Familiarity as a Legitimacy Shield in Times of Crisis: The Case of the Banking Industry

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MOTIVATION

“New corporate values and cultural change: The impact of the economic crisis has made a long-term change of corporate culture in the financial sector absolutely imperative and in addition to cultural change new corporate values are also needed.”

– Deutsche Bank AG’s official website, December 2013

RESEARCH QUESTION

How does the familiarity of the public with an organization influence public legitimacy pressure during times of crisis?

RESEARCH DESIGN

Sources of Legitimacy / Familiarity as Driver of Cognitive Legitimacy:

Cognitive legitimacy
“based on taken-for-grantedness” (Foreman & Whetten 2002)

Public legitimacy
“a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate” (Suchman 1995, 574)

Pragmatic legitimacy
“based on self-interested calculations” (Foreman & Whetten 2002)

RESULTS

Dependent variable: sent_full_week sent_full_month

Test Statistics:

<table>
<thead>
<tr>
<th>Mean</th>
<th>Bank Crisis</th>
<th>Sovereign Debt Crisis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Familiarity (pre-crisis vs. in-crisis)</td>
<td>0.542</td>
<td>0.542</td>
</tr>
<tr>
<td>Coef./t-stat</td>
<td>0.542</td>
<td>0.542</td>
</tr>
</tbody>
</table>

The results indicate that in times of crisis familiarity has a significantly positive effect on public legitimacy.

CONCLUSION

- Familiarity shields banks from losing public legitimacy in times of economic crisis
- Findings help to understand current actions of banks to reframe their business model as a reaction to public legitimacy pressure and shed light on the dissemination of information about firms

REFERENCES (EXCERPT)


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Familiarity Base Effect / Interaction Effect for Banking Crisis and Sovereign Debt Crisis (Euro Crisis)

Newspaper Sample in Germany:

- Hamburger Abendblatt
- Der Spiegel (nationwide)
- manager magazin (nationwide)
- FAZ (nationwide)
- Frankfurter Rundschau (nationwide)
- Rhein-Main-Press
- Gesamtausgabe
- Nürnberger Nachrichten
- Passauer Neue Presse
- Südwestdeutsche Zeitung (nationwide)
- Focus (nationwide)

Organizational activities and characteristics
- Funding strategy (suppliers)
- Product mix (customers)
- Other stakeholders’ involvement (e.g., employees, shareholders)
- Familiarity of the organization

Hypothesis:

Pre-Crisis: No impact
In-Crisis: Positive impact

Control for impact

Control variables
- Change of total assets
- State aid in Germany
- Return-on assets
- Crisis mentioned per bank during peak of the banking crisis
- Crisis mentioned per bank during peak of the euro crisis
- Total assets
- Business model orientation (fixed effect)