

INVESTING IN L³C ORGANIZATIONS: INDICATORS OF LEGITIMACY

Gregory G. De Blasio, PhD, Associate Professor
Emma K. Woeste, Graduate student
Department of Communication
Northern Kentucky University, USA

Introduction

The historical focus of organizational legitimacy has been placed first, on institutions and secondly on for-profit organizations. Non-profits, however, must reckon with the notion of organizational legitimacy as they too draw resources from stakeholder groups. This paper navigates a third and fairly new area of organizational legitimacy that involves the low-profit, or L³C organization. Like many non-profits, the low-profit is charged with community transformation and civic engagement responsibilities (Lang and Minnigh, 2010). Like the for-profit organization, the low-profit is free to campaign for support from financial investors who are persuaded to believe that their investment is likely to grow over time and will benefit in the form of financial gain for both the organization and the investor. The research question posed, therefore, is: *How does a strategic process of legitimation function for the low-profit organization?*

The L³C organization needs to be considered legitimate by both the community it serves and by the investors it must cultivate. In addition, both institutional affiliation and legitimacy extend beyond the type of social service performed in areas related to health care or education, for example, to market economics as interpreted by investors.

Legitimacy, Community, and Institutionalization

Early macro conceptions of legitimacy created fundamental sociological ground that examined broad institutionalized political, economic, and religious systems (Boulding, 1971; Parsons, 1947; Weber, 1978). The macro view of legitimacy, therefore, is well suited to examine organizations dedicated to widespread social good or even to giant corporations which claim to operate in support of the general economic welfare for all.

Another conception, process-oriented legitimacy, examines discrete policies, decision criteria, or other actions taking place among organizations and stakeholder groups. Scholars have examined how governmental and non-governmental organizations and institutions strive to attain legitimacy by closely minding the processes of decision-making and public debate (DuPuis and Gillon, 2009; Palazzo and Scherer, 2006; Rønningen et al., 2004). An organization's institutional affiliation and its legitimizing influence are particularly germane to this research. An organization's legitimacy would be questioned if it did not have the wherewithal to live up to the decision-making and transparency standards set by the institution to which it is affiliated.

Much of the attention dedicated to legitimacy also includes two dominant but very different forms: (1) legitimacy as a conferred status, and (2) legitimacy as a deliberate strategic determinant for organizational activities (Aurini, 2006; Boyd, 2000; De Blasio, 2007; Suchman, 1995). The L³C organization is in the position of seeking support from publics that share little in common considering the concurrent altruistic and profit generating interests. Whether conferred or part of a rhetorical strategy designed

to sway public discourse, legitimacy determines whether the organization or institution deserves support from its publics (Hearit, 1995). Mayhew (1997) examined Parson’s (1947, 1956) normative approach to legitimacy and the likely tempering influences on public discourse advertising, public relations, and other “professional communicators” cause. Words and deeds can therefore be deceiving. There is often doubt about whether an organization truly deserves support or whether its managed public discourse creates an inaccurate picture of current circumstances that is misleading. Considering the potential conflict among community stakeholders and investors, the public discourse of the L³C needs to be carefully managed while avoiding even the slightest connotation of being misleading.

Social Circus and Community

The institution of social circus, by definition and mission, is dedicated to pursuing a range of community building activities. A social circus organization, therefore, would need to mirror social circus as an institution. The institution of social circus engages schools, hospitals, and community organizations through educational events and entertainment performances to support the personal development of young people by enhancing physical and social skills (Bolton, 2004; CACSS, 2008; Mota, 2010). The daily routines of Circus Mojo and similar social circus organizations, therefore, call for and require collaboration among community actors as the organization delivers educational and social services. In addition, Circus Mojo must operate as a social circus, produce a financial profit, and deliver a financial return for third-party investors.

Circus Mojo seeks to attain and maintain legitimacy among its stakeholders through the social change it is able to facilitate in the community and through financial growth that the organization demonstrates. Engaging community this way, Circus Mojo works to “mobilize and empower the community” (Strand et al., 2003, p. 101).

Social Good in the Community

Keeping Suchman’s (1995) idea of institutionalization emanating from the need to address an as of yet to be recognized or addressed problem, the essential character of social circus and civic engagement come to mind. Social circus, for example, places circus performers in schools, hospitals, and detention centers and thereby provides comfort and entertainment where it previously did not exist. A familiar image of traditional circus is one of a traveling troupe, constantly moving from one location to another. Social circus, in contrast, is prone to establish itself in a single location or community.

A social circus, therefore, is positioned to provide a response to a problem or opportunity that had been left unattended. In a similar vein, civic engagement addresses community issues or initiatives that require some kind of collaborative response. Zimmerman and Zeitz (2002) outlined a series of legitimation strategies that apply to new venture organizations that needed to break through a “legitimation threshold” considering the novelty of the newly formed enterprise. New ventures like Circus Mojo must manage newly formed community and institutional relationships.

Conclusion

A thorough understanding of contextual conditions will go a long way toward enabling legitimation from the start through the finish of civic engagement efforts. Strand, et al., (2003) promote the value of community-based research and its ability to address previously untended community and social issues. The benefits of community-

based research are closely aligned with the promise of organizations sharing the challenges of legitimation and the mission of social circus. Community-based research can be instrumental to a social change agenda. Similarly, research projects, civic engagement and social circus create greater community involvement. Finally, community-based programs can yield the benchmarks of success for social action and policy change.

Investors, therefore, will need to consider the legitimacy of the organization on at least two fronts: (1) its ability to fulfill the role of an organization that must perform social good and institutional affiliation, and (2) how the organization demonstrates evidence of being a sound financial investment.

References

- Aurini, J. (2006), "Crafting legitimation projects: An institutional analysis of private education businesses", *Sociological Forum*, Vol. 21 No. 1, pp. 83-111.
- Boulding, K. (1971), "The legitimacy of economics" in Glahe, F.R. Ed. *Kenneth Boulding: collected papers: Vol. 2, economics*, Colorado Associated University Press, Boulder.
- Bolton, R. (2004), *Why circus works: How the values and structures of circus make it a significant developmental experience for young people*, (Unpublished doctoral dissertation) Murdoch University, Perth, Australia.
- Boyd, J. (2000), "Actional legitimation: no crisis necessary," *Journal of Public Relations Research*, Vol. 12 No. 4, pp. 341-353.
- De Blasio, G. G. (2007), "Coffee as a medium for ethical, social, and political messages: Organizational legitimacy and communication," *Journal of Business Ethics*, Vol. 72, pp. 173-189.
- DuPuis, M. and Gillon, S. (2009), "Alternative modes of governance: Organic as civic engagement," *Agriculture and Human Values*, Vol. 26, pp. 43-56.
- Hearit, K. M. (1995), "Mistakes were made: Organizations, apologia, and cases of social legitimacy," *Communication Studies*, Vol. 46, No. 1-2, pp. 1-17.
- Lang, R. and Minnigh, E. C. (2012), "The L³C history, basic construct, and legal framework", paper presented at Vermont Law Review L³C Symposium 18 February 2010 (accessed 15 March 2013).
- CACSS (2008), *Le plus petit cirque du monde – Centre des Arts du Cirque Sud-de-Seine* (accessed 1 July 2012).
- Mayhew, L. (1997), *The new public: Professional communication and the means of social influence*, Cambridge University Press, NY.
- Mota, M. (2010), *How social circus programs and institutions are promoting and respecting children's rights*, (Unpublished master thesis), Free University of Berlin, Germany.
- Palazzo, G. and Scherer, A. G. (2006), "Corporate legitimacy as deliberation: a communicative framework", *Journal of Business Ethics*, Vol. 66, pp. 71-88.
- Parsons, T. (1947), *The theory of social and economic organization*, Oxford University Press, New York.
- Parsons, T. (1956), "Suggestions for a sociological approach to the theory of organizations", *Administrative Science Quarterly*, Vol. 1 No. 2, pp. 225-239.
- Rønningen, K., Flø, B. Egil and Fjeldavli, E. (2004), "The legitimacy of multifunctional agriculture," *Centre for Rural Research*, pp. 1-25.

Scott, R. (2008), *Institutions and organizations: ideas and interests*, Sage, Los Angeles.

Strand K., Marullo, S., Cutforth, N., Stoecker, R., and Donohue, P. (2003), *Community-based research and higher education*, Jossey-Bass, San Francisco.

Suchman, M. (1995), "Managing legitimacy: strategic and institutional approaches", *Academy of Management Review*, Vol. 20, No. 3, pp. 571-610.

Weber, M. (1978), *Economy and Society*, University of California, Berkeley.

Zimmerman, M. A. and Zeitz, G. J. (2002), "Beyond survival: Achieving new venture growth by building legitimacy", *Academy of Management Review*, Vol. 27, pp. 414-431.

**INVESTING IN L³C ORGANIZATIONS:
INDICATORS OF LEGITIMACY**

Gregory G. De Blasio

Emma K. Woeste

Northern Kentucky University, USA

Abstract

Organizations are cautioned to avoid favoring one stakeholder group over others when establishing policy and engaging in public discourse. Corporations are often criticized for privileging investors or shareholders. Non-profits, however, typically maintain strong connections to community stakeholders and operate with visible educational, health care, or other institutional affiliation. With the recent and ongoing creation of a new legal entity, the low-profit, limited liability L³C company, organization-stakeholder relations will need to be reconceptualized. The L³C is charged with a primary purpose of practicing charity and social good, and yet is permitted to generate low profit and to court investors. The L³C investors expect a financial return much in the same way an investment in a large for-profit organization would be expected to grow. How, then, does the L³C organization fulfill its obligation to do charitable work and meet the institutional demands of social transformation while pursuing profit and answering to investors? In other words, how does L³C remain legitimate? The L³C places a new form of strain on stakeholder relations. An examination of a social circus organization in its formative stages helps to answer how stakeholder relations are reconsidered for the hybrid L³C low-profit entity. The concepts of civic engagement and institutional affiliation were found to be factors in the legitimation process.

Keywords: legitimacy, L³C, social circus, stakeholder theory, community, institutionalization