

Legitimacy in networks

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Abstract

Our aim is to add to the knowledge on if and how legitimacy affects network formation and operation by analyzing two empirical cases. Although the importance of legitimacy has been pointed out this has still not gained much attention. Existing network theories and research tend to focus on resource exchange rather than on how actors perceive each other in terms of being legitimate or not. Our study concerns the role of legitimacy in the formation of regional strategic networks. Such networks are commonly formed for the purpose of regional development by means of increased competitiveness of regional companies. Two Swedish cases are discussed in terms of pragmatic, moral and cognitive interpartner legitimacy. The discussion illuminates the crucial impact of legitimacy in network formation and development processes.

Keywords: Regional strategic networks, legitimacy, network formation

INTRODUCTION

In recently published research Provan, Kenis and Human (2008) point to the importance of legitimacy in understanding networks. According to their conceptual research legitimacy seems to be vital for network formation and the evolving process towards maturity. Although the importance of legitimacy has been pointed out this has still not gained much attention. Furthermore, when legitimacy has been an issue it is mainly external legitimacy that has been focused. However, external legitimacy refers to the acceptance of the organization by the broader societal environment (Suchman, 1995) but in network contexts internal legitimacy, the acceptance of an organization by its internal constituencies, becomes a critical element as well. In network contexts internal legitimacy implies acceptance of the alliance as such but also of each partner by the other partner(s) and “lack of internal or interpartner legitimacy can be as knotty as the lack of external legitimacy” (Kumar and Das 2007) . Nevertheless, existing network theories and research tend to focus on resource exchange rather than on how actors perceive each other in term of being legitimate or not.

Our study concerns the role of legitimacy in the formation of regional strategic networks. Such networks are commonly formed for the purpose of regional development by means of increased competitiveness of regional companies (Huggins 2001; Rosenfeld 1996) and may include actors representing local government, local companies and local universities (Lundberg 2008). Kumar and Das (2007) argue that legitimacy seems to play a critical role in the formation of strategic alliances. This should also be applicable to the formation of regional strategic networks.

Regional strategic networks consist of companies cooperating with support from governmental agencies or other organizations in order to develop an industry sector or a certain type of operations in a region (Hallén and Johanson 2009). They are engineered (Doz 1996) and defined by membership, i.e., consisting of companies that formally have entered the network, rather than organically developed business networks (Ford et al. 1997) defined by business relationships between companies and not requiring formal membership. For organically developed business networks borders are only a subjective tool used for analytical purposes. Another distinctive characteristic of regional strategic networks is that they are led and coordinated by one or several persons performing a hub function (Jarillo 1988). The hub is responsible for the communication with network members and external actors and organizes a large part of the network activities.

Regional strategic networks are aiming at developing cooperative relationships among their participants. In that respect they have a strategic intent but the network aspect is more of a vision than a fact to begin with as the reason for gathering the participants is a lack of relationships and cooperation among them. In the formation process there is for this reason often a low level of mutual knowledge and thus also low levels of legitimacy among the participants and sometimes even for the network’s cause as the initial visions of cooperation may be rather vague.

We apply the definition of legitimacy provided by Provan, Kenis, and Human (2008:5): “status and acceptability conferred by others based on their perception of the organization’s/network’s goals, values, actions, structures, processes and the like”. What is central in this definition is that legitimacy means that an actor is perceived as behaving in an accepted way in the eyes of other actors. This paper responds to the call by Provan, Kenis and Human (2008) for further research on legitimacy and networks by focusing on the processes of formation and operation of regional

strategic networks. Our aim is to add to the knowledge on if and how legitimacy affects network formation and operation by analyzing two empirical cases.

For participants in a regional strategic network the power to act and to be accepted as an actor in that context is vital for the purpose of influencing the forming of decisions (Elbe 2002). The belief or feeling that an organization is competent and worthy of trust is an aspect that other firms and organizations take into consideration before entering into interactions that involve risks such as transferring complex or sensitive information that may affect the power balance. Taking legitimacy into consideration thus adds new dimensions in understanding the processes of regional strategic networks. Interacting in a regional strategic network means that actors need to be perceived as legitimate as they else will not be able to influence the decision making in that context. The member firms of a regional strategic network are confronted with many different expectations related to the formation of legitimacy. As an organization can be engaged in different activities, the member firms can also be embedded in different types of relationships and hence be exposed to different expectations on behavior and perceptions of values. Legitimacy is rendered by different constituents but is also something that an actor can influence through different strategies (Suchman 1995). Finally, the cause of the regional strategic network needs to be perceived as legitimate by the participants:

the motivating factor for external actors to give [...] resources is their belief or feeling that the venture is indeed competent, efficient, effective, worthy, appropriate, and/or needed” (Zimmerman and Zeitz, 2002:416).

REGIONAL STRATEGIC NETWORKS AND LEGITIMACY

Kumar and Das (2007: 1430) found when studying alliances that legitimacy was an important factor affecting alliance formation as well as survival: “firms unlike single organizations, also have to face the problem of ongoing legitimacy challenges from their partners in the alliance”. Relating this to regional strategic networks implies that a member of such a network is both facing the legitimacy pressure from external constituents who have expectations on the firm as an organization and the legitimacy pressure put up by the other member firms. A problem that can exist in a regional strategic network is that the member companies are partners in the network but also competitors. This means that there is an inherent risk that any member company may have a hidden agenda that directly or indirectly affects the interaction between the parties. One reason for this is that the member companies have different demands from different stakeholders. Furthermore, it is important that actors in the external environment regard the strategic network as legitimate in order for the network to obtain external resources, skills and attract new business.

In a regional strategic network it is also important that the internal partners view each other as legitimate partners. If legitimacy is lacking it is difficult to conclude business deals. Kumar and Das (2007) argue that “interpartner legitimacy is important because it can facilitate cooperation, lower transaction costs, and enhance the reputational capital of the partners. Thus, also, interpartner legitimacy has a critical role”. Kumar and Das claim that interpartner legitimacy is important to take into consideration in order to understand alliances as the interpartner legitimacy diminishes transaction costs in the managing of alliances. They define interpartner legitimacy as “mutual acknowledgment by the alliance partners that their actions are proper in the

developmental processes of the alliance” (p. 1425). Through interpartner legitimacy the actors understand that they are striving towards common goals and may thereby solve conflicts in a smoother way.

According to Kumar and Das (2007) interpartner legitimacy is a mutuality of acknowledgement based on the expectations that the member firms have brought with them. It is also a mutual acknowledgement of norms and rules for the interactions between them. This in turn has a positive effect on interfirm cooperation as the members know and have accepted the norms for the interactions. Relating this to a regional strategic network setting, one can also argue that the members take on different roles in the network and have agreed on the norms of behavior for the interactions. Related to this is that interpartner legitimacy is dependent on the motivation and capabilities to implement desired behavior. If the members have positive experience from interacting with each other the interpartner legitimacy will be faster to establish and will thus also have a positive effect on the establishment and operation of the strategic network. If interpartner legitimacy is established, exchange of information will be smoother and the member firms will also be striving towards finding solutions that are in everyone’s best interest. With interpartner legitimacy the members will be more likely to have a cooperative frame of mind instead of a competitive, which can be expected to increase the willingness to find solutions to problems (Kumar and Das, 2007).

Interpartner legitimacy develops as a regional strategic network is being formed and different mechanisms influence the perceptions of the members. As the potential members initiate the negotiation processes to form the regional strategic network it is critical that they reach an agreement on the mutual benefit. Three types of interpartner legitimacy have been defined by Kumar and Das (2007) on the basis of the work of Suchman (1995). The first one, called pragmatic interpartner legitimacy, is based on self-interest and occurs when the organization satisfies the interests of its members. It is of special importance in the formation stage. The negotiations in the formation stage are important as they affect the members’ future involvement and contributions to the network in that the regional strategic network is viewed as being in the interest of the individual business firm as well as in the interest of the network as a whole. Within the network approach, trust and access to resources are often discussed but we argue that by putting forward the legitimacy concept we can also identify both the initial processes of negotiations on the rules and norms which influence the future possibilities for interactions and the conditions for the survival and purpose of multi-actor interaction. If pragmatic interpartner legitimacy is established the member firms will view the network involvement and their own contribution as a way of reaching their own interests as well as the interests of the regional strategic network. As this is a part of the negotiation and formation processes we can by including this concept into the network reach further the understanding of if and how the common grounds for a network are established.

Secondly, for a regional strategic network to survive the members also need to view network as the “right” thing to do from a normative point of view in order to reach the company’s objectives. This is called moral interpartner legitimacy and is based on judgments of how other members are likely to behave. We can expect certain regional strategic networks to have few conflicts and work smoothly whereas others will encounter problems such as lack of dedication or belief in the cause. The actors can trust individual members’ behavior but may question the congruency of the goals, purpose, structure, processes etc. of the network. If the goals are in line with the individual

firm's justice norms, the network is perceived as having moral legitimacy. Moral legitimacy is mainly critical during the operational stage but may also cause difficulties if an actor is compromised during the formation stage.

The third type of interpartner legitimacy is called cognitive interpartner legitimacy where the network is seen as something that is inevitable and necessary to participate in. When a network has reached cognitive interpartner legitimacy the network has become taken for-granted, and being a member of it is not only necessary but inevitable. This stage is usually reached only at late stages of network development. Through these processes it is important that the network is seen as legitimate in the eyes of its members as well as the external actors in order for the network to survive (Provan, Kenis and Human, 2008).

Below we present two contrasting Swedish regional strategic networking initiatives illustrating how the composition of actors and their relative legitimacy may affect the networking processes of formation and operation in different directions.

METHOD

The methods for data gathering were observation and interviews. For each case, one of the authors took part in all meetings, notes from meetings have been taken and formal as well as informal interviews have been held with network participants.

TWO ILLUSTRATIVE EMPIRICAL CASES

Case 1

The first network initiative started in 2009 in southern Sweden when a couple of key persons and organizations supporting enterprise development were invited to participate in a one-year cooperative project. The project was intended to gather all stakeholders in order to develop a common vision, goals and strategies. Some of those invited were competitors in the sense that they were working towards the same market and often in projects supported by state aid which meant that they were partially dependent on the availability of funds from the public organizations. The organization issuing the invitation was, for this reason, regarded as a competing organization by some of the participants. It had a certain basic municipal funding for its activities and had been assigned by the municipality to undertake this cooperation initiative. This assignment was, however, not anchored in the other participating organizations. The inviting organization had obtained funding from a national funding agency for a one-year collaborative project. The project was run in collaboration with consultants.

Some eighty people participated at the first meeting representing companies as well as local government organizations and the local university. There was a general agreement that the present competition among the supporting organizations was a problem. However, there was a suspicion in the air that the inviting organization had a hidden purpose for this project. Some participants felt that the unspoken purpose of the inviting organization was to take the role of an umbrella organization for all stakeholders and in that way secure the continuation of its own business. Its main motive would in that case be one of self-interest rather than the common good.

The project included seven meetings of differing nature gathering the participants in different configurations. Little time was spent on presentation of the participants and their organizations. At the second meeting some participants argued that the hired consultants, who were in charge of the process, were unable to create conditions for a purposeful dialogue as their interpretations and analysis did not correspond with the participants' perception of the discussions. The consultants also showed frustration with the problems that arose when participants from different cultures (private / public sector) met. They pushed on, trying to ignore differing views, which caused irritation and aggravation among the participants. This problem was discussed by the initiators, some participants and the consultants between meetings, but nevertheless the problems reappeared during the following meetings. After four meetings, only embryos of a vision, goals and strategies had been formulated.

The interpartner legitimacy characterizing Case 1 is summarized in Table 1 below.

Interpartner legitimacy	Definition	Case 1
Pragmatic interpartner legitimacy	Self-interest – occurs when the network satisfies the interests of its members	Low - there was a competitive situation that could not be handled
Moral interpartner legitimacy	Normative – to view network as the “right” thing to do in order to reach the company’s objectives	Low - there was a suspicion that some of the participants would not act in line with justice norms
Cognitive interpartner legitimacy	Taken-for-grantedness - the network is seen as something that is inevitable and necessary to participate in	Low - The inviting organization was questioned which negatively affected the legitimacy of the network as a whole

Table 1. Interpartner legitimacy in Case 1.

Case 2

The second network initiative was also launched in 2009. Actors (both public and private) operating within the sector of energy efficiency in northern Sweden had noted that there were several actors with a similar focus in the region. Many of them were financed by public funding which created a competitive situation. However, several representatives of these organizations had participated in the same training program, they had developed personal friendship, and during talks activity overlaps were discussed. Finally one organization took on the responsibility of convening a meeting to further clarify the roles. The person elected to invite to and lead the first meeting was the leader of the training program. This leader had no special interests to defend and had extensive experience in starting and operating cooperative development initiatives.

It was easy to make the invited actors come to the meetings because the cause as well as the activities were perceived as urgent and important. The purpose of the first meeting was to identify who did what and with what resources in order to create a common view and clarify overlaps. During this meeting all participants described their activities. Four meetings have been held so far. Collaboration and formation of a network was not included as an objective from the start but as the participants learned about each other's activities and visions, opportunities for cooperation were discovered, and actions and joint projects were planned. The competitive situation could be handled and was replaced by cooperation. During the fourth meeting the members jointly worked to influence the regional development agencies in order to secure further resources for developing their field.

The interpartner legitimacy characterizing Case 2 is summarized in Table 2 below.

Interpartner legitimacy	Definition	Case 2
Pragmatic interpartner legitimacy	Self-interest – occurs when the network satisfies the interests of its members	High – prior social relationships facilitated cooperation and made win-win outcomes seem likely
Moral interpartner legitimacy	Normative – to view network as the “right” thing to do in order to reach the company’s objectives	Medium - there were no outspoken justice norms
Cognitive interpartner legitimacy	Taken-for-grantedness - the network is seen as something that is inevitable and necessary to participate in	High - The participants identified several areas for cooperation within the network context

Table 2. Interpartner legitimacy in Case 2.

DISCUSSION

In *the first case* the formation of the regional strategic network encountered problems as the project itself lacked legitimacy in the eyes of the participants. Furthermore, the participants did not view each other as legitimate partners; there was thus a lack of interpartner legitimacy. The inviting organization was an actor guarding its own interests, and the hired consultants did not obtain the participants' confidence. Firstly, there was weak pragmatic legitimacy, i.e. the member firms were not convinced that the network and their own involvement in it were in their own interest or in the interest of the regional strategic network. There was a competitive situation that could not be handled. One of the explanations for this is that the participants were not able to get to know each other during meetings as no time was given for presentations. This lack of mutual knowledge hampered their interest in strengthening cooperation and thus affected the pragmatic interpartner legitimacy negatively. In order to reach a stable formation of a regional strategic network, attainment of pragmatic interpartner legitimacy is important during initial negotiations. If this is lacking participants will not reach congruency on values and thus find it difficult to invest time and other resources in the regional strategic network.

In this first case there was furthermore a suspicion that some of the participants would not act in line with the justice norms. Hence there was weak moral interpartner legitimacy. Although Kumar and Das (2007) argue that the most critical legitimacy form in the formation stage is pragmatic legitimacy, it seems as the lack of moral interpartner legitimacy also caused problems in this case. The lack of moral legitimacy seems to affect the trust building process negatively as well since the actors failed to perceive that they could predict the behavior of the other participants. As pragmatic interpartner legitimacy was lacking and moral interpartner legitimacy was weak, the perception of the network as something that was necessary and inevitable to participate in was also lacking, i.e., cognitive interpartner legitimacy was absent too. This in turn resulted in problems in all three stages of regional strategic network processes, i.e. the formation, the operation and the outcome stages. As the actors had problems in forming the common aims and structure of the network they did not reach common agreements. Instead these were more or less forced on them by the consultants. This implies that the goals, structure etc. were set by the consultants and did not become internalized by the member firms.

In analyzing *the second case* we find that the common history of several of the actors from the training program united them, and the network, although not so intended, was formed into a network of cooperation. Resources were directed to common interests. This result was reached as the members found that they had common values and aims, which is the foundation for legitimacy. Hence, pragmatic interpartner legitimacy was established at an early stage as several of the actors were acquainted from the start and learned even more about each other during the first meeting. This case illustrates the importance of finding common grounds on which to establish the regional strategic network. Through the informal presentations pragmatic legitimacy developed and the members found out that cooperation would benefit the individual companies and organizations as well as the region. The network came to be regarded as valuable as such,

and cognitive interpartner legitimacy developed. However, the moral legitimacy does not seem to have been fully established as justice norms had not yet been established. This verifies the hypothesis by Kumar and Das (2007) that pragmatic interpartner legitimacy is the most critical form of legitimacy in the formation stage whereas the moral and cognitive interpartner legitimacies are more central in the operation and outcome stages.

Summing up we argue that the legitimacy concept is important if we wish to understand the initial processes of negotiations on the rules and norms which set the future possibilities for interactions as well as for the survival and purpose of multi-actor interaction. We can by including this concept into the network approach further the understanding of if and how common grounds for a network are being established.

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