders in organizational activities. Previous studies have investigated the mix of governance mechanisms used by nonprofits to manage legitimacy, without paying attention to the different challenges of legitimacy these organizations face. Aiming to fill this gap, this paper employs a multiple case study methodology to explore how mechanisms for engaging stakeholders in governance can be shaped by the need to gain, maintain, or repair legitimacy. The findings show that formal mechanisms based on the direct designation of board members by local stakeholders play a pivotal role in repairing legitimacy. Gaining legitimacy requires actual participation of stakeholders, while maintaining legitimacy calls for formal mechanisms that balance representativeness and competencies of the leadership.

Keywords: legitimacy; representation; participation; foundations; governance; multiple case study.

1 Introduction

Legitimacy is a key area of concern for nonprofits and has been receiving increasing attention in the literature focused on good governance. As nonprofit organizations have grown in number, size, and importance (Hoque and Parker 2015), issues regarding their legitimacy and the concomitant responsibility to address those issues more effectively have emerged (Taylor and Warburton 2003). The crisis of legitimacy following past financial scandals fostered skepticism about the role of nonprofits within the community and still troubles most organizations (Edelman Trust 2016). A potential explanation is that nonprofits did not care enough about restoring public reputation (Light 2008), whereas searching for legitimacy “from below” (Abzug and Galaskiewicz 2001, 53) is a pivotal practice of good governance for organizations serving a community. In this sense, incorporating stakeholders’ viewpoints in decision-making to respond more effectively to broader social interests is crucial to legitimize nonprofits within the civil society (AccountAbility 2011; NCVO 2010; Swanson 2013). According to previous literature, participation and representation of the local community within governance could enhance legitimacy (Chaskin 2003; Guo and Musso 2007; Leardini et al. 2017; Mercelis et al. 2016). Several mechanisms have been identified as giving voice to communities and affecting legitimacy; these vary depending on the nonprofit’s organizational type, mission, and institutional context (Guo and Musso 2007; Guo and Zhang 2013). However, previous researchers did not consider that governance practices for engaging stakeholders are deeply influenced by challenges of gaining, maintaining, and repairing legitimacy (Suchman 1995). To address the lack of studies on this issue, our research investigates how stakeholder engagement in governance can differ in its features according to the challenge a nonprofit is managing. For this purpose, we consider Italian Bank Foundations (IBFs)—a particular kind of nonprofit where the involvement of the local community within boards is provided by law—which, because of the recent financial crisis, have managed challenges of legitimacy. Through a qualitative approach, we present a multiple case study focusing on three large-sized IBFs selected according to their need to gain, maintain, or repair legitimacy among the local community (Suchman 1995). By employing the legitimacy theory lens, this paper explores how the development of an organization’s stakeholder engagement practices could be shaped according to legitimacy challenges, as the role of stakeholder engagement and the mechanisms used by the leadership for involving stakeholders change depending on the purpose of legitimation.

This paper proceeds as follows. The next section presents a summary of the literature on legitimacy in nonprofits and considers the link between governance mechanisms and legitimacy in light of community representation and participation within boards. The methodology section describes the research context, the

cases selected, and data collection. The findings section presents practices for engaging stakeholders in governance implemented when nonprofits aim to gain, maintain, or repair legitimacy. Finally, insights and practical implications for nonprofit leadership, as well as suggestions for future research are provided.

2. Literature review

2.1 Sources and challenges of legitimacy in nonprofits

The concept of legitimacy is often employed to analyze the relationship between organizations and their environments, and for understanding behaviors of organizational actors (Dowling and Pfeffer 1975). Despite its wide use, the concept remains abstract and indefinite (Hybels 1995). Definitions provided over the years have in common the idea that “Legitimacy is a condition or a status which exists when an entity’s value system is congruent with the value system of the larger social system of which the entity is a part” (Lindblom 1994, p. 2). Legitimacy is a concept relational in nature. As stakeholders confer legitimacy to an organization according to their perceptions, legitimacy is subjectively created and socially constructed (Suchman 1995). Definition of critical actors is necessary for understanding which people or institutions can endorse an organization (Lister 2003), identifying their expectations (Hybels 1995; Lindblom 1994), and reducing the risk of denial of their support (Elsbach and Sutton 1992). Stakeholders whose approval is necessary for legitimating organizations change over time and depend on organizational characteristics. Community-based organizations, such as many nonprofits, need to engage citizens and constituents (Brown 2002) to legitimate their role within the civil society as they are considered democratic organizations that represent a community’s interests (Taylor and Warburton, 2003) and identity (Abzug and Galaskiewicz 2001).

In the nonprofit context, legitimacy is based on a number of different key elements working together to enhance good governance (Brown et al. 2001; Lister 2003). First, legitimacy claims can be based on values that make the actions of an organization desirable, proper, or appropriate for its constituents. Sharing values with local stakeholders allows nonprofits to gain public support (Dart 2004) because they are trusted to have a true knowledge of citizens’ needs. Second, compliance with legal or statutory norms represents another source of legitimacy (Brinkerhoff 2005). Nevertheless, legal compliance is not enough to guarantee legitimacy, because legal systems and societal values may not coincide (Dowling and Pfeffer 1975). Third, legitimacy can be based on the expertise, knowledge, and competence of boards (Brinkerhoff 2005) that enable a nonprofit to create value and achieve the goals that the community cares about (Abzug and Galaskiewicz 2001; Buckingham et al. 2014; Hinna and Monteduro). Finally, studies on good governance recognize representation of constituents as

one of the fundamental sources of legitimacy (Pitkin 1967). A representative leadership favors a sense of identification (Abzug and Galaskiewicz 2001) that strengthens the perception that nonprofits are acting for and standing for their communities (Guo and Musso 2007), rather than for individual interests (Enright and Bourns 2010). As a cultural process, legitimacy and its management concern communication between the organization and its various stakeholders (Suchman, 1995). This issue can be audited directly thanks to media legitimacy that shows the perception on reputation and performs a “monitoring service by reporting illegitimate activities” (Hybels 1995, p. 244) and a general evaluation on the organizations’ doing (Bitektine 2011).

Since legitimacy is an ongoing status (Chapman and Lowndes 2014), the mix of legitimacy bases needs to be continuously managed and adapted to different contexts and related challenges for gaining, maintaining, and repairing legitimacy (Suchman 1995). Gaining legitimacy is a challenge faced by organizations that need to establish—or extend (Ashforth and Gibbs 1990)—acknowledgment of their own credibility, showing their ability to respond to constituents’ demands or persuading constituents that they have this ability (Suchman 1995). Maintaining legitimacy means managing legitimacy of an ongoing activity as a consequence of heterogeneous constituents’ demands that vary over time in response to varying conditions (Suchman 1995). Repairing legitimacy “represents a reactive response to an unforeseen crisis” (Suchman 1995, p. 597) that may concern performance issues, and typically occurs when managers have failed to perceive a decline in constituents’ support.

2.2 Legitimacy and good governance

Good governance supports nonprofits in relating to their communities and increasing public confidence in what they are doing (Connolly et al. 2015; Lee 2016). Pressures for legitimacy are often met by organizations by engaging stakeholders within their boards. Given that stakeholders usually judge an organization by looking at its leadership, stakeholder-dominated boards should be perceived as symbols of local identities and play a pivotal role in legitimizing organizations (Abzug and Galaskiewicz 2001).

Nonprofit literature has explored the link between stakeholder engagement in governance and legitimacy mainly through the lens of community representation and participation within boards. Traditionally, community representation has been studied by focusing on formal mechanisms for appointing board members based on democratic voting procedures (for example, elections). These mechanisms contribute to legitimacy because board members are expected to take care of the interests of the community that elected them (Klijn and Edelenbos 2012). Similarly, board members directly designated by groups of local stakeholders are expected to

have a higher awareness of the community needs (Rossi et al. 2015), while co-optation contributes to legitimacy by bringing people of a legitimate status into organizations' governing bodies (Dowling and Pfeffer 1975). The practice of sourcing from local stakeholders the list of candidates from among whom the expiring board can choose seems to be "a useful compromise to ensure that the boards are both representative of community interests and supported through professional competency and expertise" (Rossi et al. 2015, p. 34). Rossi et al.'s (2015) study underlines that nonprofit boards could be appointed by groups of stakeholders representing the community (for example, public sector entities, culture education and research organizations, trade and professional associations, and civil society associations) that reflect the interests held by citizens. According to Parker and Hoque (2015), this closeness with the community can be enhanced through the engagement of local stakeholders in the organizational activities.

Legitimacy is also linked with the capacity of the board to mirror the socio-demographic characteristics of the community, including age, gender, education, race, and ethnicity (Chaskin 2003). Scholars have recognized that boards reflective of community usually increase trust in nonprofits because they are considered symbols of local identities (Abzug and Galaskiewicz 2001; Cornforth 2004; Iecovich 2005) and are trusted to act in the interests of their constituents (Cnaan 1991; Guo and Zhang, 2013). Otherwise, board members can differ from their communities in perceiving the severity and urgency of the problems to be solved (Ragab et al. 1981).

Nonprofit studies also highlight the pivotal role of stakeholder participation in organizational activities to foster legitimacy (Brown et al. 2001; Klijn and Edelenbos 2012). Participation is integral to the concept of democratic organizations (Wang and Van Wart 2007) and stresses the idea that nonprofits belong to the whole community (Gidron 2010). On the one hand, participation supports legitimacy because participatory processes are one of the major foundations of democratic systems (Wang and Van Wart 2007). On the other, the actual involvement of constituents contributes to generate a better or more effective outcome by linking organizational decisions with constituents' needs (Gnan et al. 2013; Mercelis et al. 2016). Meaningful participation requires stakeholders to be knowledgeable regarding impacts of organizational activities (Ebrahim 2010; O'Dwyer 2005). Therefore, accountability contributes to legitimacy by providing information about how nonprofits act for their stakeholders and progress in achieving their mission (Conway et al. 2015; Ebrahim 2009; Moggi et al. 2015; Murtaza 2012), as well as by promoting a sense of community that increases trust in the organization (Callahan 2007; Wang and Van Wart 2007; Connolly et al. 2015).

Linking together representation, participation, and legitimacy, Guo and Musso (2007) suggested that formal, descriptive, and participatory mechanisms are arrangements for achieving legitimacy. In an effort to integrate

Guo and Musso's (2007) framework, Leardini et al. 2017 considered the role of board members' residence (*territorial descriptive representation*) in reaching legitimacy within community-owned foundations because these individuals share with the community a common vision of the problems to be solved (Swindell 2000). Recent analyses based on empirical case studies have found that the combination of engagement tools focused on stakeholder representation and participation in governance varies with nonprofits' distinctive functions, missions, types, and institutional environments (Guo and Musso 2007; Guo and Zhang 2013). However, the previous literature did not explore the role of different legitimacy challenges in shaping different mechanisms for engaging stakeholders in nonprofit governance. As organizations employ different tools for managing legitimacy depending on the need to gain, maintain, and repair this attribute (Ashforth and Gibbs 1990; Suchman 1995; Mitchell et al. 1997), this study explores how stakeholder engagement practices are likely to vary according to the legitimacy challenge an organization's leadership is attempting to manage.

3. Methodology

To identify how governance mechanisms change according to legitimacy challenges, a multiple case study method has been employed to compare organizations with a different need of legitimacy. The present section describes the research context, the three cases' selection, and data collection and analysis.

3.1 Research context

To achieve the research objectives, we identified three case studies (Patton 2002) in the domain of IBFs—a particular type of nonprofits that base their legitimacy on the representation of communities' claims in governance matters. IBFs originated by law in the early 1990s from the privatization of community-owned public savings banks with a strong vocation of solidarity towards the territory in which they operated, disbursing grants and developing projects in the interest of their local communities (Anheier 2001; Boesso et al. 2017; Jassaud 2014; Leardini et al. 2014).

In the broader field of Italian nonprofits, the 88 bank foundations have assumed significance in terms of the size of their grants (800.8 million euros as of December 31, 2015) and their assets (40.8 billion euros at the same date; ACRI 2016). In light of their large assets and their role in supporting local territories, a number of subsequent laws imposed regulations on how these nonprofits should represent community interests in governance matters. They established that IBF's statutes have to define mechanisms that allow for the engagement of community representatives in determining objectives, priorities, and long-term plans for both

asset management and grant-making activities. As a result, a number of governance mechanisms were formalized within the statutes, mostly concerning board members' appointment and residence (Moggi et al. 2016). In addition, in 2015 a formal agreement between the Ministry for Economic and Financial Affairs and the Association of Italian Foundations and Savings Banks underlined that governance mechanisms affect the legitimacy of IBFs and urged the foundations' leaderships to adequately represent and engage the communities in which these organizations are rooted.

3.2 Case studies selection and features

Case-based research has a long tradition in governance-related researches because this methodology enables a rich and detailed study of a phenomenon, issue, or concern (Stewart, 2012) that is mainly suitable for seeking to answer “how” and “why” questions (Yin 2003). This paper builds on multiple case studies that are able not only to present a research subject, but also to compare cases for investigating the relative effects of particular management approaches (Eisenhardt and Graebner 2007; Follman et al. 2016). This study is based on large IBFs, since boards of large nonprofits are usually judged as more inclusive and open to stakeholders (Brown 2002) and present a higher level of engagement (Moggi et al. 2016). An exploratory survey, sent to the chairpersons of the 18 large-sized IBFs¹, was used to select foundations facing different challenges of legitimacy (that is, to gain, maintain, and repair legitimacy). Among the 13 foundations that responded (see Figure 1), foundations A, B, and F were selected because of the perceived media legitimization level (from low to high) — that is considered a helpful tool to audit organizational legitimacy (Bitektine, 2011) — and availability to interviews (Patton 2002).

[Insert Figure 1 about here]

Fig. 1 Perceived Media Legitimation Level

The cases face three different challenges of legitimacy in their local context. To a higher comprehension of the selected foundations, Table 1 presents their main characteristics, including location and policy areas.

[Insert Table 1 about here]

¹ According to ACRI (2015), the classification of IBFs by size is based on the amount of net assets. Five groups of IBFs of similar size have been identified using the criterion of statistical quintiles. Net assets of large-size IBFs range from 501 million Euros to 6.9 billion Euros.

3.3 Data collection and analysis

The data collection—carried out from January 2014 to May 2015—involved two main techniques: interviews and document analysis. First, 15 semi-structured interviews were planned with key informants of the organization (for example, chairpersons, members of the board, and executive directors) who possessed a thorough knowledge of governance mechanisms that could affect the legitimacy of the foundation, and who had years of experience in its governance (see Table 2).

[Insert Table 2 about here]

Each interview included 16 open-ended questions related to governance mechanisms and legitimacy within the community. On average, interviews lasted more than 40 minutes, and were audio-recorded and transcribed. Second, a document analysis was carried out on the statutes, reports, and other documents available on the foundations' websites to integrate the information collected through interviews (Wolff 2004), particularly concerning the mechanisms for appointing board members. Internal documents related to local stakeholders' participation were gathered during interviews and analyzed to provide additional information and insights from the cases (Patton 2002).

With the aim to analyze how governance mechanisms are employed and mixed to face the three different legitimacy challenges, the coding phase considered labels inspired by literature on good governance and legitimacy (Roulston 2010). Three scholars defined the list of codes and memos following the categories of governance mechanisms proposed by previous studies (open coding), and considered additional codes based on the inductive reading of the data (axial coding; see Miles et al. 2014; Saldaña 2015). The interviews' transcriptions were listed into tables with the related memos according to the selected coding categories and subcategories (Follman et al. 2016).

4 Findings

In this section, the findings from the case studies are presented, considering the several governance mechanisms and their different use by the three organizations facing different legitimacy challenges.

4.1 Governance in gaining legitimacy—Foundation B

In Foundation B's code of ethics, the engagement of the local community is a core value, and dialogue with stakeholders is promoted as a means to better understand their needs and to develop trust-based relationships. To this end, the code of ethics requires that stakeholders who best represent the interests of the community be

engaged in the decision-making process and in defining long-term strategies. Additionally, transparency of objectives and results, effectiveness in meeting community needs, and innovation in finding new ways to contribute to the social welfare of the territory are emphasized as values that inspire the foundation's activity. As declared in the code of ethics, the contribution to the social welfare of the local community is intended to increase Foundation B's image as well as its legitimacy.

The statute presents formal mechanisms used for obtaining a representative board composition. Half the board members are selected from among lists of candidates proposed by local stakeholder groups, while the others are directly appointed by local stakeholders and the expiring board. According to the chairperson, apart from these formal mechanisms, it is important that board members be independent from whoever appointed them to ensure the foundation acts in the interests of the whole community and not in the interests of particular groups of influence. Statutes and interviewees do not consider the socio-demographic characteristics of the board as levers for gaining legitimacy. Conversely, great importance is given to professional knowledge and experience of board members within the foundation's areas of intervention to ensure that the leadership "has the skills necessary for reading the needs of the local community" (executive director). The executive director also underlined the importance of maintaining a balance among different groups of local stakeholders with appointing power. In particular, "unlike other IBFs, the weight of public sector entities is contained and balanced by the other local stakeholders," thus limiting the risk that board members are selected for their political compliance.

The statute requires that all members of the board reside within the territory in which Foundation B operates; the interviews confirm the importance of a board being rooted in the community. In the words of the person responsible for grant-making activities, residence evokes an idea of the foundation as a "mum of the local community," thus supporting the foundation in gaining legitimacy by demonstrating that it is deeply embedded in the territory.

In general, it emerged from the interviews that considerable attention is paid to participatory mechanisms for increasing legitimacy by mapping the needs of the local community. However, the local community is not directly involved in defining programs because, "At best, employing more democratic tools of engagement would lead to a highly subjective distribution of individual preferences that is not useful for supporting decisions" (executive director). Conversely, greater attention is dedicated to engage local stakeholder groups with a deep knowledge of community needs for developing projects of public interest. All respondents highlighted that Foundation B usually promotes working groups involving experts and the beneficiaries of the

funds, with the aim to share knowledge and resources to satisfy community needs. As noted by the chairperson, “The steering to work together comes usually from the Foundation,” which plays a coordination role to achieve a shared view of community needs.

The involvement of the community also takes places through accountability initiatives based on one-way communication events aimed to enhance trust in the foundation’s ability to achieve its mission. Respondents mentioned an entire day dedicated to present the foundation’s activities through the presentation of the annual report. Additionally, the executive director cited the role of the foundation website as an important and clear communication tool that is easy to reach and “preferred by potential beneficiaries, since it is perceived as the official channel of communication from which they can gain information ... On the other hand, the general public prefers using social networks because they allow a more immediate communication.”

4.2 Governance in maintaining legitimacy—Foundation F

Foundation F declares in the code of ethics that its actions are oriented to avoid behaviors that could compromise its reputation and image, thus revealing a focus on the need to maintain the level of legitimacy achieved. Further, as highlighted by the annual report, Foundation F pays significant attention to provide continuity in the disbursement of grants and maintain the endorsement of the local community.

The statute highlights that more than 80% of board members are selected from among lists of candidates proposed by local stakeholder groups, while the remaining ones are coopted by the expiring board. Interviewees recognized that the selection of board members in this way contributes to maintain legitimacy, balancing the need to ensure both an adequate representation of the territory and the professional competencies and expertise required to govern the foundation. However, a member of the board highlighted the risk that “Lists of candidates could be a fig leaf for legitimizing designations that have a political value. Definitely not correct! ... Sometimes it would be better if board members were coopted among enlightened people, independent from political conditionings, leaving the foundation free to make its own choices.”

When the board is chosen from among lists of candidates proposed by local stakeholder groups, the trust of the community in the foundation is affected by the trust in these groups. People interviewed highlighted the need to ensure a balance among different local stakeholders as a good governance mechanism for maintaining legitimacy. Interviewees underlined that the influence of public sector entities in appointing board members can negatively affect legitimacy. As a board member said, “Public sector entities are the highest expression of the local community because they represent all citizens. However, it could happen that the appointed board

members are not suitable for the role they should play within the foundation, because they are influenced by political parties' interests." A second board member suggested that public sector entities prefer the political compliance of the leadership instead of professionalism and ethics.

Although one member of the board said, "A representation that is multifaceted for gender and age of board members is desirable," the other interviews highlighted that the commonality of socio-demographic characteristics between the board and the community is not a lever for maintaining legitimacy. More attention is paid to the knowledge, experiences, competences, and expertise of board members, as well as to procedures that ensure the cohesion of aims, interests, and needs. As another member of the board highlighted, "Our leadership does not reflect the community. I think we can find good, bad, nice, ugly, lazy, and hardworking people without regard to their gender. The board could be composed entirely of women or of men if they were brilliant."

Conversely, the residence of board members within the territories in which the foundation operates plays a pivotal role in maintaining legitimacy. According to the statute's provisions, at least half of the board members must reside within the territories in which Foundation F operates. The majority of respondents underlined the need to correctly understand the concept of residence. As a member of the board pointed out, the residence they are talking about is "not the fake and fiscal one, but the residence that indicates where a person has rooted his or her life and social relationships." Residence is relevant because it allows for a better monitoring of community needs and their evolution over time. Additionally, residence fosters the idea that board members are spokespersons of the local community, and that members' values are congruent with the values of the local community. This is well explained by a member of the board, who said, "The image of the foundation is influenced by the fact that the leadership has a deep knowledge of the territory and is well known within it."

The involvement of community representatives in decision-making processes helps the foundation to maintain legitimacy by demonstrating its availability to listen to "all those that ask to be listened to" (executive director). However, stakeholder involvement in decision-making processes "couldn't be translated in a more efficient grant allocation towards right directions" (board member). Participation through formal mechanisms (for example, commissions and committees) and informal ones (for example, meetings between board members and those in charge of local organizations) is a stakeholder engagement tool limited to mapping community needs for designing strategic plans.

All interviewees underlined how Foundation F's leadership feels the need to be accountable only by informing stakeholders of its activities through one-way communication. According to the chairperson, inaugurations and press releases are "the moments in which the foundation provides accounts for the results achieved." Limited

attention is paid to involving the community *ex post* by asking for feedback on the results of the grants disbursed. The executive director underlined that “the foundation sends its report to local stakeholders, hoping that they read it.”

4.3 Governance in repairing legitimacy—Foundation A

Because of the financial difficulties after the recent crisis, the grants disbursed by Foundation A to the local community reduced significantly. Therefore, the organization experienced a loss of legitimacy and a decline in constituents’ support, exacerbated by the pathological dependency of the local community on the resources distributed by the foundation.

The analysis of the statute revealed that Foundation A’s local stakeholders directly designate almost 80% of the board members, while the expiring board selects the residual part from among a list of candidates. The respondents highlighted how direct designation by local stakeholders entails the risk that designates end up exercising a dominant influence over the members designated, depriving the foundation of its ability to act in the interests of the whole community. In the words of the chairperson, “The direct designation of the board builds a direct relationship between the appointer and the appointee, and this could ensure the protection of specific interests.” Foundation A included in its statute a rule that restated the independence of board members from local stakeholders who appointed them, with the aim to disassociate itself from the idea that the foundation pursues individual interests instead of public ones.

The chairperson underlined that the legitimacy of the foundation depends on and is influenced by the legitimacy of the local stakeholders with appointing power. As she stressed, Foundation A is faced with a “mediated trust, because board members are appointed by local stakeholders and not by the community directly. In this moment, the legitimacy of some local stakeholders is questioned and this produces a ripple effect over the Foundation.” As emphasized by a member of the board, this led to search for an equilibrium among different local stakeholder groups by reducing the weight of those who appeared to not be legitimated by the local community —such as public sector entities—in favor of those with a greater credibility (for example, culture, education, and research organizations, and civil society associations).

All interviewees revealed that the commonality of socio-demographic characteristics between the board and the community is not used as a governance lever for repairing legitimacy, although it could be useful for evoking an idea of closeness of board members to the community. In addition, interviewees indicated that to be perceived as symbols of local identities board members must be able to understand the needs of the community and have the

competencies for managing assets and grants. Further, as noted by the chairperson, “It is important to have the capability to read the specific community needs, because different territories have different needs.”

A pivotal role in regaining legitimacy is played by the residence of board members. The analysis of the statute shows that more than half of the board resides in the territory in which Foundation A operates. As one of the board members pointed out, residence is perceived as a “warranty that the foundation is rooted in the community and is [an] expression of local identities.” Residence seems to be necessary to regain trust, but not sufficient for ensuring the foundation acts in the interests of the community. In fact, some respondents highlighted the need to mix residence with the competences and independence of board members. For example, the executive director pointed out that “The composition of the board should mix managerial and professional competences with a thorough link with the territory ... It’s a question of overall balance within the board.” Participation seems to have a marginal role in repairing legitimacy. The interviewees highlighted little involvement of citizens and local stakeholders in decision-making processes through informal contacts and occasional meetings. Similarly, accounts to the community take the form of one-way communications through press releases. As underlined by a board member, “Before restoring participatory and accountability practices, we need to rebuild the foundation’s ability to disburse grants.”

5 Discussion

As noted earlier, previous studies have suggested that nonprofits employ several mechanisms for engaging stakeholders in governance to legitimize their role in the civil society (for example, see Guo and Musso 2007; Swanson 2013). The analysis of the three case studies revealed that each of these mechanisms is differently employed depending on the specific legitimacy context characterizing the organization.

Regarding formal mechanisms for appointing board members, gaining and repairing legitimacy have in common the need to engage the local community in choosing board members through direct designation. The weight of direct designation is greater for the foundation that has lost the trust of the community concerning its ability to act in the interests of the territory. According to Klijn and Edelenbos (2012), board members selected through more democratic mechanisms are expected to have a higher awareness of the needs of the community, thus fostering the idea that the organization pursues the welfare of the territory. Lists of candidates are preferred when the organization seeks to maintain legitimacy, because they allow for a balancing of the appointing power between the community and the nonprofit. In accordance with Rossi et al. (2015), it is in this way possible to ensure that board members are both representatives and experts.

Mercelis et al.'s (2016) doubts on the usefulness of descriptive representation mechanisms for managing legitimacy are confirmed. Conversely, as suggested by Leardini et al. (2017), the role played by resident board members is pivotal, as they are perceived as being "one of us," thus fostering the community's trust in the organization (Swindell 2000). Residence plays a symbolic role in gaining and repairing legitimacy. In the first case, it strengthens the idea that the foundation is close to its territory, while in the second case it encourages the perception that the foundation continues to be rooted in the community and takes care of its interests. The challenge of maintaining legitimacy emphasizes the role of residence in determining the organization's ability to act for the community, as resident board members share the community needs (Swindell 2000).

The three case studies put a common emphasis on expertise, knowledge, and competencies of board members (Brinkerhoff 2005; Brown et al. 2001), but they shape these skills according to the specific legitimacy challenge that they face. While gaining and maintaining legitimacy usually entails ordinary managerial and professional capabilities, in reestablishing legitimacy the organization searches for specific competences to overcome the performance crisis and regain credibility with the constituents.

Balancing the power of local stakeholders in appointing board members characterizes all the legitimacy challenges, because of the need for the board to reflect the interests held by the majority of citizens (Rossi et al. 2015). The three cases show a common need to limit the weight of public sector entities in choosing board members because of the crisis of trust the Italian public sector continues to face (Leardini et al. 2017).

According to Guo and Musso (2007), constituents' participation fosters legitimacy. However, the cases analyzed demonstrate that this stakeholder engagement mechanism is differently tailored depending on the legitimacy challenge. In gaining legitimacy, participation entails a real and active involvement of local stakeholders with a certain level of expertise who can provide useful knowledge for realizing effective outcomes (Callahan 2007).

Participation is proactive and sees the foundation working hard to encourage a fruitful exchange of views among stakeholders through formalized mechanisms, such as working groups. On the other hand, in maintaining legitimacy, participatory mechanisms aim to engage the community without depriving the foundation of the power to make the ultimate decisions, so that local stakeholders feel empowered and board members do not feel threatened (Callahan 2007). Consequently, participatory mechanisms are used only for mapping community needs and do not offer a real and active involvement in decision-making processes. According to previous studies (Ashforth and Gibbs 1990; Mercelis et al. 2016), involvement takes place through routinized activities, including both formal and informal mechanisms of participation that prove the foundation's availability to listen, thus making the decisions acceptable simply because of the process by which they are made (Harrison

and Mort 1998). Finally, repairing legitimacy is based on informal contacts and occasional meetings that make the foundation more accepted by local stakeholders. However, the role of these mechanisms seems to be merely symbolic and they are far from being actually employed. Although dissatisfaction of local stakeholders could foster an interest in a more active participation (Callahan 2007), the foundation needs to remain “closed in on itself” for the time needed to regain the ability to disburse grants again.

The accountability practices are always limited. In maintaining trust, these practices are usually based on one-way communication from the foundation to the community about the results achieved, without any feedback on the usefulness of past activities. In contrast to previous studies (Suchman 1995), accountability to constituents is not perceived as a lever for enhancing trust in organizations faced with a low level of legitimacy and the need to regain this lost value. Instead, nonprofits that would gain legitimacy pay greater attention to accountability (Ebrahim 2010; Conway et al. 2015), enhancing feedback from stakeholders on past activities and improving their ability to act for the community in a responsive way (Chaskin 2003).

6 Conclusion

In the nonprofit field, the need for legitimacy within the community has led organizations to search for mechanisms of good governance based on the engagement of stakeholders through representation and participation (for example, see Chaskin 2003; Guo and Musso 2007; Mercelis et al. 2016; Swanson 2013). Previous studies have investigated the link between these governance mechanisms and legitimacy, overlooking the fact that problems of gaining, maintaining and repairing legitimacy are somewhat different and require proper responses (Suchman 1995). This article addresses the link between stakeholder engagement and legitimacy in a different way, paying attention to the diverse challenges of legitimacy that nonprofits face. We focused on three organizations with heterogeneous legitimization needs to explore how mechanisms for engaging stakeholders in governance are shaped by the attempt to gain, maintain, or repair legitimacy. We found that not only is the same mechanism shaped differently according to the challenge faced, but that the combination of different mechanisms within a mix of stakeholder engagement tools is tailored in accordance with the challenge. In gaining legitimacy, the governance has to demonstrate its ability to respond to the constituents’ demands through proper activities (Suchman 1995). The residence of board members and the actual participation of stakeholders in decision-making are the most significant governance mechanisms for increasing the endorsement of the community. Facing the challenge of maintaining legitimacy requires the board to recognize and monitor constituents’ needs through routinized activities (Suchman 1995). Formal mechanisms that allow

for a balance between residence, representativeness, and competencies of board members are the most relevant governance arrangements, while participation plays a limited role in searching for continuous trust in governance by the community. Finally, repairing legitimacy gives particular emphasis to arrangements that symbolize the willingness of the governance to regain legitimacy by demonstrating its closeness to the community, such as through residence and the direct designation of board members by local stakeholders. Independence of board members could be a lever for reducing the risk that the board will act in the interests of particular groups of influence, thus ensuring the role of the foundation as a nonprofit that pursues the interest of the whole community.

As this study is exploratory in nature, it represents a starting point for further research. Future investigations could establish whether and to what extent stakeholder engagement practices work. To do this, it would be useful to collect the local community's point of view before and after the legitimation process. Further, longitudinal studies could be conducted to see if and how governance mechanisms evolve over time to address changes in legitimacy challenges. Our results suggest that there are no uniform gold standards in managing inclusive practices, and show that legitimacy challenges matter in developing a proper mix of stakeholder engagement activities. As legitimacy challenges are dynamic and change over time (Chapman and Lowndes, 2014; Suchman 1995), nonprofits' leadership should periodically reconsider the use of each stakeholder engagement mechanism for ensuring a continuous fit with the challenge faced. At the same time, the board should review the mix of these mechanisms, considering that gaining legitimacy requires more participatory arrangements, while repairing legitimacy is enhanced by representative mechanisms.

References

- Abzug, R., Galaskiewicz, J. (2001). Nonprofit Boards: Crucibles of Expertise or Symbols of Local Identities? *Nonprofit and Voluntary Sector Quarterly*, 30(1), 51–73.
- AccountAbility (2015). AA1000 Stakeholder Engagement Standard.
<http://www.accountability.org/images/content/5/4/542/AA1000SES%202010%20PRINT.pdf>
- ACRI (2016). *21st Report on Foundations of banking Origin. Year 2015*. Rome: ACRI.
- Anheier, H. K. (2001). Foundations in Europe: A comparative perspective. Civil Society Working Paper series, 18. Centre for Civil Society, London School of Economics and Political Science, London, UK.
- Ashforth, B., Gibbs, B. (1990). The Double-Edge of Organizational Legitimation. *Organization Science*, 1(2), 177–194.
- Bitektine, A. (2011). Toward a theory of social judgments of organizations: The case of legitimacy, reputation, and status. *Academy of Management Review*, 36(1), 151–179.
- Boesso, G., Cerbioni, F., Menini, A., Parbonetti, A. (2017). The role of the board in shaping foundations' strategy: an empirical study. *Journal of management and Governance* 21, 375–397.
- Brinkerhoff, D. W. (2005). Organizational Legitimacy, Capacity, and Capacity Development. *European Centre for Development Policy Management*, Discussion paper No 58A.
- Brown, L. D., Cohen, D., Edwards, M., Eigen, P., Heinrich, F., Martin N. et al. (2001). Civil Society Legitimacy: A Discussion Guide. In L. Brown (Ed.), *Practice-Research Engagement and Civil Society in a Globalizing World* (pp. 63–79). Civicus/The Hauser Center for Nonprofit Organizations.
- Brown, W. A. (2002). Inclusive governance practices in nonprofit organizations and implications for practice. *Nonprofit Management & Leadership*, 12(4): 369–385.
- Buckingham, H., Paine, A. E., Alcock, P., Kendall, J., Macmillan, R. (2014). *Who's speaking for whom? Exploring issues of third sector leadership, leverage and legitimacy*. Working paper 121, TSRC, University of Birmingham.
- Callahan, K. (2007). Citizen Participation: Models and Methods. *International Journal of Public Administration*, 30, 1179–1196.
- Chapman, R., Lowndes, V. (2014). Searching for authenticity? Understanding representation in network governance: the case of faith engagement. *Public Administration*, 92(2), 274–290.
- Chaskin, R. J. (2003). Fostering Neighborhood Democracy: Legitimacy and Accountability Within Loosely Coupled Systems. *Nonprofit and Voluntary Sector Quarterly*, 32(2), 161–189.

- Cnaan, R. A. (1991). Neighborhood-representing Organizations: How Democratic Are They? *Social Service Review*, 65(4), 614–634.
- Connolly, C., Hyndman, N., McConville, D. (2015). UK Charity Accounting. In Z. Hoque, L. Parker (Eds), *Performance Management in Nonprofit Organizations: Global Perspectives* (pp. 155–182). New York & London: Routledge.
- Conway, S. L., O’Keefe, P. A., Hrasky, S. L. (2015). Legitimacy, accountability and impression management in NGOs: the Indian Ocean tsunami. *Accounting, Auditing & Accountability Journal*, 28(7), 1075–1098.
- Cornforth, C. (2004). The governance of co-operatives and mutual associations: a paradox perspective. *Annals of Public and Co-operative Economics*, 75(1), 11–32.
- Dart, R. (2004). The Legitimacy of Social Enterprise. *Nonprofit Management & Leadership*, 14(4), 411–424.
- Dowling, J., Pfeffer, J. (1975). Organizational Legitimacy: Social Values and Organizational Behavior. *The Pacific Sociological Review*, 18(1), 122–136.
- Ebrahim, A. (2009). Placing the Normative Logics of Accountability in “Thick” Perspective. *American Behavioral Scientist*, 52(6), 885–904.
- Ebrahim, A. (2010). *The Many Faces of Nonprofit Accountability*. Harvard Business School, Working paper 10-069.
- Edelman Trust (2016). Edelman Trust barometer 2007. <http://www.edelman.com/insights/intellectual-property/2016-edelman-trust-barometer/>
- Eisenhardt, K. M., Graebner, M. E. (2007). Theory building from cases: Opportunities and challenges. *Academy of Management Journal*, 50(1), 25–32.
- Elsbach, K., Sutton, R. (1992). Acquiring organizational legitimacy through Illegitimate Actions: A Marriage of Institutional and Impression Management Theories. *The Academy of Management Journal*, 35(4), 699–738.
- Enright, P., Bourns, C. (2010). The Case for Stakeholder Engagement. *Stanford Social Innovation Review*, Spring 2010, 40–45.
- Follman, J., Cseh, M., Brudney J. L. (2016). Structures, Challenges, and Successes of Volunteer Programs Co-managed by Nonprofit and Public Organizations. *Nonprofit Management and Leadership*, 26(4), 453–470.
- Gidron, B. (2010). Promoting civil society in Third Sector organizations through participatory management patterns. *European Management Journal*, 28, 403–412.

- Gnan, L., Hinna, A., Monteduro, F., Scarozza, D. (2013). Corporate governance and management practices: stakeholder involvement, quality and sustainability tools adoption. Evidences in local public utilities. *Journal of Management and Governance*, 17, 907–937.
- Guo, C., Musso, J. A. (2007). Representation in Nonprofit and Voluntary Organizations: A Conceptual Framework. *Nonprofit and Voluntary Sector Quarterly*, 36(2), 308–326.
- Guo, C., Zhang, Z. (2013). Mapping the representational dimensions of non-profit organizations in China. *Public Administration*, 91(2), 325–346.
- Harrison, S., Mort, M. (1998). Which Champions, Which People? Public and User Involvement in Health Care as a Technology of Legitimation. *Social Policy & Administration*, 32(1), 60–70.
- Hinna, A., Monteduro, F. (2016). Boards, governance and value creation in grant-giving foundations. *Journal of Management and Governance*, doi:10.1007/s10997-016-9370-4
- Hoque, Z., Parker, L. (2015). Accountability, Governance and Performance Management in Nonprofit Organizations. In Z. Hoque, L. Parker (Eds.), *Performance Management in Nonprofit Organizations: Global Perspectives* (pp. 3–16). New York & London: Routledge.
- Hybels, R. C. (1995). On Legitimacy, Legitimation, and Organizations: A Critical Review and Integrative Theoretical Model. *Academy of Management Journal, Best Papers Proceedings*, 241–245.
- Iecovich, E. (2005). The profile of board membership in Israeli voluntary organizations. *Voluntas*, 16(2), 161–180.
- Jassaud, N. (2014). *Reforming the corporate governance of Italian Banks*. IMF Working Paper, WP/14/181.
- Klijn, E. H., Edelenbos, J. (2012). The influence of democratic legitimacy on outcomes in governance networks. *Administration & Society*, 45(6), 627–650.
- Leardini, C., Rossi, G., Moggi, S. (2014). *Board Governance in Bank Foundations*. London: Springer.
- Leardini, C., Rossi, G., Moggi, S., Zardini, A. (2017). When the Law Shapes Nonprofit Boards. *Nonprofit and Voluntary Sector Quarterly*, 46(1), 47–70.
- Lee, Y. (2016). What Encourages Nonprofits' Adoption of Good Governance Policies? *Nonprofit Leadership and Management*, 27(1), 95–112.
- Light, P. C. (2008). How Americans View Charities: A Report on Charitable Confidence. *Issues in Governance Studies*, 13, 1–9.
- Lindblom, C. K. (1994). *The Implications of organizational legitimacy for corporate social performance and disclosure*. Paper presented at the Critical Perspectives on Accounting Conference, New York.

- Lister, S. (2003). NGO Legitimacy. Technical Issue or Social Construct? *Critique of Anthropology*, 23(2), 175–192.
- Mercelis, F., Wellens, L., Jegers, M. (2016). Beneficiary Participation in Non-Governmental Development Organisations: A Case Study in Vietnam. *The Journal of Development Studies*, doi:<http://dx.doi.org/10.1080/00220388.2016.1166209>.
- Miles, M. B., Huberman, A. M., Saldaña, J. (2014). *Qualitative Data Analysis. A Methods Sourcebook*. London: Sage.
- 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. *Academy of management Review*, 22(4), 853–886.
- Moggi, S., Leardini, C., Rossi, G. (2015). Mandatory or Not Mandatory Reporting? Insights From Italian Bank Foundations. *International Journal of Public Administration*, 38(10), 734–742.
- Moggi, S., Leardini, C., Rossi, G., Zardini, A. (2016). Meeting local community needs. A dashboard from the stakeholder engagement experience. Vita e Pensiero, Working paper n. 16.
- Murtaza, N. (2012). Putting the Lasts First: The Case for Community-Focused and Peer-Managed NGO Accountability Mechanisms. *Voluntas*, 23, 109–125.
- National Council for Voluntary Organisations (NCVO) (2010). *Code of Good Governance*. NCVO.
- O'Dwyer, B. (2005). Stakeholder democracy: challenges and contributions from social accounting. *Business Ethics: A European Review*, 4(1), 28–41.
- Parker, L., Hoque, Z. (2015). Boardroom Governance. Interrogating, Strategising, Control and Accountability Processes. In Z. Hoque, L. Parker (Eds.), *Performance Management in Nonprofit Organizations: Global Perspectives* (pp. 260–284). New York & London: Routledge.
- Patton, M. Q. (2002). *Qualitative research & evaluation methods*. 3th edition. London: Sage.
- Pitkin, H. F. (1967). *The concept of representation*. Berkeley: University of California Press.
- Ragab, I., Blum, A., Murphy, M. (1981). Representation in neighborhood organizations. *Social Development Issues*, 5(2-3), 62–73.
- Rossi, G., Leardini, C., Moggi, S., Campedelli, B. (2015). Toward community engagement in non-profit organizations governance. *Voluntary Sector Review*, 6(1), 21–39.
- Roulston, K. (2010). *Reflective interviewing: A guide to theory and practice*. London: Sage.
- Saldaña, J. (2015). *The coding manual for qualitative researchers*. London: Sage.

- Stewart, J. (2012). Multiple-case Study Methods in Governance-related Research. *Public Management Review*, 14(1), 67-82.
- Suchman, M. C. (1995). Managing Legitimacy: Strategic and Institutional Approaches. *The Academy of Management Review*, 20(3), 571–610.
- Swanson, L. A. (2013). A Strategic Engagement Framework for Nonprofits. *Nonprofit Management and Leadership*, 23(3), 303-323.
- Swindell, D. (2000). Issue representation in neighborhood organizations: questing for democracy at the grassroots. *Journal of Urban Affairs*, 22(2), 123–137.
- Taylor, M., Warburton, D. (2003). Legitimacy and the Role of UK Third Sector Organizations in the Policy Process. *Voluntas*, 14(3), 321–338.
- Wang, X., Van Wart, M. (2007). When Public Participation in Administration Leads to Trust: An Empirical Assessment of Managers' Perceptions. *Public Administration Review*, March/April: 265–278.
- Wolff, S. (2004). Analysis of documents and records. In U. Flick, E. Von Kardoff, and I. Steinke (Eds.), *A companion to qualitative research* (pp. 284–289). London: Sage.
- Yin, R. K. (2003). Case study research. Design and Methods. *Applied Social Research Methods Series*, Vol. 5.

Table 1 Cases selected for the analysis

Foundation	Location	Policy areas	Media legitimacy level	Legitimacy challenge
B	Northern Italy	Art and culture, Research, and the welfare needs of the local community	Medium	Gaining
F	Northern Italy	Volunteering, Art and culture, and Public health	High	Maintaining
A	Central Italy	Research, Art and culture, and Local development	Low	Repairing

Table 2 Overview of interviews undertaken at Foundations B, F, and A

Case study	Role	Employment	Type duration
Foundation B	Chairperson	4 years	33 minutes
	Executive director	5 years	43 minutes
	Board member	2 years	47 minutes
	Board member	2 years	31 minutes
	Grant-making activity responsible	16 years	28 minutes
Foundation F	Chairperson	5 years	51 minutes
	Executive director	11 years	31 minutes
	Board member	5 years	35 minutes
	Board member	5 years	58 minutes
	Board member	10 years	33 minutes
Foundation A	Chairperson	1 years	36 minutes
	Executive director	2 years	39 minutes
	Board member	5 years	75 minutes
	Board member	2 years	49 minutes
	Board member	2 years	49 minutes

Figure 1

