

DOES ISOMORPHISM LEGITIMATE?

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This study tests a central proposition of institutional theory, that organizational isomorphism increases organizational legitimacy. Results show that isomorphism in the strategies of commercial banks is related to legitimacy conferred by bank regulators and the media, even in the presence of organizational age, size, and performance.

Research in institutional theory has examined the causes of isomorphism, that is, the factors that lead organizations to adopt similar structures, strategies, and processes (Davis, 1991; DiMaggio & Powell, 1983; Mezas, 1990; Palmer, Jennings, & Zhou, 1993; Tolbert & Zucker, 1983). Isomorphism also has consequences that require examination (Jepperson, 1991; Zucker, 1987). A fundamental consequence of institutional isomorphism, according to institutional theory, is organizational legitimacy, the acceptance of an organization by its external environment (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Meyer & Scott, 1983). Like isomorphism, legitimacy is a crucial concept in institutional theory, serving as the "anchor-point of a vastly expanded theoretical apparatus" (Suchman, 1995: 571). Nevertheless, there have been few systematic efforts to test the isomorphism-legitimacy link because of continuing difficulties in defining and measuring legitimacy (Bozeman, 1993; Galaskiewicz, 1985; Suchman, 1995; Terreberry, 1968). This study addresses these gaps in institutional research by examining whether isomorphism in strategies is related to legitimacy conferred by regulators and the media.

HYPOTHESIS DEVELOPMENT

Organizational isomorphism (isomorphism, hereafter) is defined as the resemblance of a focal organization to other organizations in its environment (DiMaggio & Powell, 1983). Although DiMaggio and Powell discussed isomorphism as both a state and a process, I conceptualize it here as a state. That is, this article focuses on isomorphism as the similarity among a set of organizations at a given point in time.

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Researchers have identified several organizational characteristics that are subject to isomorphism. Initial concerns were with structures and practices (Meyer & Rowan, 1977; Tolbert & Zucker, 1983). Recently, strategies have been examined. For example, Fligstein (1991), Haunschild (1993), Haveman (1993), and Abrahamson and Hegeman (1994) demonstrated the importance of imitating other firms (i.e., mimetic isomorphism) in the choice of acquisition, diversification, and financial strategies. This study focuses on strategic isomorphism, the similarity of a focal organization's strategy to the strategies of other organizations in its industry.

As was true regarding isomorphism, legitimacy can be conceptualized as both a process and a state. Here I emphasize the latter. Legitimacy also can be conceptualized from an evaluative perspective, signifying desirability and normativity, or from a cognitive perspective, signifying understandability and taken-for-grantedness (Aldrich & Fiol, 1994; Jepperson, 1991; Suchman, 1995). Here I emphasize the evaluative perspective.

Organizational legitimacy (legitimacy, hereafter) is defined as a status conferred by social actors (Ashforth & Gibbs, 1990; Pfeffer & Salancik, 1978). From the perspective of a particular social actor, a legitimate organization is one whose values and actions are congruent with that social actor's values and expectations for action (Galaskiewicz, 1985; Pfeffer & Salancik, 1978). The social actor accepts or endorses the organization's means and ends as valid, reasonable, and rational (Ashforth & Gibbs, 1990; Baum & Oliver, 1991; Meyer & Scott, 1983; Singh, Tucker, & House, 1986; Stinchcombe, 1968).

Given that legitimacy is the endorsement of an organization by social actors, a key step in defining it is identifying relevant social actors. In this research I follow Meyer and Scott (1983), Galaskiewicz (1985), and Baum and Oliver (1991) in arguing that only certain actors have the standing to confer legitimacy. One important set of actors includes the government regulators who have authority over an organization (Baum & Oliver, 1991; Galaskiewicz, 1985; Meyer & Scott, 1983). A second key actor is public opinion, which has the important role of setting and maintaining standards of acceptability (Elsbach, 1994; Galaskiewicz, 1985; Meyer & Rowan, 1977; Meyer & Scott, 1983).

Thus, this article focuses on two types of legitimacy by examining the evaluations of two social actors, government regulators and the general public. *Regulatory endorsement* is the acceptance of an organization by the state agencies that formally regulate it. *Public endorsement* is the acceptance of an organization by the general public.

Theoretically, strategic isomorphism increases regulatory endorsement and public endorsement in the following way. In most industries, particular strategies are not required. Instead, ambiguity and uncertainty make the choice of appropriate strategies unclear (Abrahamson & Hegeman, 1994; Haveman, 1993). Consequently, organizations create norms of strategic behavior that social actors also come to accept (DiMaggio & Powell, 1983; Edelman, 1992). Proper strategic behavior diffuses across an industry in at least two related ways. First, organizations imitate other successful organiza-

tions in the face of uncertainty (DiMaggio & Powell, 1983; Haveman, 1993). Second, organizations learn about proper behavior through trade associations, director linkages, and other networks (DiMaggio & Powell, 1983; Galaskiewicz & Wasserman, 1989; Haunschild, 1993). On the one hand, an organization conforming to norms of strategic behavior demonstrates that it is acting in an acceptable manner and social actors should evaluate it as legitimate (Meyer & Rowan, 1977). On the other hand, organizations that innovate or have unique strategies suffer in terms of legitimacy—such behavior is questioned or even deemed unacceptable by external actors (Meyer & Rowan, 1977). In sum, this study tests whether strategic behavior deviating from the norm is related to negative evaluations of organizations made by regulators and the general public. Stated formally,

Hypothesis 1: Greater strategic isomorphism is associated with greater regulatory endorsement.

Hypothesis 2: Greater strategic isomorphism is associated with greater public endorsement.

METHODS

The hypotheses were tested in the entire population of commercial banks in the Minneapolis-Saint Paul metropolitan area (the Twin Cities) from 1985 through 1992. Commercial banks are chartered by regulators and differ from bank holding companies, which can own several financial service businesses. Hypotheses derived from institutional theory should hold in this sample because commercial banks face strong institutional forces (Scott & Meyer, 1991). For instance, banks face periodic scrutiny from regulators (Spong, 1990); banks also have a high degree of public trust (Ashforth & Gibbs, 1990). Furthermore, commercial banks are in the for-profit sector of the economy, which Powell (1991) recommended as an area for expanded empirical study. Moreover, studying a single industry in a single area eliminates confounding influences of different regulators and publics. I chose 1985 as the initial year because regulators changed reporting requirements in 1984 for the financial data used. All banks are required to file financial statements known as call reports with bank regulators. I collected the sample of banks and their year-end financial data from these reports. The number of banks ranged from 152 in 1985 to 95 in 1992. The unit of analysis was the bank-year.

Measures

Regulatory endorsement. Regulators evaluate commercial banks in two important ways: by examining banks' financial capital and by examining them on-site (Spong, 1985, 1990). A bank's financial capital position reflects its ability to protect depositor savings. Regulators assess this ability by classifying the bank's capital position into three ordered discrete categories. Banks in lower categories are not fully endorsed by the regulators. These banks instead are subject to increased regulatory scrutiny. The classification of banks used the capital ratios and categories specified by regulatory agencies

(Spong, 1985, 1990). A minor complication is that regulators changed the capital ratio and categories used for classification during the sample period. From 1985 through 1988, they used the "total capital ratio"; from 1989 through 1992, they adopted the "tier 1 leverage ratio." (The definitions of these ratios and classification schemes appear in Appendix A.) The resulting variables are called *regulatory assessment of total capital, 1985-88* and *regulatory assessment of tier 1 leverage capital, 1989-92*. They are coded (0, 1, 2), with fully endorsed banks having the highest coding (2).¹

Regulators make on-site examinations to ascertain the safety and soundness of a bank's assets. When their examinations reveal that a bank has low-quality assets and is following unsafe banking practices, regulators issue enforcement actions. Enforcement actions require the bank to take certain actions, such as curtailing lending to a certain industry or firing top management. Information about such enforcement actions only became publicly available in 1991, by congressional statute. I obtained the record of enforcement actions from LEXIS, a legal database, and created a dichotomous variable called *absence of regulatory enforcement actions, 1991-92*. Banks not subject to an enforcement action during a year were given a rating of 0; banks under an enforcement action were given a -1.

Public endorsement. I measured public endorsement from articles in the print media using content analysis. Media influence and reflect the values of a culture (Chen & Meindl, 1991; Dowling & Pfeffer, 1975; Gans, 1979). When activities of an organization are illegitimate, comments and attacks will occur, and the media will report such comments (Dowling & Pfeffer, 1975; Pfeffer & Salancik, 1978: 194). Researchers are beginning to use the media to measure legitimacy. For example, Hybels, Ryan, and Barley (1994) content-analyzed business periodical abstracts to assess the legitimacy of the population of "dedicated" biotechnology firms. Coombs (1992) content-analyzed the *New York Times* and the *Washington Post* to assess the legitimacy of President Reagan's Task Force on Food Assistance.

The Twin Cities' two metropolitan daily newspapers, the *Minneapolis Star Tribune* and the *Saint Paul Pioneer Press*, were sampled from 1988 to 1992. In a national survey, Stempel (1991) found that 67.3 percent of the population got their news about local businesses from the local newspaper. In contrast, the percentages using television, other people, and radio were much lower (27.0, 22.2, and 10.1%, respectively). Furthermore, audience recall of information contained in newspapers exceeds the recall of information from television and radio (DeFleur, Davenport, Cronin, & DeFleur, 1992). These two papers have the largest circulations in the area and thus should represent Twin Cities' public opinion. I selected 1988 as the first year of data collection for two reasons related to measurement accuracy. First, coding

¹ After collecting the data, I discovered that there was no variation in the regulatory assessment of tier 1 leverage capital, 1989-92, among Twin Cities banks. All banks were fully endorsed. Consequently, this measure received no further statistical attention.

First Bank and Norwest Bank, the two largest area banks, would have been problematic for the period before their consolidation of their numerous banking units, which occurred at the beginning of 1988. For instance, before 1988 "First Bank" could refer to First Bank Lake, First Bank Grand, or several other independent banks. Thus, measurement accuracy could be reduced for these banks. Second, costs in time and money are important influences on sampling design (Sudman, 1976). I chose to focus the sampling effort on ensuring accuracy within years rather than increasing breadth across years.

The sample of articles included all letters to the editor, all editorials, all columns, and a stratified sample of news articles. All letters, editorials, and columns were included because they represent interpretations of organizations that are important for conferring legitimacy (Dowling & Pfeffer, 1975; Pfeffer & Salancik, 1978). News articles reflect daily events and often come from press releases. I selected all news articles for each bank with fewer than eight articles in a year. For banks with more than eight, I randomly selected a total of eight plus 25 percent of the remaining number of articles. A sampling fraction of 25 percent is well above that used in most communication research (e.g., Krishnaiah, Signorielli, & McLeod, 1993; Riffe, Aust, & Lacy, 1993). Such research usually examines one or two well-covered topics over time. In contrast, this study looked at over 95 banks, many of which had little or no press coverage. In total, this procedure yielded 1,277 articles.

Coding the articles entailed identifying and rating recording units (Weber, 1990). A recording unit comprised an individual bank in a single article. Because several articles mention many banks, 2,150 recording units were identified. Each recording unit was rated as endorsing or challenging the subject bank's legitimacy (Ashforth & Gibbs, 1990; Hirsch & Andrews, 1984). I developed a coding scheme to rate each recording unit. Appendix B contains the terms and activities that challenged a bank's legitimacy.

All articles were coded by the author. A colleague was instructed to use the same coding scheme on 23 percent (52) of the articles from one year. The two raters agreed on 68 of the 71 recording units (95.8%), suggesting high levels of intercoder reliability (Weber, 1990).

The next step was to transform the recording units into a measure suitable for statistical analysis. The Janis-Fadner coefficient of imbalance was used to create annual measures of public endorsement for each bank (Budd, Thorp, & Donohew, 1967; Coombs, 1995; Hurwitz, Green, & Segal, 1976; Janis & Fadner, 1965). As implemented here, the coefficient measures the relative proportions of endorsing and challenging recording units for each bank in a year. The formula for its calculation is in Appendix C. I labeled this variable the *coefficient of media endorsement*. This coefficient has many useful properties, such as (1) a meaningful zero point when there are equal numbers of endorsing and challenging recording units, (2) a decrease in the coefficient when the number of challenging recording units increases, and (3) an increase in the coefficient when the number of endorsing recording units increases (Budd et al., 1967; Janis & Fadner, 1965). The measure is bounded by 1 and -1.

Strategic isomorphism. Strategic isomorphism was measured using *strategic conformity*, the extent to which an organization's strategies resembled the conventional, normal strategies in an industry (Abrahamson & Hegeman, 1994; Finkelstein & Hambrick, 1990). Bank asset strategies were the key strategy variables used to measure strategic conformity. An asset strategy is the allocation of resources to a certain market (Chandler, 1962). It is measured here as a proportion of total assets. For example, the commercial lending strategy is measured as the proportion of assets that a bank commits to commercial loans. Eleven bank asset strategy variables were included here: commercial loans, real estate loans, loans to individuals, agriculture loans, other loans and leases, cash, overnight money, securities, trading accounts, fixed assets, and other assets. Haveman (1993) and Reger, Duhaime, and Stimpert (1992) used similar categories.

I computed strategic conformity following Finkelstein and Hambrick (1990). Each key asset strategy for each bank was compared to the industry mean value for that variable and expressed as a standard deviation. The absolute values of the standard deviations for all the strategy variables were totaled for each bank, giving a holistic and parsimonious measure of deviation. Multiplying by -1 created a scale on which more positive numbers indicate greater conformity.

Organizational Attributes: Age, Size, and Performance

In addition to isomorphism, the organizational attributes of age, size, and performance have been suggested by researchers as potentially important determinants of legitimacy.² Older organizations are more likely to (1) develop strong exchange relationships, (2) become part of a power hierarchy, (3) be endorsed by powerful social actors, and (4) have an "aura of inevitability" (Hannan & Freeman, 1984: 158; Singh et al., 1986). "Nothing legitimates both individual organizations and forms more than longevity" (Hannan & Freeman, 1984: 158). I obtained the founding year for each bank from *Polk's Bank Directory*, a semiannual standard reference of banks.

Legitimacy may also be affected by an organization's size. Larger firms may have more contractual and social ties to and endorsements from actors in their external environments (Galaskiewicz, 1985; Pfeffer & Salancik, 1978; Singh et al., 1986). I measured size using total average assets from the call reports (cf. Haveman, 1993).

Performance also might affect legitimacy. Firms performing well are efficient at converting resources into goods and services, and society values such efficiency (Dowling & Pfeffer, 1975; Meyer & Rowan, 1977). Consistent with bank regulatory practice, return on average assets (ROA) from the call reports was the measure of performance used here.

Analysis

There were two types of dependent variables, each requiring a different analytic technique. I tested the regulatory endorsement variables, which are

² I thank an anonymous reviewer for recommending the inclusion of performance.

ordered categorical variables, using logistic regression analysis (Fienberg, 1980; Greene, 1993; Maddala, 1983). The coefficient of media endorsement is bounded and may have many observations at the boundaries. It was estimated with censored regression (the "tobit" model; Amemiya, 1984; Greene, 1993; Maddala, 1983). The following equation is the general statistical model used for testing the models:

$$\text{Endorsement} = b_0 + b_1 \times \text{strategic conformity} + b_2 \times \text{age} + b_3 \times \text{size} + b_4 \times \text{performance} + e.$$

RESULTS

Table 1 displays the descriptive statistics for the variables, including the frequencies of the regulatory endorsement measures. Of the observations for the 1985–88 regulatory assessment of total capital, 84.1 percent scored a 2, the highest level. Of the observations for the absence of regulatory enforcement actions, 1991–92, 95.4 percent scored a 0, the higher level, indicating that the observed banks did not have actions against them. For the coefficient of media endorsement, only 269 of the observations (50.6%) received press coverage in 1988–92. Of these, 78.4 percent scored a 1, meaning these banks had only endorsing coverage.

Table 2 shows the correlations among the variables. The number of observations for each correlation varies because of the different sample periods used for each legitimacy measure. The coefficient of media endorsement is positively correlated with the two regulatory measures.

Table 3 displays the results of the hypothesis testing. Standardized coefficients are reported. The first two models examine regulatory endorsement. Model 1 estimates the regulatory assessment of total capital, 1985–88, for which there were 554 observations. Strategic conformity had a significantly positive coefficient ($\beta = 0.371$, $p < .01$), supporting Hypothesis 1. The coeffi-

TABLE 1
Descriptive Statistics

Variables	N	Mean	s.d.	Frequency			
				-1	0	1	2
Regulatory assessment of total capital, 1985–88	554	1.81	0.46		16	72	466
Absence of regulatory enforcement actions, 1991–92	194	-0.05	0.21	9	185		
Coefficient of media endorsement, 1988–92	269	0.87	0.31				
Strategic conformity, 1985–92	969	-7.68	2.96				
Age, 1985–92	969	53.32	33.40				
Size, 1985–92 ^a	969	277.85	1,436.02				
Performance, 1985–92	969	0.01	0.01				

^a Size is expressed in millions of dollars.

TABLE 2
Correlations^a

Variables	1	2	3	4	5	6	7
1. Regulatory assessment of total capital, 1985-88	1.00						
	0.00						
	554						
	^b						
2. Absence of regulatory enforcement actions, 1991-92		1.00					
		0.00					
		194					
3. Coefficient of media endorsement, 1988-92			1.00				
	0.20	0.33	0.12				
	0.16	0.00	0.00				
	52	95	269				
4. Strategic conformity, 1985-92				1.00			
	0.16	0.17	0.12	0.00			
	0.00	0.02	0.06	0.00			
	554	194	269	969			
5. Age, 1985-92					1.00		
	0.04	-0.01	-0.10	-0.09	0.00		
	0.39	0.86	0.08	0.00	0.00		
	554	194	269	969	969		
6. Size, 1985-92 ^c						1.00	
	-0.03	0.01	-0.18	-0.44	0.29	0.00	
	0.48	0.85	0.00	0.00	0.00	0.00	
	554	194	269	969	969	969	
7. Performance, 1985-92							1.00
	0.31	0.20	-0.04	0.17	0.05	-0.06	0.00
	0.00	0.01	0.52	0.00	0.10	0.04	0.00
	554	194	269	969	969	969	969

^a Correlation (*r*), *p*-value for $H_0: < > 0$, and number of observations are in each cell.

^b The value is undefined for this measure because data for the two variables were not available for the same years.

^c Size is expressed in millions of dollars.

TABLE 3
Results of Logistic and Censored Regression Analyses^a

Independent Variables	Model 1: Regulatory Assessment of Total Capital, 1985-88		Model 2: Absence of Regulatory Enforcement Actions, 1991-92		Model 3: Coefficient of Media Endorsement, 1988-92	
	β	s.e.	β	s.e.	β	s.e.
Intercept 1	1.754***	0.126	3.351***	0.425	1.291***	0.043
Intercept 2 ^b	3.754***	0.270				
Strategic conformity	0.371**	0.127	0.543 [†]	0.296	0.045*	0.022
Age	0.022	0.128	-0.091	0.342	-0.145***	0.036
Size	0.185	0.130	0.182	0.562	-0.038*	0.019
Performance	0.549***	0.103	0.735*	0.346	-0.003	0.029
-2 log-likelihood	525.088			63.670		233.911
Log-likelihood improvement $\chi^2(4)$	43.387***			9.178 [†]		
Score improvement $\chi^2(4)$	47.584***			12.231*		
Sample size	554			194		269

^a Models 1 and 2 are logistic regression analyses; model 3 is a censored regression analysis.

^b The second intercept is present in this model because the ordered dependent variable has three categories. The logistic procedure fits a parallel lines regression model for each category. The intercept reflects the cumulative probability for all categories below the category under consideration. Thus, the number of intercepts in these logistic models is one less than the number of categories (cf. Maddala, 1983: 46-47).

[†] $p < .10$

* $p < .05$

** $p < .01$

*** $p < .001$

cient for performance was also positive and significant ($\beta = 0.549, p < .001$). The coefficients for age and size were not significant.

Model 2 estimates the absence of regulatory enforcement actions, 1991–92, for which there were 194 observations. Strategic conformity had a positive coefficient ($\beta = 0.543$) that was significant at the $p < .07$ level, providing modest support for Hypothesis 1. Performance again had a significantly positive coefficient ($\beta = 0.735, p < .05$). Age and size again were not significant.

Model 3 of Table 3 estimates the coefficient of media endorsement, 1988–92, for which there were 269 observations. Strategic conformity had a significantly positive coefficient ($\beta = 0.045, p < .05$), supporting Hypothesis 2. Age had significantly negative coefficient ($\beta = -0.145, p < .001$) as did size ($\beta = -0.038, p < .05$). Performance had no effect.

DISCUSSION AND CONCLUSION

The results constitute the first systematic tests of a fundamental linkage in institutional theory. Evidence suggests a positive relationship between strategic isomorphism and multiple measures of legitimacy, even when age, size, and performance are included. The findings support the general proposition made by Meyer and Rowan (1977) and DiMaggio and Powell (1983) stating that organizational isomorphism increases organizational legitimacy. Organizations that conform to the strategies used by other organizations are recognized by regulators and the general public as being more legitimate than those that deviate from normal behavior.

This study also demonstrated how organizational legitimacy could be operationally defined using regulators and the media as sources. Researchers have called for more empirical attention to legitimacy for decades (Bozeman, 1993; Galaskiewicz, 1985; Suchman, 1995; Terreberry, 1968). This lack of attention is especially disappointing because legitimacy is an "anchor-point" concept on which many propositions of institutional theory are based (Suchman, 1995: 571). The operational definitions developed here could be applied in other settings, with appropriate contextual modifications.

The results also suggest that regulators and the media confer legitimacy in different ways. The correlations between the measures of regulatory endorsement and public endorsement were lower than .34. Moreover, the pattern of the regression coefficients for the independent variables differed. Future research should examine in more depth how regulators and the media confer legitimacy. At a more general level, institutional theorists should refine their propositions involving legitimacy to recognize that there are different types and sources of legitimacy (Galaskiewicz, 1985; Suchman, 1995).

The specific results for the independent variables suggest avenues for future research into the other determinants of legitimacy. The differential regression results stemmed from organizational age, size, and performance.³

³ Statistical comparison of coefficients between regulatory endorsement and public endorsement estimations is inappropriate because the analysis techniques differed.

Age and size are discussed together because of the common patterns in their results.

Age and size had no significant effect on regulatory endorsement. These findings suggest that regulators do not consider these factors important in judging bank safety and soundness. Although regulators had slightly more liberal capital standards for large banks in the 1985–88 period, as illustrated in Appendix A, this differential was removed in the 1989–92 period. Age and size may have little impact on evaluations by state regulators in other industries.

However, larger and older banks had lower levels of media endorsement. This is somewhat surprising for at least two related reasons. First, larger and older organizations have more social and economic ties to their environment (Pfeffer & Salancik, 1978). Second, they have a longer history of interactions with their environment (Hannan & Freeman, 1984). One explanation is that the public may hold higher standards for the larger banks, because of their greater impact and visibility in the community. The larger banks tended to be the older ones as well, as evident in the 0.29 correlation between age and size in Table 2. An alternative explanation is that larger banks receive more newspaper coverage, and this increases the likelihood that challenging newspaper stories about them will appear. Only 11 percent of the recording units in this sample challenged banks' legitimacy. Banks that have more stories about them would be more likely to have legitimacy-challenging stories, *ceteris paribus*. Although larger and older banks had lower media endorsement scores, these banks still were endorsed by the public. Their coefficients of media endorsement were greater than zero, meaning they had more endorsing recording units than challenging ones. Overall, a greater understanding of the relationship between the media and business organizations will further theories of public endorsement.

Performance had a positive relationship with regulatory endorsement. This is not surprising given regulators' interest in banks' solvency. More profitable banks tend to increase their capital. Moreover, regulatory examinations would find the banks had better-quality assets, so enforcement actions would be less likely. Lower performance did not, however, result in challenges to a bank by the media. A possible explanation is that the media did not attend to differences in bank performance unless a bank was losing money. I examined this possibility *post hoc* by splitting the sample into banks that were making money (i.e., had a positive ROA) and those that were not. A *t*-test showed no difference in the coefficient of media endorsement between the two groups ($t = 0.51$, $df = 37$, $p = .62$). Clearly, the relationship between performance and public endorsement requires further study.

A limitation is that the sample population contained only commercial banks. Nevertheless, the inferences drawn here may apply to other organizations in strong institutional environments, such as hospitals and universities (Scott & Meyer, 1991). Another limitation is that only strategic isomorphism was examined. Future work should examine the effect on legitimacy of

other types of isomorphism, such as structural and procedural isomorphism (Scott, 1987). Also, only two social actors conferred legitimacy, regulators and the media. Future work should examine other sources of legitimacy, such as intellectuals and funding agents (Galaskiewicz, 1985). Finally, the causal direction of the independent variables and legitimacy has been assumed to be in the direction predicted by institutional theory. Strong causal inference from these results would be inappropriate, given the cross-sectional design.

In sum, this study empirically answers yes to the question raised in the title—Does isomorphism legitimate?—given the aforementioned caveats. This affirmation for isomorphism in strategies extends across two sources of legitimacy, regulators and the media.

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APPENDIX A

Regulatory Rules for Classifying Banks' Capital Positions^a

Regulatory Assessment of Total Capital, 1985-88

$$\text{Total capital ratio} = \frac{\text{(total equity capital + limited life preferred stock + subordinated notes and debentures + minority interests in consolidated subsidiaries + allowance for loan and lease losses)}}{\text{(total assets + allowance for loan and lease losses)}}$$

Categories

- 2 = Banks with a total capital ratio greater than 7.0 percent and total average assets less than \$1 billion, or banks with a total capital ratio greater than 6.5 percent and total average assets of \$1 billion or more.
- 1 = Banks with a total capital ratio between 7.0 percent and 6.0 percent inclusive and total average assets less than \$1 billion, or banks with a total capital ratio between 6.5 percent and 5.5 percent inclusive and total average assets of \$1 billion or more.
- 0 = Banks with a total capital ratio less than 6.0 percent and total average assets less than \$1 billion, or banks with a total capital ratio less than 5.5 percent and total average assets of \$1 billion or more.

Regulatory Assessment of Tier 1 Leverage Capital, 1989-92

$$\text{Tier 1 leverage capital ratio} = \frac{\text{(total equity - goodwill)}}{\text{(total assets - goodwill)}}^b$$

Categories

- 2 = Banks with tier 1 leverage capital ratio greater than or equal to 3.0 percent.
- 1 = Banks with tier 1 leverage capital ratio less than 3.0 percent and greater than or equal to 2.0 percent.
- 0 = Banks with tier 1 leverage capital ratio less than 2.0 percent.

^a Source is Spong (1985, 1990).

^b From an accounting perspective, goodwill is the excess cost of an acquired bank over the fair market value of its assets less its liabilities.

APPENDIX B

Classification of Recording Units

Legitimacy-Challenging Terms

Adjectives: Bad, clabby, confusing, disingenuous, hostile, misguided, reckless, speculative, unpopular.

Nouns: Big Cigars, corruption, criticism, disappointment, dyspepsia, empire of Genghis Khan, extremely tight credit leash, failure, gamble, golden parachute, greed, iron triangle, moguls, Pharaohs, ploy, ransoms, trouble, woes.

Verbs: Blame, chide, complicate, defended (the action against criticism), failed, justified, loses, obscure, oppose, placate, redlining, sour, tried to explain, unsure of what the bank would do.

Activities That Challenge Legitimacy

Court action in which the bank is a defendant.

Failure of a bank and possible reasons.

Public relations activity suggestive of spin doctors used with verbs such as "tried to explain" as listed above.

Regulatory action denying a bank regulatory request.

Regulatory action penalizing a bank, often a fine or an enforcement action.

APPENDIX C

Formula for the Coefficient of Media Endorsement^a

$$\text{Coefficient of media endorsement} = \frac{(e^2 - ec)}{t^2} \text{ if } e > c,$$

$$\frac{(ec - c^2)}{t^2} \text{ if } c > e,$$

$$0 \text{ if } e = c,$$

where

e = number of endorsing recording units in a given year,

c = number of challenging recording units in a given year,

and

$$t = e + c.$$

^a Sources are Budd, Thorp, and Donohew (1967) and Janis and Fadner (1965).

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