Reputation and Legitimacy: 
A Comparative View of Three Municipal Enterprises in Finland

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ABSTRACT
The aim of this study is to map the principal reputation risks and threats to legitimacy in the processes of organisational change among the three cases in question. The key focus is on the core aims and dilemmas associated with transformation into a municipal enterprise form. According to the results, isomorphic forces affect the institutional process in enhancing and diminishing the isomorphism, and in simultaneously creating dilemmas that pose a risk to the organisation’s reputation and threaten its legitimacy. The findings further highlight the need to investigate strategic dilemma management as a tool for controlling reputation risks and legitimacy in the management of change in the public-healthcare sector.

Keywords: Change Management, Dilemma Management, Legitimacy, Municipal Enterprise, Public-Sector Healthcare Organisation, Reputation

INTRODUCTION
The Finnish government along with other European Union Member States strive to improve the value for money of healthcare through improvements in coordination and the rational use of resources (EC, 2009; Vuori, 2011). In addition, the New Public Management (NPM) era triggered a call for innovation in the process of change in service provision to more efficient organisational forms (Pollitt & Bouckaert, 2011; Lane, 2009). In response to this call, adoption of the municipal enterprise form has been gathering momentum in Finland during the last two decades (see also Windschhofer, 2007; Kallio & Kuoppakangas, 2012; Kuoppakangas, 2013a; 2013b).

Municipal enterprises have become increasingly common in the water, waste and energy sectors, whereas it was only in the 1990s that interest in transforming into this type of organisational form arose in the public-healthcare sector. Organisational changes tend to create tensions on different levels, and it goes without saying that the public-healthcare sector faces tensions in the process of transformation.

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into more business-like forms. These tensions seem to reflect healthcare ethics and professionalism, the historical roots of which lie in humaneness rather than profitmaking. They may also provoke dilemmas that inherently risk the organisation’s reputation and threaten the legitimacy it seeks.

The study at hand draws on Kallio and Kuoppakangas’ (2012) earlier findings suggesting that the bandwagon effect on municipal enterprises in Finland’s healthcare sector was attributable to institutional pressures and political stalemate (DiMaggio & Powell, 1983; Greenwood & Hinnings, 1996; Scott, 2000; Mahmood & Rufin, 2005). Moreover, Kuoppakangas (2013a; 2013b) explains how isomorphic forces, related to institutional theory, create dilemmas, and how the way in which organisations respond to these dilemmas influences the ultimate outcomes of organisational change (Hampden-Turner, 1990; 2009). This article examines these dilemmas and the kinds of reputation risk they may create. Attention is also given to the reputation risks that may threaten the sought-for legitimacy in the three case organisations.

It is suggested here that there is a need to adopt a different approach to tackling the isomorphic forces and the subsequent dilemmas. Perhaps there should be a shift in focus in the theoretical discussion from the reasoning behind the transformation of healthcare organisations into municipal enterprises to the reputation risks and legitimacy threats attributable to the dilemmas arising from the isomorphism and contradictory aims.

This article contributes to the existing literature in two ways. First, it is suggested that the various dilemmas attributable to isomorphic forces in the management of organisational change are creating reputation risks. Second, it raises the question of whether the dilemma-management actions could have an impact on the organisation’s reputation and legitimacy: what is sought after is a focus on dilemma management as opposed to organisational theory.

In the following sections the municipal enterprise is defined, reputation and institutional theory are discussed, with specific reference to the role they play in the general theory of organisations, and dilemma theory as applied in this article is outlined. After that the case organisations are introduced and the analytical methods described, and finally the tenets of the three theories are integrated into the data analysis to determine the extent to which isomorphic forces affect reputation, and vice versa.

THE MUNICIPAL ENTERPRISE

The municipal enterprise form was originally recognised in Finland in 1873 in the Decree of City Council Resolution (Kallio & Kuoppakangas, 2012; Myllyntaus, 2002, p. 158). However, the municipal enterprise law did not come into force until the year 2007. In fact, the municipal enterprise is defined in the first subparagraph of Paragraph 87a of the Finnish Local Government Act 365/1995, as amended by Law 519/2007. The council of the municipality or joint municipal board may set up municipal enterprises for the purposes of business or a task to be discharged according to commercial principles. Municipal enterprises are components of the municipal organisation, and legislation on the activities of local authorities (municipalities) applies to their activities. These enterprises are not independent legal entities. The aim of the 2007 amendment to the law was to enhance the transparency of municipal enterprises as well as to remodel their operational structure. Before this the term municipal enterprise was defined and used more loosely (Act 519/2007). There is statistical evidence of the growing tendency to convert municipal business operations into municipal enterprises: there were 70 such enterprises in Finland in 1997, and by 2010 the number had increased to 176 (Suomen Tilastokeskus, 2012).

REPUTATION AND LEGITIMACY

In the field of marketing and management, an organisation’s reputation is typically considered its most critical, strategic and enduring asset