ARRIVING AT THE STARTING LINE: THE IMPACT OF COMMUNITY AND FINANCIAL LOGICS ON NEW BANKING VENTURES

INTRODUCTION

Institutional logics are broadly defined as patterns of beliefs, practices, values, assumptions, and rules that determine what is meaningful and legitimate in a given institution (Thornton & Ocasio, 1999). Because those logics are neither uniform nor invariable in organizations (Friedland & Alford, 1991), researchers have recently paid attention to how those logics are diffused or constrained (Lounsbury, 2007; Rao, Monin & Durand, 2003; Scott, Ruef, Mendel & Caronna, 2000; Thornton & Ocasio, 1999; Purdy & Gray, 2009;) and to how they are adopted by new organizations (Marquis & Lounsbury, 2007; Battilana & Dorado, in press).

While most of the research on the diffusion of logics has involved the transformation of institutional logics in existing organizations, their adoption by new ventures may be even more important since, as the ecological literature has shown, established organizations experience strong inertial pressures (Stinchcombe, 1965; Hannan & Freeman, 1984; Baron, Hannan, & Burton, 1999; Schneiberg, 2007).

Because institutional environments are “fragmented and contested” (Lounsbury, 2007), new organizations can fit into competing institutional molds or logics. When there are multiple societal logics\(^1\) that shape the institutional logics in a field of organizations, those societal logics can also be integrated within organizations. Organizations with complex institutional logics often require distinct founder identities shaped by distinct societal logics. As the previous chapter showed, founder identities that “carry” those logics into new organizations may play an

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\(^1\) I will use the term societal logics to refer to logics in the wider institutional environment, such as the logics of professions, communities, governments, etc., that influence the logics of organizations in a given field, and in this chapter I will reserve the term institutional logics for those that are considered legitimate in organizations within that field. Financial and community logics can refer to either societal or institutional logics depending on the context.
important role in the adoption of logics. Societal logics, therefore, should not be seen simply as exogenous institutional pressures, impinging on organizations from outside; they can also suffuse them from within through the identities of founders (Kraatz & Block, 2008).

There is already an incipient literature on competing logics and distinct identities within organizations. We know a few things about how organizations with complex logics develop ways to integrate distinct professional identities (Battilana & Dorado, in press; Golden-Biddle & Rao, 1997). We know something about how different professional identities have divergent interpretive responses to societal logics (Lok, in press; Zilber, 2002), and about how those identities affect internal perceptions of an organization’s key competences (Glynn, 2000). But we know less about how those societal logics that shape founder identities could have different motivational effects in founding groups of those organizations with complex logics. Since new organizations must contend with the liability of newness (Stinchcombe, 1965), those motivational effects could make a difference to the success of entrepreneurial organizations reaching the point of establishment; and therefore, indirectly, on the diffusion of competing institutional logics in a field of organizations.

In this study, I examine how societal logics shaping the identities of founding teams affect the success or failure of new ventures getting established, paying close attention to aspects of those founder identities that are associated with the ventures’ legitimate institutional logics. By examining emerging organizations from within, and especially by incorporating interview-based qualitative evidence, this paper sheds light also on the interaction of the new ventures’ institutional logics with the goals and identities of the founders and with micro-level mechanisms connecting competing societal logics with the likelihood of those organizations reaching the point of establishment. By channeling the influence of contiguous institutional orders through
dominant founder identities, this approach takes seriously the inter-institutional perspective of society proposed by Friedland and Alford (1991), and responds to calls to investigate institutional phenomena at multiple levels of analysis, from the social psychological to the cultural level, paying close attention to their interdependencies. It also responds to calls to theorize agency based on the heterogeneity observed in contradicting societal logics at different institutional orders (Thornton & Ocasio, 2008).

The empirical part of my study uses both archival and qualitative evidence2, to analyze the formation of 431 local banks in the period between 2006 and 2008. This setting is particularly interesting because it exists at the intersection of two societal logics in conflict, the financial and the community logics. The community logic values strong and enduring ties among member of small and bounded groups (see definitions of community from the Oxford Dictionary of Social Sciences, 2001), while the financial logic, often permeated by economic assumptions, tends to favor a self-interested, individualistic, and arm’s-length ethos that can be detrimental to communities. Founding directors of local banks thus have not one but two cultural resources that could serve as building logics for their organization or that, on the other hand, could become a potential source of ambiguity and faction.

The conflict of community and financial logics in banking is as old as the nation. Only a few years after the War of Independence, Alexander Hamilton and Thomas Jefferson heatedly debated the merits of a nationally centralized system, which would be profitable, efficient and powerful but, Jefferson argued, would be too distant and irresponsible to the needs of local communities. Hamilton’s initial victory in chartering the First National Bank (1791) was not conclusive since a few decades later President Andrew Jackson revoked the second national charter (1836). That revocation gave states full control of the banking sector, which meant that

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2 See the appendix for a detailed discussion of qualitative methods.
the community logic would gain the upper hand for decades to come. Even after national bank charters were allowed again during the civil war, the geographic expansion of banks was restricted by state branching laws, which meant that, for the most part, banks were relatively small and focused on serving local communities. The financial logic of larger banks would regain the upper hand over time and, by the late 1980s, most states allowed out-of-state banks within their borders. Bank mergers and acquisitions multiplied, driven by benefits of scale, geographic diversification, and product standardization. In 1994, the Riegle-Neal Act eliminated all prohibitions against inter-state banking, which was another boost for greater consolidation and thus profitability and efficiency in the banking sector.

The identities of founding directors as volunteers in community boards or as financial professionals and investors align themselves respectively with the two competing institutional logics. The entrepreneurial motivations arising from those identities also differ. Financial identities are prone to pursue self-regarding or simply financial goals while community identities are more likely to include the benefit of their communities as part of their motivation for starting the bank. Expressing that desirable community identity can lead to greater identification with the team and can, by itself, become an incentive with positive motivational implications for the commitment of the founding team (Akerlof & Kranton, 2000, 2005; Anteby, 2008; Dutton, Dukerich & Harquail, 1994; Tajfel & Turner, 1979).

Those two distinct director identities and related logics can also lead to very different outside perceptions of the new banks. Those corporate perceptions can have motivtional consequences for customers, potential employees, and investors that could facilitate or hinder the acquisition of much-needed resources (Arora & Cavusgil, 1985; Gatewood, Gowan, & Lautenschlager, 1993). To the extent that those outside corporate perceptions are attractive, they
can facilitate the formation of positive social identities of the founders (Tajfel & Turner, 1985), and result in attractive social opportunities, social prestige and social capital (Brown, 1969; Perrow, 1961). In turn, all those benefits can bring about a greater identification of the directors with the team and a greater commitment to its goals (Dutton, et al., 1994).

Through this study I extend the literature on logics in several ways. First, I examine under the lens of societal logics a key performance outcome in entrepreneurial organizations—which is success in establishing the bank. This paper directs research on institutional logics to the organizations’ prehistory; that is, before the organization has been established. It examines thus not only successful, but also unsuccessful, attempts at starting local banks, something unusual even in entrepreneurial studies, where groups of founders are usually observable only after they have managed to open (Carroll & Khessina, 2005). New organizations generally come into view only as they appear in such organizational directories as the Yellow Pages (e.g., Baum, Korn, & Kotha, 1995). Theoretical constructs to explain founding rates based on that data necessarily confound two separate factors: “the level of organizational attempts” in a given area or time-period and “the relative success of these attempts” (Delacroix & Carroll, 1983). By examining groups that have committed themselves to starting an organization, but that still need to go through a laborious process, this study can directly examine factors explaining “the relative success of those attempts.

Given the two specific logics involved, this study tests the intuition of certain economists who would argue that financial logics would be superior to community logics in performance outcomes (Friedman, 1970). (See Margolis and Walsh (2001) for a review on the effects of shareholder and stakeholder governance models on performance and Kanter (2009) for insightful case studies of successful organizations that incorporate social goals in their decision-making).
Contrary to those economic intuitions, groups of founders of local banks may end up being more successful in reaching the point of getting established if they do not have a myopic focus on financial results, because success in establishing those local banks may be intertwined with community involvement.

Second, by focusing on the impact on organizational performance of logic-related characteristics of people at the top levels of organizations, I provide a bridge that links the literature on institutional logics and upper echelons theory (Hambrick, 2007). The literature on upper echelons has focused mostly on demographic and functional characteristics of top management teams and directors, and not as much on their identities and cultural characteristics.

Finally, through qualitative evidence, I explore micro-level motivational mechanisms associated with those founder identities, mechanisms that can lead to differences in establishment performance. This study explores new territory in the literature on logics because not much has been studied under that lens either about motivational or performance-related outcomes.

In the next section, I provide an overview of the institutional logics of local banks, based in part on qualitative evidence, and describe briefly the process of bank formation. Using both the evidence of interviews and theories of identity and commitment, I develop several hypotheses about the impact of the dominant identities of the founding teams on the likelihood of those teams reaching the point of opening the bank. I then test those hypotheses based on data about founding groups of local banks from 2006 to 2008 and defend my interpretation of the results against alternative possible explanations. Finally, I discuss implications of this research for the study of entrepreneurship, institutional logics and upper echelon theory.
THE CONTEXT OF LOCAL BANKS

Institutional logics in local banks

In the institutional tradition, some scholars have placed the logic of local banks in opposition to that of larger banks because, by comparison, the former are much less centralized, bureaucratic, and focused on efficiency, and much more oriented towards establishing personal relationships in their local communities, relationships possessing a value beyond the merely economic (Marquis & Lounsbury, 2007). As Marquis and Lounsbury explain, the logic of larger banks has been expanding through merger and acquisitions, motivated mostly by economies of scale and the benefits of geographic diversification. Once local banks are acquired by larger banks, they often lose their local character and community orientation and become part of centralized, cost-cutting, heavily bureaucratic organizations. The consolidation in the banking industry thus creates an opportunity for personalized and community-oriented bank services, which stimulates the formation of new local banks with community logics.

But, upon closer inspection, we find among many bank founders motivations other than a long-term commitment to their local communities. Because of the consolidation in the banking industry, an opportunity has been created to build banks “for sale,” as profitable investments, with the intention of selling them as soon as practically possible to larger financial institutions with an appetite for growth. The consolidation in the banking industry thus stimulates the formation of new local banks not only with community logics but also with financial logics. Both societal logics play a role in the institutional logics of local banks, and in fact most new bank startups integrate both logics.

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3 The terms director, founder, and founding director are used interchangeably. They include the CEO and all others who are on the founding board of directors.
The relationship between those two societal logics, however, could be difficult, and historically, in fact, it has been. As recent and classic scholars have pointed out, social ties of human connection, solidarity, and reciprocity have weakened as a result of the gradual expansion of the financial logic (Marglin, 2008). For Weber (1978) this long-lasting trend, a defining characteristic of modernity, has been driven by the imperatives of efficiency and predictability, and for Tonnies (1887) by self-interest, contracts, and a rising logic of exchange. The result of all those forces is that society has become more bureaucratic, industrial, market-oriented, and geographically integrated, generally to the detriment of local communities.

While most organizing teams are influenced by both societal logics, even if in different degrees, banks with institutional logics that approach ideal types also exist (Weber, 1978). Based on interviews with members of founding teams and on these banks’ promotional web sites, we can describe those logics and shed light on how they give rise to specific ends, organizational strategies and practices in line with those institutional logics. Table 3.1 illustrates these. (See also Table 2.1 for an expanded version).

**Community logic.** Incorporating in the bank’s decision-making community-oriented concerns is central to what this paper calls community logic. In some cases, that concern may be motivated by altruism, but not always. One director, for instance, expressed that being involved on local bank boards “is and should be a volunteer activity” and a way of “giving back … undertaken for the good of the community.” But other less lofty motivations are compatible with taking seriously community concerns or adopting community logics. For many directors, the local prestige of being on a bank board is an important motivator. One CEO, for instance, remarked that the social status he gained as CEO of a local bank was much more valuable to him
than the millions he could earn by cashing out of the bank. Money considerations, while important, are not the main drivers for some of these founders.

### TABLE 3.1
**Ideal Types of Institutional Logics for Local banks**

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Financial logic</th>
<th>Community logic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orientation to the community</td>
<td>Strategic or instrumental</td>
<td>Commitment to the community</td>
</tr>
<tr>
<td>Sources of legitimacy</td>
<td>Recognition by larger banks for growth and professionalism</td>
<td>Community trust</td>
</tr>
<tr>
<td>Basis of mission</td>
<td>Shareholder wealth</td>
<td>Service to community</td>
</tr>
<tr>
<td>Basis of strategy</td>
<td>Growth and market share</td>
<td>Local decision making; reliance on local networks of directors</td>
</tr>
<tr>
<td>Basis of attention</td>
<td>Short-term performance and growth</td>
<td>Long-term performance and portfolio quality</td>
</tr>
<tr>
<td>Logic of investment</td>
<td>Shareholder wealth. Attractive demographic and economic characteristics.</td>
<td>Stakeholder focus</td>
</tr>
<tr>
<td>Identity of organizing team</td>
<td>Group of investors</td>
<td>Shared identity as community leaders</td>
</tr>
</tbody>
</table>

Banks with community logics focus on developing long-term community relationships and emphasize their allegiance to other groups besides the investors. Founders of these banks often speak of the directors and investors as “friends and family” and rely to a large extent on their personal and business networks to recruit investors and customers. Building on personal relationships, these banks offer local lending decisions, which are more expedient and customized to the needs of local entrepreneurs. Directors in these groups plan on the bank existing in the long term and do not intend to court potential buyers. Because of their longer time horizons, those banks pay great attention to developing ongoing relationships at all levels—with personnel, community leaders and small business owners. The bank’s community-oriented mission, more than financial rewards, is the cement that ties the founding group together. A profitable financial return is only one among the goals of the directors and perhaps not the most important. Among directors of founding teams of these banks, one is more likely to find a greater
share of local entrepreneurs and community leaders active in charitable, economic, civic, and professional community boards.

As an illustration, Figure 3.1 shows the first page of a bank’s website, one with a strong community logic, in the process of organization. (It can be found at www.socalbusinessbank.com). In addition to common themes frequently mentioned in local bank presentations, such as being the only bank headquartered in a particular city, or expressing the bank’s mission in terms of “real relationships,” “custom solutions,” “local ownership,” and the bank’s “independence,” the website also highlights the bank’s emphasis on intimate knowledge, service, and commitment to the community.

Financial logic. But other founding teams seem to view their banks primarily, and in some cases almost exclusively, as financial investments. Financial logics may be more evident in banks founded by groups of directors dominated by financial professionals and “serial bank founders,” who have had multiple bank startup experiences. Given the recent history of bank consolidation driven by the desire to exploit economies of scale, founding banks “built to sell,” as acquisition targets, have been very profitable endeavors. Bank directors can receive payouts that are multiples of their initial investment in a relatively short period of time (five years or less). Directors who build their banks with shorter-term investment horizons are likely to focus on strategies and metrics that are legitimate to potential acquirers, such as quarterly growth targets. The faster they grow, the sooner they will enter into the radar screens of larger banks and the higher their investment returns will be once the banks are sold.

These teams are also more likely to deal instrumentally with their communities since they know that, after being acquired by larger banks, their customers and communities will be served in a more distant, impersonal and bureaucratic manner. Those customers and
communities, who are “rescued” from the impersonal service of larger banks, will eventually be, as a CEO put it, “yo-yoed” back to those same institutions. Generalizing from his own motivation, a CEO close to this ideal type remarked that “Anyone who tells you that this is about the community is probably lying to you.” Since these groups are less constrained by community concerns, one might expect higher performance levels in them—if they gather enough support and commitment to get started.

Figure 3.2 represents the financial logic in one group of local bank directors. (It comes from the first page at the bank’s link: http://www.libertyorganizersinc.com/ as of July 15, 2009). Telltale signs of this logic are the very title, “A bank of your own,” and the emphasis on the “investment opportunity,” and the “very profitable investment.” Mention of community arises only obliquely, in the context of its offering “a rare opportunity” for investment based on its demographic or economic characteristics. One click away, the site explains further the “opportunity” by making reference to other recently-founded local banks in the area, which sold themselves to larger banks at a considerable profit.

Those carefully crafted first impressions, both addressed to potential investors, reflect very different institutional drivers or logics, which are quite representative among local banks. Those alternative logics, which are summarized well by the two quotes introducing this paper, are familiar to CEOs and directors of banks. As an example, a former bank regulator, now CEO of a local bank, said;

There are two different businesses; there's the business of running a bank, which you might call community banking, and there is the business of establishing banks to sell. [The second aims to] establish a community bank as an investment vehicle, because the returns are very good. That's a different focus from the first group.
FIGURE 3.1
A local bank with a community logic

Welcome

Real relationships.

Custom solutions.

That’s what business owners want from a bank. And that’s what SoCal Business Bank, N.A.—a national banking association in organization—will deliver.

SoCal Business Bank, N.A. will be locally owned, full service, independent and headquartered in Van Nuys, California. Currently, we’re THE ONLY bank headquartered here. This central location positions us to:

- Conveniently serve businesses throughout the San Fernando Valley, including Van Nuys, Sherman Oaks, North Hollywood, Valley Village, Studio City and Burbank

- Easily expand into new areas throughout Los Angeles County as the market demands

- Help the overall region prosper and grow—because money that’s invested with us stays local

The fact that we will be locally owned and managed also puts us at an advantage when it comes to our customers. We’ll know them better. We’ll be better able to stay on top of their needs. Plus, we’ll be more responsive as those needs change.

At SoCal Business Bank, N.A., we believe this eastern part of the San Fernando Valley—a diverse market, with a growing population and economy—is currently underserved. A 2007 survey shows it is composed of 523,260 residents in 195,309 households. There are 29,000 businesses in our primary service area, which employ approximately 232,404 people or 3.1 employees per business. In addition, the survey shows the compound annual growth rate of deposits for this primary service area between June 30, 2000 and June 30, 2005 was 11.4 percent. That exceeds the growth rate for deposits in all of Los Angeles County (which was a combined 10 percent).

Each of these businesses need a commercial bank—one with real relationships, custom solutions...SoCal Business Bank, N.A.
A BANK OF YOUR OWN
Thank you for visiting our website.

Now that you are here, allow us to introduce you to the investment opportunity with Liberty Bank.

Historically, investing in new community Banks has proven to be a very profitable long term investment, as those of you who have previously invested in local start-up banks may well know. Liberty Bank is the first new Bank in our market in nearly 10 years and is the only bank to be opening in Washington in 2009, making this a rare opportunity.
The process of founding new banks

Before addressing the impact of community and financial societal logics on mechanisms that could influence the likelihood of those banks reaching the point of getting established, I provide some detail on the process involved in founding banks. The steps in the approval process are the same regardless of the specific regulators involved. As Figure 3.3 shows, the initial steps in the pre-filing and application process are the selection of directors and the management team, and the choice of a bank location and of a regulatory charter. After the application is filed, the organizing team needs to go through a regulatory review process and, more importantly, to raise the required capital.

**FIGURE 3.3**
Five Phases of Bank Formation

<table>
<thead>
<tr>
<th>Timeline by months</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. PRE-FILING PHASE</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>Form organizing group</td>
</tr>
<tr>
<td>Select charter</td>
</tr>
</tbody>
</table>

Founders may choose a commercial bank, savings bank, or a savings institution charter, and they may choose to be regulated at either the national or the state level. Depending on those choices, they may have as their regulator the Office of the Comptroller of the Currency (OCC), the Federal Reserve, the Office of Thrift Supervision (OTS), or a state department. All banks and
savings institutions are also regulated by the Federal Deposit Insurance Corporation (FDIC), which provides insurance for deposits.

Commercial banks, savings banks, and savings institutions are depository institutions that make loans to individuals and corporations. In terms of the services they offer, there is little difference between them. Commercial banks were initially intended to provide business loans. Savings banks were first created to provide easily accessible savings products to all strata of the population. And savings institutions, also called thrifts, were initially formed to channel funds to the housing industry.

Regardless of the regulator, all groups file the same Interagency Charter and Federal Deposit Insurance Application, which includes an analysis of the intended market, a draft of the business plan for the first three years, biographical statements of the directors and managers, and a plan for the bank’s compliance with the Community Reinvestment Act, which involves meeting as well the needs of borrowers from low and moderate-income neighborhoods. Other regulatory concerns have included appropriate portfolio diversification, size of the investment in fixed assets, and intended rate of growth. Regulators also examine closely the professional and personal background of directors and managers, and they assess the feasibility of the business plan in the context of its local environment.

If the group fails to reach the goal of opening the bank, it will be required to return the money, net of organization costs, to investors. Board directors have the potential to lose a lot of money in the process—around $1.5 million—if they fail in their organization endeavors.

As several documents from the FDIC and charter-granting institutions suggest, the role of founding directors in the success of local banks is critical. Those documents from regulators highlight the need for directors with knowledge of the banking industry, business expertise and
local reputation, and with abundant time and energy to devote to the bank. Regulators are principally concerned with the board’s financial and regulatory oversight, and to a lesser extent with its role of ensuring that the bank meets the community’s credit needs, including those mandated by the Community Reinvestment Act. Interviews with CEOs about their experience with regulators confirm the regulators’ emphasis on business and financial oversight. Those interviews also reflect the important role directors have in the initial capital fundraising and business development of the bank and in making the bank’s more critical decisions. Over time, after the initial work has been done, the management team attains greater prominence in the overall direction and performance of the bank.

The rate of bank openings has fluctuated a lot over the years, anticipating the peaks and valleys of the overall market, and ranging between 70 and 200 since 1995. Given the recent crisis, bank openings in 2008 dropped to roughly 70 banks, and in 2009 they were as low as 9. Figure 3.4 shows the number of recent de novo bank establishments by quarter, as the total height of each bar. (De novo banks exclude those banks that have the parent company).

But focusing on bank openings alone misses an important dynamic in the entrepreneurial process, which is failure in the organizing process. Based on a sample of 431 organizing groups that filed for approval between April 2006 and November of 2008, only 282 (65%) of those had succeeded in starting a bank as of the end of July 2009. The remaining groups had either withdrawn their application (110, or 25% of the total), or were still completing different stages of the organizing process, stages that include obtaining necessary approvals and raising sufficient capital to start the bank. Table 3.2 summarizes the outcomes of those organizing groups.
FIGURE 3.4
*De novo* banks established by quarter

![Graph showing de novo banks established by quarter.](image)

TABLE 3.2
Outcomes of organizing groups

<table>
<thead>
<tr>
<th>Status</th>
<th>Bank organizing groups</th>
<th>Percentage of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Established banks</td>
<td>282</td>
<td>65%</td>
</tr>
<tr>
<td>Approved but not established yet</td>
<td>20</td>
<td>5%</td>
</tr>
<tr>
<td>Not approved but still pending as of June 30, 2009</td>
<td>19</td>
<td>4%</td>
</tr>
<tr>
<td>Application withdrawn</td>
<td>110</td>
<td>25%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>431</strong></td>
<td></td>
</tr>
</tbody>
</table>

*a* filing dates starting April 2006 and ending November of 2008

THEORY AND HYPOTHESES

The new institutional theory has emphasized the importance of cultural and cognitive factors in explaining the behavior of organizations in contrast to the legal and rule-based factors highlighted by economists or the normative controls favored by early sociologists. Many institutions in society, including the organized professions, governments at different levels, and markets, provide the cognitive models, schemas, and guidelines for behavior that furnish
organizations with cultural material to guide their development (Scott, 2003). New organizations depend even more than established ones on those societal logics and on the institutional logics of similar organizations, since those new ventures develop from these pre-existing models and sources their shared understandings, legitimate practices, and values in the absence of an organizational memory, and often of any prior interaction among the founders. The personal motivations of those founders crystallize around logics or normative frameworks which facilitate consensus about the organization’s appropriate ends and legitimate means (Scott, 1987, 1994; Friedland and Alford, 1991; Dobbin, 1994; Thornton, 2002, 2004; Suddaby & Greenwood, 2005), as well as about the roles and rules of interaction of its various actors (Rao et al., 2003, Chreim, Williams, & Hinings, 2007, Kraatz and Block, 2008). Societal logics are therefore important cultural resources provided by the institutional environment to the organizing effort, resources that help “structure cognition and guide decision making” (Lounsbury, 2007).

When the identities of groups of founders have been shaped by their experience with institutional settings aligned with the legitimate logics of local banks, it is likely that their motivations and goals in starting a bank derive from their identities. Those identities can be shaped by meaningful groups, such as professions, and community and business organizations (Stryker, 1980; Ashford and Mael, 1989; Van Maanen and Barley, 1984), which socialize their members into identities with characteristic norms, expectations, beliefs and systems of meaning (Tajfel &Turner, 1979; March & Olsen, 1989; Stryker & Serpe, 1994). Founder identities are thus likely to leave an imprint in the institutional logic of their organization (Stinchcombe, 1965; Hannan & Freeman, 1984; Baron, Hannan, & Burton, 1999; Schneiberg, 2007). That logic becomes more deeply entrenched in the new organization as it becomes articulated in presentations to potential investors and regulators in the form of mission statements and business
plans, since it then becomes the basis for attracting new critical resources to the organization. It also becomes more ingrained when new directors and employees are selected on the basis of their affinity with those identities.

The literature on logics has already shown that one of the ways in which institutional logics become more firmly imprinted in organizations is by the formation of collective identities which are carriers of those logics. Collective identities are “cognitive, moral, and emotional connection[s] with a broader community, category, or institution” (Polletta and Jasper, 2001), which derive from a perceived common status as group members, and which emerge from social interactions (Thornton & Ocasio, 2008). To the extent that those identities are positive and desirable, they can result potentially in increased interactions within the organizing group (Ashforth & Mael, 1989; Bhattacharya, Rao & Glynn, 1995) and in greater identification of the directors with the group (Dutton, et al., 1994).

**Community identities**

Founding teams that are deeply embedded in their communities are likely to be more affected by the regulative, social-normative, and cultural-cognitive influences of those communities (Scott, 2001; Galaskiewicz, 1985; McElroy & Siegfried, 1986; Dacin, Ventresca, and Beal, 1999). Because of a combination of reasons ultimately rooted in the fundamental need to belong (Baumeister & Leary, 1995)—including, for instance, more deeply felt social norms, stronger social ties, affective connections, altruistic concerns, aspirations to community status, and reputational costs involved in the failure to get organized—those directors with community identities will be more likely to incorporate community interests in their own decisions, rather than be driven simply by monetary considerations alone.
As argued below, community-oriented reasons thus can provide an additional set of motivations to directors with community identities. Those motivations could make a difference in the commitment and success of their founding groups in starting their new organization.

Financial identities

Research in sociology and related fields suggests that careers permeated extensively by training in economics, such as financial careers, generally imprint strong assumptions about the appropriateness and legitimacy of a profit-maximizing perspective in business and corporate governance (Friedman, 1970; Eccles, Nohria & Berkley 1992; Ferraro, Pfeffer & Sutton, 2005; Ghoshal, 2005; Khurana 2007). Survey research by Marwell and Ames (1981) complemented by experimental research by Frank, Gilovic and Regan (1993) also support the idea that professional identities pervaded by economics are associated with less cooperative or altruistic and more self-interested behavior. One would expect therefore, that directors with identities shaped perhaps by experience in the financial industry and in corporate board governance would be less motivated by community considerations and more by investment returns upon the sale of the bank.

Why financial identities should help

Using a mix of theory and qualitative evidence, I argue below that community identities should have positive effects on the likelihood of opening the bank, and that financial identities are likely to have negative effects. But first, I turn to plausible arguments for the beneficial effects of financial identities, which are certainly intuitive and compelling. If there are other factors that would diminish the likelihood of these directors succeeding in the process of starting new organizations, those factors should be sufficiently powerful to override the benefits of financial identities.
Relevant human capital. Financial identities are associated with higher levels of human capital specific to banking, which means that directors with those identities may have a greater capacity for their new roles (Becker, 1962). Those directors, for instance, can serve meaningfully in audit, investment, and risk committees and they understand better the implications of financial decisions of managers.

Additionally, high levels of such human capital not only increase the capacity of these directors, but they also endow founding teams with higher levels of legitimacy (Meyer & Rowan, 1977) from the perspective of investors and regulators. Regulators, for example, require a minimum number of directors—generally two—with banking experience, and require the presence of one director with enough understanding and experience in accounting to chair the audit committee. Having more directors with such experience in the founding group signals to regulators and investors the capacity and reliability of the founding group. Legitimacy considerations—indeed, whether or not the practices involved are efficient—are likely to facilitate the process of raising capital and obtaining regulatory approval.

Theoretically, I separate the effect of directors possessing a financial identity from the effect of directors with high levels of financial human capital, such as being a very successful and prestigious bank CEO. Each of those factors could play an independent role in attracting investors and securing regulatory approvals. Certainly, having on the board high status bankers would entice local investors to invest in the bank, but that effect would be different from the effect of those bankers having a financial identity in the sense that they view the bank primarily as an investment.

Legitimacy of self-interest. Other considerations that would favor financial identities for the success of founding groups establishing a bank would simultaneously disfavor community
identities in founding groups. One is the norm of self-interest, which would apply especially in the context of starting a bank. According to Miller (1999), in Western cultures there is a norm that specifies that financial self-interest is and should be a powerful determinant of behavior. This norm leads people “to act and speak as though they care more about their material self-interest than they do.” The norm of self-interest has descriptive and prescriptive qualities that guide people’s attitudes and behaviors. Investors may thus resonate more with directors displaying clearer investment motivations.

**Benefits of having a single purpose.** Finally, there is Milton Friedman’s classical argument (Friedman, 1970) about social or community considerations getting in the way of for-profit organizations. For-profit organizations are especially designed for maximizing shareholder value, not for fulfilling other types of societal goals. Founding groups influenced by both types of logics are likely to find difficulties integrating their motivations and goals. Since integrating individual efforts has such great importance among these founding groups, the simplicity of having one explicit goal, i.e., maximizing profits, should be helpful.

**Qualitative evidence of the benefit of financial identities.** There is some qualitative evidence based on interviews supporting these arguments, but the evidence is mixed. First, there is evidence that directors are explicitly selected for those types of human capital, which indicates their perceived effectiveness for boards. One CEO highlighted her goal of accumulating as much financial expertise on the board as she could,

I would much rather have a very [financially] experienced board any day. Having a board that has a lot of banking experience really gives me the opportunity to bounce ideas off of them and know that they are answering from experience, as opposed to having a board which is made up of figureheads. Sometimes [other founding groups] will get community leaders involved that happen to have a certain title but who maybe don’t have a grasp of what it takes to run a bank with all its intricacies.
To the extent that local investors and regulators perceive in the same way the importance of having a financially sophisticated board, those skills should translate into more successful founding processes. There is some evidence that financial directors indeed smooth the process of founding the bank. One CEO, for example, indicated that those types of directors helped with the “early interactions with regulators.” That same CEO, however, was not too convinced of the long-term benefits of choosing directors for their financial skills alone, or indeed of following a fill-in-the-blank approach in choosing directors, just to facilitate the regulatory process. As he put it, it is better to choose “smart and accomplished people who work well together and have a conservative outlook.”

But other CEOs said explicitly that they were not interested in the board’s financial skills as much as in their own capital and their local networks. They had enough financial skills with the management team’s expertise and the minimum regulatory requirements to chair audit and loan committees). One CEO, for example, remarked that “the last thing you want is the board running the bank. Their job is oversight, is to insure that we as managers are running the bank according to regulations.” Indeed, while financial identities provide local banks much needed human capital, having proportionally high levels of financial directors may not be much better than having just two directors with such backgrounds. After all, these types of banks do not provide very sophisticated financial services.

**Why community identities should help**

Founding teams of local banks may also benefit from community identities in various ways. First, communities usually possess, and convey, a local community identity (Marquis & Battilana, 2009), which can be socially desirable, and which can give rise to motivational mechanisms rooted in the fundamental need to belong (Baumeister & Leary, 1995). As
mentioned earlier, directors with community identities will be motivated to successfully overcome all hurdles in order to get the bank open, and not only because of financial considerations. Other factors may be even more important—their stronger social ties, affective connections, altruistic concerns, aspirations to community status, and reputational cost—should they fail in the process.

**Greater identity-related commitment.** As researchers have shown, providing opportunities to team members to enact a desirable identity is likely to lead to higher levels of identification with the team (Dutton, et al., 1994), a greater motivation to reach group goals (Ashforth & Mael, 1989; Brewer & Gardner, 1986; Dutton et al., 1994; Kramer & Brewer, 1986), greater cooperation (Tyler, 1999; Brickson, 2000), and greater commitment to the group’s shared interests (Tajfel and Turner, 1979; White, 1992). Enacting a desirable identity can produce motivational capital, likely to increase the level of effort even if such effort is not financially compensated (Akerlof & Kranton, 2000, 2005; Anteby, 2008). The literature on social movements has thus explicitly discussed “identity incentives” and “rewards,” which for certain individuals can have a motivational effect that can either strengthen the impact of other material incentives or compensate for their absence (Anteby, 2008; Polletta & Jasper, 2001). By contrast, agents not sharing a community identity are likely to exert additional effort only when compensated for it.

Agents who consider themselves identity insiders maximize their identity utility by exerting higher effort levels than the standard or prescribed behavior (Akerlof & Kranton, 2000, 2005). There is likely to be also a virtuous cycle between individual effort and identity, and a synergistic effect when directors with similar community identities meet in the same founding team. As Fireman andGamson (1979) have pointed out, shared identities or joint ties produced
by friendship, kinship, membership in voluntary organizations, or long-term residence in the community can lead to solidarity among team members, providing each a perceived stake in the group's fate. In those cases, “when collective action (Olson, 1965) is urgent, each person is likely to contribute his or her share.” Thus, the commitment of directors sharing a high level of community-related motivational capital is likely to be more resilient than that of purely economic investors with weaker community ties and lower reputational concerns.

Similar arguments would lead potentially to motivational deficits among directors with financial identities. Unlike community-oriented motivations, financial motivations are primarily personal and self-regarding and therefore not likely to give rise to desired social identities and identity rewards. One would expect that, when financial motivations are more important, the relationship among directors would become more transactional, instrumental, and less meaningful, and therefore less capable of inspiring identification with the group and of commitment to its shared goals, especially when those shared goals entail increasing personal costs or risks. As a result, founding teams with dominant financial identities may run into motivational deficits in the founding of the bank, especially in periods when hurdles for starting the bank have become high hurdles (Akerlof & Kranton, 2000, 2005). As the literature on collective goods suggests, the level of commitment of directors with financial identities is not likely to be synergistic when they gather in teams with similar financial identities. When sacrifices and opportunities are not evenly distributed, aggregating the individual self-interest of group members does not necessarily result in the collective good (Olson, 1965). Therefore, self-interested motivations can easily lead to the dissolution of the founding team.

Additionally, founding teams whose members feel weaker identification with the group may be supportive of shared goals only to the extent that individuals within those teams view
their interests as being served (Scott & Lane, 2000). When individual players are motivated by self-interest, and when those interests are not perfectly aligned with the collective interest, one would expect that they would be continuously evaluating alternatives for their time and capital. Therefore, teams with dominant financial identities are more likely to experience lower levels of commitment and higher rates of dissolution in the formation process.

**Greater community support.** Another factor likely to make groups with community identities more effective in starting their bank is that, *ceteris paribus*, those groups are more likely to inspire trust and drum up local support (Uzzi, 1996). This is true for three reasons: first, because the social ties of those groups with their communities are stronger; second, because those directors are perceived as being more worthy of local trust; and third, because the communal perception of those banks (Dutton, et al., 1994) may appeal to the community identity of certain investors and other local stakeholders (Scott & Lane, 2000), giving them an additional motivation to invest. These arguments are likely to be even stronger in times of market uncertainty when sources of outside capital and of capital from investors without attachments to the community are dryer. Therefore, when the banking venture is genuinely perceived to be “more than simply an investment” it is more likely to get investor support from the community and thus to succeed in getting established⁴.

By contrast, groups dominated by financial identities may be less able to tap into the good will or long term community interests of community investors. While new banks can be

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⁴ By far, the majority of the capital raised by these local banks comes from local investors that are socially connected to the bank directors. Investments from outside the community are generally discouraged by consultants and regulators in part because these local banks rely on the investors themselves as customers and sources for customer referrals in the community. Almost all the CEOs interviewed noted that all the capital for their banks was raised locally. The highest percentage of outside capital for any of the banks in this study was only 12 percent. In any case, outside capital is likely to be more readily available in bull markets than in bear markets, such as the period considered in this study, and is likely to be channeled towards successful CEOs and attractive markets rather than to founding groups with either community or financial identities.
lucrative opportunities, sufficiently motivating to attract investors for whom the bank is “just an investment,” there is also in most communities an additional pool of investors who appreciate, as additional motivators, that the bank is “doing good” to the community or that, by helping the community, the bank is serving their long term interests. Groups imbued with financial logics are not likely to tap as effectively into that second pool of investors.

It is not clear how local investors with exclusively financial motivations would respond to the financial or community identities of bank directors. While directors exhibiting the financial logic would perhaps be more attractive than those exhibiting the competing community logic, those investors would also have a much larger set of potential uses for their capital outside the local community.

**Qualitative evidence of the benefits of community identities.** There is interview-based evidence that director commitment is an important factor in explaining the outcomes of these founding groups. Conversations with CEOs of failed groups often blamed their failure on the poor level of commitment of some directors who took little interest in selling the idea to friends. Having “committed” teams of directors, as several CEOs put it, can make all the difference between success and failure. One of the reasons given by a banking consultant for why some groups fail is that “everybody is waiting and nobody gets in the pool.” For that reason, such factors that contribute to director commitment as providing opportunities for enacting community identities may be critical.

There is qualitative support for the commitment benefits of community-oriented motivations. A director explained that directors motivated by the social prestige of being on a bank board were more effective in the process of raising capital since they obtained additional
reputational benefits by speaking to colleagues and friends about the bank, and by selling to them the idea of investing.

There is also qualitative evidence of the link between community identities and mission-based team identification and motivation. As a CEO explained, “We have a very good board. They didn’t form this bank to flip it in 5 years and realize a short-term profit. Everyone is on board in terms of the mission.” That mission-based motivation, which provided opportunities for enacting community identities, made it possible for the bank to save on director compensation. Not only did that bank pay no compensation to the board at present, but in addition, it did not offer long-term options or warrants, which are quite common among these banks.

Finally, there is qualitative evidence illustrating the proposition that having primarily self-interested investment motivations can lead to group dissolution. Some CEOs of failed groups explained that their teams fell apart when key directors walked away and put their capital behind another venture or when a banker essential to the team took a top job with another bank. Individual self-interest, at least in monetary terms, is not always aligned with the common good of the team or the local community. Teams motivated by financial logics would therefore be more likely to dissolve than teams motivated by community logics, which ties are likely to be, at least relatively, more meaningful and enduring. Precisely to avoid team disintegration, a community-minded CEO explained that in forming his team, he made a point of rejecting “wild money” directors.

With respect to the impact of these two types of identities on securing investor support, there is qualitative evidence of the positive impact on local investors of the perceived integrity of the founding group, which is likely to be greater among directors with community rather than financial identity. One CEO remarked, for instance, that being seen as “good people” in the
community brought in local support, especially at a time when the integrity in the overall banking sector was in doubt. More than one CEO explained that directors lend their credibility to the bank, which involves, among other things, their perceived integrity. “That credibility flows over to the organization and it is a shorter sales cycle,” which means that community identities in the founding team are likely to lead to greater investor support.

**Arguments on founder identities in context**

In spite of the arguments favoring directors with financial identities—which include their higher levels of relevant human capital, the legitimacy of self-interest as a norm, and the benefits of organizations having a single purpose—this paper proposes that identities associated with financial logics are likely to have an overall negative impact on the process leading to the bank’s establishment and that those associated with community logics are likely to have a positive impact.

The main reasons for that overall negative effect of financial identities are the following. First, having two people in the board with financial skills may be all the human capital needed in the board to supervise the management of small local banks, which generally provide relatively simple financial services. Increasing the number of directors with financial identities beyond that number may not contribute much to the needs of the board and it may introduce deficits in collective motivation (Olson, 1965). Second, the legitimacy of financial identities from the perspective of regulators and investors is matched by the legitimacy of directors with strong community ties, and who are connected to diverse networks in the community. Third, in the context of local banks, also known generally as “community banks,” having a single purpose—a financial purpose—may not be as helpful to integrate the efforts of founding directors as in other contexts. Overall, these organizations tend to be influenced in different degrees by both financial
and community logics. Therefore, coming across as being just “about the money” may not be as helpful for the integration of goals within the firm (Friedman, 1970) or to give rise to the legitimacy effect arising from the norm of self-interest, which is more of a factor at the general population level than in this particular context (Miller, 1999).

Evidence of the perceived value of community identities. While there is not much evidence for the benefits of financial identities, other than their implications for human capital, there is significant qualitative support for the perceived value of community identities in the board. One CEO explained his goal to build his board with “philanthropic” directors, “fathers and mothers of the community,” with a reputation not only of being professionally successful but also generous with their time and money. Involvement in volunteer boards was seen by another CEO as a signal of their community outlook and their fit with the bank’s philosophy. That CEO, for instance, highlighted the importance of enlisting as directors civic leaders who had subscribed to the community goals of the bank: “I wanted to understand their intentions, to see whether their motivations were correct. I wanted to understand their thought process and what they wanted to get out of it.”

The discussion above leads to the following set of hypotheses:

Hypothesis 1: Organizing teams with higher percentages of directors with community identities are more likely to succeed in establishing the bank.

Hypothesis 2: Organizing teams with higher percentages of directors with financial identities are less likely to succeed in establishing the bank.

Hypothesis 3: Community identities are more helpful than financial identities in increasing the likelihood of success in establishing the bank.
METHODS

Data

The data for this study have been obtained from several sources: (1) archival data from bank charter applications to regulators and from bank websites, (2) qualitative data from the semi-structured interviews with CEOs, prospective CEOs, consultants, bank regulators, and bank directors and employees, and (3) participation in a consultant-run workshop organized for prospective bank directors. I used an iterative approach going back and forth between the archival data, the interviews, and the theories on institutional logics and imprinting to develop the ideas of this study. This method follows the general approach on the generation of grounded theory by Glaser and Strauss (1967), and Miles and Huberman (1984).

The main source of archival data is a publication called De Novo Watch, which lists founding groups in the process of starting a bank. That publication started in April of 2006; therefore, only as of that date can I account for both successful and unsuccessful attempts at starting banks. For filing dates prior to April of 2006, know only of successful attempts. I later found the applications from these groups to regulators, which document the rationale for the approval of the new bank charter and provide a profile of the bank directors, ending with applications submitted June 30, 2008. In that time period there were 431 groups attempting to start a bank. I was able to acquire and use detailed information about 309 of those groups, containing 2,979 individual biographical statements. The archival data from those applications were complemented by publically-available financial, demographic, and competitive information compiled mostly by the FDIC.

Not all the applications filed in this period have been successful. In successful cases, the founding teams managed to obtain the necessary approvals and to raise the required amount of capital. Based on FDIC and charter-granted institution approval dates, and based also on
interviews with directors of failed groups, it is evident that the most common cause of failure was not being able to raise the necessary capital. From the sample of organizing teams analyzed in this paper, including 62 failures, 34 (55%) of those that failed had already received all the required approvals and they had only to meet the challenge of raising the target capital, a challenge made more difficult by the economic downturn. The rest of the teams lost interest in the application for a combination of reasons, including more stringent regulatory hurdles, and greater difficulties in raising funds. In this sample, there is evidence of only four groups that were denied regulatory clearance after having raised the required capital. After the period examined here, starting in 2009, the FDIC took a harder line, approving very few applications regardless of the quality of the team of founders.

During this period, the banking industry experienced increasing uncertainty and therefore greater difficulties in raising capital and in obtaining clearance from regulators, which is important for the argument advanced here, since that argument relies in great measure on such motivational considerations as the resilience of the directors’ commitment and their capacity to persuade local investors. In times of uncertainty, those motivational factors may trump human capital considerations.

The second main source of data for this study are interviews with CEOs, prospective CEOs, and other bank directors on their experience as bank entrepreneurs, whether they succeeded or failed in their plans to open a bank. I conducted 60 interviews. In the first phase included interviews with 6 CEOs and prospective CEOs, 2 bank employees, 4 consultants, and 2 bank regulators conducted between 2008 and 2009. The goal of those pilot interviews was to enrich the theoretical ideas of this study and to guide the design of the interview protocol and the selection of archival data. I used multiple informants to mitigate subject biases (Golden, 1992;
Miller, Cardinal, & Glick, 1997). With that same goal, I attended a workshop in New York in April of 2009 for people interested in starting new banks.

After the pilot interviews, I randomly selected additional interview targets from the complete list of banks that applied for a charter between April 2006 and June 2008. The targets included first the CEOs and in some cases other bank directors. Those interviews were 30 to 60 minutes in length and were conducted between 2009 and 2010. Interviews began with questions about the initiative of starting a bank, including the main motivations of the directors involved. I asked about strategies for the selection of directors, the specific contributions of community leaders, bankers, local residents, CEOs, and other significant players on the founding team, the main challenges in the organization process, the performance of the organizing team, and the bank’s relationship to its community. Almost all interviews were audio-taped and transcribed. I asked follow-up questions via phone and e-mail when clarification was needed. Interviewed participants included directors in all phases of the organization process, including potential directors looking for an organizing team, directors then in the process of starting a bank, and directors who had failed or succeeded in getting their bank established.

One strong point of this study is the inclusion of both failed and successful entrepreneurial attempts. Contrary to most entrepreneurial studies which begin after the organization has been established and measure outcomes from that point forward (Carroll & Khessina, 2005), this study begins earlier with teams of founders attempting to secure the necessary approvals to found an organization and to raise the necessary capital. Some of those groups did not succeed in reaching those goals.

Another strong point of this design is that the individuals interviewed come from the same pool of directors from whom archival data have been collected; there is therefore the
possibility for each source to shed light on the other. This mixed-design method gains from the strengths of its component parts. Archival data is unobtrusive and objective while interview data adds greater depth of interpretation that infuses the previous analysis with rich context.

**Measures**

*Dependent variables.* The main dependent variables in this study were the *time elapsed* (in days) between the filing date and the opening date of the bank for groups that succeeded in opening the bank, and, for groups that failed, the time to their application withdrawal. Those variables are proxies for the degree of ease or difficulty the teams experienced in opening the bank or in withdrawing the application. Both measures together offer an indication of the team’s likelihood of ultimate success in establishing the bank. A second dependent variable was *bank establishment*, a dummy variable with a value of 1 if the group managed to open the bank (by getting all the necessary approvals and by raising the required capital) and a value of 0 if the group withdrew the application or was denied approval. There were also 13 cases pending as of the end of the period considered, that is June 30, 2009. Those cases were excluded in the *bank establishment* variable and were treated as censured data in the *time elapsed* variable.

Most of those groups that failed had to return the money to the shareholders (net of organization costs), and only 7 (11% of those who failed) were granted permission to acquire a controlling interest in an existing institution. For purposes of this study, they were also coded as 0 or as withdrawn, since the preferred alternative for those directors was to start a new bank. While it is true that founding teams have the opportunity to file again at a later date, no such cases were found in this time period.

Success in establishing the bank can be considered a result of team performance for several reasons. First, all founding groups expressly committed themselves to start the
organization, even if some groups were more committed than others. Second, it is unlikely that those founding groups that wavered in their commitment were unanimous in their ultimate decision to drop the application. Groups that dissolved because of the wavering commitment of some directors can be considered failing groups, at least from the perspective of those directors who were still committed to the enterprise. Third, groups withdrawing from the process experienced considerable losses, losses that based on interview evidence could amount to $1.5 million divided among all the founders. Finally, while withdrawing from the process can be a rational decision, such a decision was made on the basis of the deteriorating chances the team faced in raising the necessary capital and clearing regulatory hurdles and not as much on the economic climate after opening. As several directors agreed, a newly capitalized bank without problematic loans is in an enviable position, especially in the context of a financial crisis, where competing financial institutions are mired in internal problems.

Independent variables. The key independent variables involved the composition of the top tier of the founding team, which includes the CEO and the board of directors. In 30% of teams the board included as well members of the management team, such as the CFO or the COO.

In Hypothesis 1, the measure of community identity, volunteer board experience, reflected the percentage of directors who listed some involvement in volunteer community boards, whether social, civic, professional, or economic. That is a continuous variable going potentially from 0 to 100%. That “revealed preference” measure is probably a more reliable measure of identity than those obtained from survey responses. It is not unreasonable to assume that director-volunteers have a more pronounced community-oriented identity than other directors, and therefore that their motivation for starting a bank is more complex than simply
financial. As mentioned before, a community identity may not carry with it an altruistic connotation since volunteer involvement may be motivated by status-seeking or other such community-related considerations. Table 3.3 contains some examples of volunteer community boards.

<table>
<thead>
<tr>
<th>Type of Board</th>
<th>Percentage of directors involved</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charitable, youth, civic</td>
<td>25%</td>
<td>Food Bank of Contra Costa, Boys &amp; Girls Clubs of Monterey County</td>
</tr>
<tr>
<td>Professional</td>
<td>17%</td>
<td>Monterey County Medical Society; Young Presidents’ Organization</td>
</tr>
<tr>
<td>Commerce, other community</td>
<td>17%</td>
<td>Lafayette Community Foundation, Chowan Chamber of Commerce</td>
</tr>
<tr>
<td>Education and the arts</td>
<td>14%</td>
<td>California Symphony, Idaho State University Foundation</td>
</tr>
<tr>
<td>Medical</td>
<td>7%</td>
<td>Community Hospital of the Monterey Peninsula</td>
</tr>
<tr>
<td>Social</td>
<td>4%</td>
<td>Pasadera Country Club</td>
</tr>
<tr>
<td>Environmental, zoning</td>
<td>2%</td>
<td>Council's Public Works Committee, Edenton Housing Authority</td>
</tr>
</tbody>
</table>

Financial identities in Hypothesis 3 were captured through three measures of professional experience. *Financial experience* was measured as the percentage of directors in the founding team with some experience in the financial sector, excluding banking experience. *Banking experience* was measured as the percentage of directors in the founding team who have worked previously in banks (which is not the same as being on bank boards). Those two types of professional experience were considered good measures of financial identity because they are assumed to influence the predispositions and cognitive structures of those directors so that they give greater primacy to financial considerations than do other directors. *Corporate board experience* was measured as the percentage of directors with experience on corporate boards.
Corporate board experience was also considered a good measure of financial identity because legal principles of corporate governance imply that boards of directors exist ultimately to protect the financial interests of shareholders. Therefore, Hypothesis 3 is broken down into three subheadings.

**Hypothesis 3a:** Organizing teams with higher percentages of directors with financial experience (excluding banking) are less likely to succeed in establishing the bank

**Hypothesis 3b:** Organizing teams with higher percentages of directors with banking experience are less likely to succeed in establishing the bank

**Hypothesis 3c:** Organizing teams with higher percentages of directors with corporate board experience are less likely to succeed in establishing the bank

**Control variables.** The percentage of directors with bank board experience was added as a control since that experience should be helpful in moving the organizing process forward. Prior experience as a director of a bank board is not assumed to be an indicator of either identity since each of the directors in this study is potentially a bank board director with possibly community and/or financial identity. Additionally, counting this variable as a measure of either community or financial identity would confound the effect of such identity with the effect of a high level of human capital, especially suited for starting new banks.

**Local directors** was arrived at by measuring the percentage of directors who were local residents, a factor likely to facilitate the founding process as it can be a signal of the network size. I treat this variable as a control and not as a community variable because it simply indicates that those directors lived in the area, and not that they necessarily had community identities. The measure of executive experience was the percentage of directors who have had work experience as CEOs, CFOs, COOs, or CIOs, which signal human capital and high status and which may be an important factor conferring greater prestige on those founding teams. Finally, the variable
10% owner was coded as 1 if the bank included a member who owned or was expected to own 10% or more of the bank’s capital, a factor likely to facilitate the organization’s efforts.

Other factors controlled for at the board level included board size (which is likely to have a positive effect on the size of the local network and therefore on the group’s likelihood of success), and whether the board had a joint chair-CEO or strong leader (with a dummy equal to 1 if such a strong leader existed).

At the bank level, factors controlled for included pure de novo, a dummy variable coded 1 if the bank was either independent or, if it had a parent, the parent had not been in existence more than 6 months before the application date, and target capital, which was the minimum amount of capital required to open the bank according to the business plan. Pure de novo was expected to be a negative influence on the likelihood of establishment success because parent companies support their affiliate banks, which facilitates both raising of capital and getting through the regulatory process. Similarly, target capital was expected to be a negative influence because the higher the amount of capital that needs to be raised, the harder the threshold task.

Among the competitive factors included as controls was bank concentration, as measured according to the Herfindahl index (the sum of the squares of the concentration of deposits of each bank in the county). This variable accounted for alternative explanations of entrepreneurial success motivated by ecological arguments of the resource-partitioning variety (Carroll, 1985; Marquis and Lounsbury, 2007). The number of bank branches in the county was an indicator of how deeply banks are entrenched in their local communities. This control would help account for explanations of establishment failure or success driven by organizational density in the local community (Greve 2000, 2002). Finally, the total deposit base in the county (measured as of June 30, 2007 or June 30, 2008, whichever date was closest to the filing date) was also included.
as a control because counties with a larger deposit base are more likely to allow more room for new organizations. The demographic factors controlled for included the population growth (comparing the 2000 and the 2008 census), which is likely to be beneficial for new banks since newcomers are more likely to seek new banking relationships, and income growth at the county level (comparing the 2000 and the 2008 census), which could be a factor signaling greater demand for banking services.

Two time-related factors were included as well; crisis, a dummy variable coded 1 for banks that had not been established or withdrawn by September 2008 (since, as it is widely known, the economic landscape changed dramatically during that month) and time elapsed, which counts the months from an arbitrary date in the past, January 1, 2006, to the date the group filed the application with regulators.

Table 3.4 summarizes the measures and rationales for each of the control variables. In a separate regression, three other control variables were added to examine the effect of strategic orientations on the success of founding groups opening the bank. These variables derived from a document by which founding teams describe the bank to regulators. The previous chapter explains how most of the strategic orientations are defined: “profit,” “growth,” and “attractive environment” for the business logic and “commitment to community,” “local decisions,” and “local networks” for the community logic. I added two more variables to the community logic variables, one called “safety,” which is explained in more detail in the “Measures” section of the next chapter; and the other is called “interpersonal relationships,” which captures the emphasis the bank gives to personal relationships. Like the other variables,
<table>
<thead>
<tr>
<th>Board level</th>
<th>Measure</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank board experience</td>
<td>Percentage of directors with bank board experience</td>
<td>Likely to facilitate success</td>
</tr>
<tr>
<td>Local directors</td>
<td>Percentage of directors who were local</td>
<td>Likely to facilitate the founding process as it is a signal of the network size</td>
</tr>
<tr>
<td>Executive experience</td>
<td>Percentage of directors who have had work experience as CEOs, CFOs, COOs, or CIOs</td>
<td>Signal of human capital and high status and which may be an important factor conferring greater prestige on those founding teams.</td>
</tr>
<tr>
<td>10% owner</td>
<td>1 if the bank included a member who owned or was expected to own 10% or more of the bank’s capital</td>
<td>Likely to bring unity to the organization’s efforts</td>
</tr>
<tr>
<td>Board size</td>
<td>Number of directors in the board</td>
<td>Likely to have a positive effect on the size of the local network and therefore on the group’s likelihood to succeed</td>
</tr>
<tr>
<td>Joint chair-CEO</td>
<td>1 if there is a joint chair-CEO</td>
<td>Strong leader is likely to help in organizing efforts</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bank level</th>
<th>Measure</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pure de novo</td>
<td>Dummy variable coded 1 if the bank was independent from a parent</td>
<td>Likely to have a negative effect since those banks count on fewer resources</td>
</tr>
<tr>
<td>Target capital</td>
<td>Minimum amount of capital required to open the bank according to the business plan</td>
<td>It is harder to raise higher amounts of capital</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Environmental level</th>
<th>Measure</th>
<th>Rationale</th>
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<tbody>
<tr>
<td>Bank concentration</td>
<td>Herfindahl index (the sum of the squares of the concentration of deposits of each bank in the county)</td>
<td>Control for ecological arguments of the resource partitioning variety</td>
</tr>
<tr>
<td>Number of bank branches</td>
<td>Measured at the county level</td>
<td>Control for how deeply banks are entrenched in their local communities (density dependence)</td>
</tr>
<tr>
<td>Deposit base at the county level</td>
<td>Measured as of June 30, 2007 or June 30, 2008, whichever date was closest to the filing date)</td>
<td>Counties with a larger deposit base are more likely to allow more room for new organizations.</td>
</tr>
<tr>
<td>Population growth</td>
<td>Comparing the 2000 and the 2008 census</td>
<td>Likely to be beneficial for new banks since newcomers are more likely to seek new banking relationships</td>
</tr>
<tr>
<td>Income growth</td>
<td>Comparing the 2000 and the 2008 census</td>
<td>Greater demand for banking services.</td>
</tr>
<tr>
<td>Crisis</td>
<td>Dummy variable coded 1 for banks that had not been established or withdrawn by September 2008</td>
<td>Less likely to succeed after that month.</td>
</tr>
<tr>
<td>Time elapsed</td>
<td>Months from an arbitrary date in the past, January 1, 2006, to filing date</td>
<td>Less likely to succeed over time</td>
</tr>
</tbody>
</table>
this last variable is coded through an Atlas.ti search for certain key words. In this case the words are consult*, customi*, high in the same line as serv* and personal* in the same line as relation*.

From combining these strategic variables I created two other variables, relative emphasis on community, and count of strategic variables. The first captures the relative emphasis of the community logic as the sum of all the community logic variables referred to at least once, divided by all the strategic variables referenced. The second captures a count of all the strategic variables referred to at least once. I created also a variable called line count, which captures the length of the document as the number of lines in it.

**Descriptive results.** Table 3.5 shows descriptively that groups with proportionally more community directors succeed more often in starting the bank, and that groups with proportionally less financial directors succeed more often in starting the bank (both outperforming groups are shaded in the table). These effects are independent of the financial crisis.

<table>
<thead>
<tr>
<th>Time period</th>
<th>Proportion of community directors</th>
<th>Proportion of financial directors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>High (Groups with more than the mean)</td>
<td>Low (Groups with less than the mean)</td>
</tr>
<tr>
<td>Pre-crisis</td>
<td>91%</td>
<td>85%</td>
</tr>
<tr>
<td>Post-crisis</td>
<td>40%</td>
<td>33%</td>
</tr>
</tbody>
</table>

**TABLE 3.5**  
Success Rates in Getting Started

**Analytical models**

I tested the hypotheses primarily by specifying two models. First, I treated elapsed time as continuous survival-time data and used a competing-risks survival regression model in order to estimate the subhazards of establishing the bank and withdrawing the application. This methodology allows the estimation of separate antecedents for establishment success and withdrawal in models based on time duration—the clock starting with the filing of the bank
The results of those two separate regressions are not necessarily symmetrical since they are based on different sets of founding groups (successful and unsuccessful groups) and could show that different variables matter more for one or the other outcome. Using elapsed time, a measure of duration, as an indication of the likelihood of success in establishing the bank does not mean that groups that open sooner are comparatively more successful than those that open later or that groups that withdraw later from the process are comparatively less of a failure than those that withdraw sooner. Elapsed time is simply a proxy for how likely each event is. Such likelihood is the outcome of interest in this study.

Since those two competing risks are mutually exclusive events for each founding team, the competing-risks model is more appropriate than a Cox model, which treats alternative hazards as censored data. Unlike censoring, which merely obstructs one from viewing the event, a competing event prevents the event of interest—establishment or withdrawal—from occurring altogether, so the analysis should adjust accordingly. The estimation used the stcrreg function in STATA 11.

This function uses maximum likelihood estimation to fit competing-risks regression models according to the method of Fine and Gray (1999). Like the Cox model, the competing risk model is semiparametric in that the baseline subhazard for the risk of interest $\tilde{h}_{1,0}(t)$ is left unspecified, while the effects of the covariates $x_i$ are assumed to be proportional:

$$ h_{1,}(t \mid x ) = \tilde{h}_{1,0}(t) \exp(\beta_1 x_1 + \beta_2 x_2 + \ldots + \beta_k x_k). $$

Unlike the Cox model, which focuses on the survivor function, the competing-risks regression, uses the cumulative incidence function, which indicates the probability of the event of interest happening before a given time.
Secondly, I used a logit regression model predicting likelihood of success or failure—regardless of how long it takes—in a model excluding censored data. This model, which obtains similar results, is shown as an appendix. Additionally, I used a Cox model that obtained results similar to those of the competing risk model, which I do not show in this paper because of space limitations.

RESULTS

Tables 3.6 and Figures 3.5, 3.6, and 3.7 provide bivariate correlations and more descriptive statistics of the variables considered here.

Figures 3.5, 3.6, and 3.7 depicting Kaplan-Meier survival estimates illustrate how time duration is interpreted as a measure of likelihood of success in opening or withdrawing from the process. Figure 3.5 shows that successful groups with more directors with financial experience (one standard deviation above the mean) took longer in getting the bank established than those with fewer directors (one standard deviation less than the mean). That was taken as an indication that having more directors with financial experience decreases the chances of those groups getting the bank established. The graph shows only cases that started before August 2008 since after that date the differences are less clear. Figure 3.6 shows that successful groups with fewer community directors took longer than those with more, which is an indication that community identities increase those chances.

Finally, Figure 3.7 shows that, at least after August of 2008, unsuccessful groups with above average proportions of community directors held on longer than unsuccessful groups with proportionally fewer community directors. The model takes in this information to infer that having proportionally more community directors decreases the chances of founding groups withdrawing from the process.
| Variable                        | Mean | Standard Deviation | 1   | 2   | 3   | 4   | 5   | 6   | 7   | 8   | 9   | 10  | 11  | 12  | 13  | 14  | 15  | 16  | 17  | 18  | 19  | 20  | 21  |
|--------------------------------|------|--------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| 1 Financial experience        | 26.5 | 17.4               | 1.00|     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| 2 Banking experience          | 30.8 | 18.1               | 0.03| 1.00|     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| 3 Corporate boards            | 10.3 | 12.2               | 0.21|     | 0.04| 1.00|     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| 4 Volunteer boards            | 47.7 | 31.5               | 0.14| -0.15| 0.27| 1.00|     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| 5 Bank board experience       | 26.1 | 22.9               | 0.03| 0.14| 0.13| 0.12| 1.00|     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| 6 Local directors             | 93.1 | 13.0               | -0.06| -0.21| 0.02| 0.07| -0.02| 1.00|     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| 7 Pure de novo                | 0.9  | 0.3                | 0.12| -0.31| 0.08| 0.25| -0.11| 0.14| 1.00|     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| 8 10% owner                   | 0.2  | 0.4                | -0.06| 0.13| -0.04| -0.08| 0.11| -0.04| 0.07| 1.00|     |     |     |     |     |     |     |     |     |     |     |     |     |
| 9 Executive experience        | 46.3 | 20.0               | 0.11| 0.18| 0.19| 0.04| 0.26| -0.05| -0.13| 0.06| 1.00|     |     |     |     |     |     |     |     |     |     |     |     |
| 10 Joint chair-CEO            | 0.2  | 0.4                | -0.05| 0.09| 0.00| -0.10| -0.02| 0.11| 0.01| 0.03| 0.06| 1.00|     |     |     |     |     |     |     |     |     |     |     |
| 11 Board size                 | 9.6  | 3.2                | 0.01| -0.39| 0.02| 0.14| -0.14| 0.08| 0.11| -0.17| -0.04| -0.13| 1.00|     |     |     |     |     |     |     |     |     |     |
| 12 Target capital (M's)       | 19.3 | 22.2               | 0.20| 0.10| 0.03| 0.06| -0.04| -0.07| -0.06| 0.02| -0.03| 0.00| 0.03| 1.00|     |     |     |     |     |     |     |     |
| 13 Bank concentration        | 1640.3| 1139.8             | -0.05| 0.00| -0.03| 0.09| 0.06| -0.09| 0.05| -0.02| -0.08| -0.09| 0.04| 0.05| 1.00|     |     |     |     |     |     |     |
| 14 Number of bank branches    | 321.6| 384.3              | 0.18| 0.14| 0.10| -0.10| -0.10| -0.04| -0.07| 0.02| 0.10| 0.03| -0.06| 0.09| -0.22| 1.00|     |     |     |     |     |     |
| 15 Total deposits (MM's)      | 35.1 | 58.2               | 0.17| 0.13| 0.06| -0.06| -0.09| -0.10| -0.11| 0.01| 0.06| -0.01| 0.02| 0.38| 0.07| 0.77| 1.00|     |     |     |     |     |
| 16 Income growth              | 30.9 | 5.1                | 0.20| 0.10| 0.11| -0.05| -0.06| -0.12| -0.06| 0.10| 0.01| -0.07| 0.00| 0.32| -0.11| 0.27| 0.33| 1.00|     |     |     |     |
| 17 Population growth          | 16.2 | 15.2               | -0.11| -0.07| -0.06| 0.08| 0.17| -0.10| -0.09| 0.06| 0.08| -0.06| 0.02| 0.00| 0.05| -0.15| -0.05| 0.12| 1.00|     |     |     |
| 18 Crisis                     | 0.3  | 0.4                | 0.04| -0.10| 0.02| 0.19| 0.05| 0.03| 0.17| -0.15| -0.07| 0.00| 0.05| -0.04| 0.09| 0.03| 0.07| 0.01| 0.00| 1.00|     |     |
| 19 Time elapsed               | 14.3 | 7.1                | 0.02| -0.16| -0.01| 0.13| 0.05| 0.09| 0.24| -0.07| -0.16| -0.03| 0.02| -0.03| -0.04| -0.02| -0.01| -0.02| -0.01| 0.57| 1.00|     |
| 20 Relative emphasis on community | 0.6  | 0.3               | -0.19| 0.05| -0.09| 0.06| 0.02| -0.06| -0.08| 0.00| -0.10| 0.11| -0.03| -0.04| 0.10| -0.18| -0.11| -0.05| 0.11| -0.09| -0.07| 1.00|
| 21 Count of strategic variables | 3.4  | 2.0               | 0.02| -0.02| -0.06| 0.17| -0.01| 0.03| 0.07| -0.02| 0.02| -0.15| 0.20| 0.02| -0.01| -0.02| 0.03| 0.11| 0.09| 0.11| 0.02| 0.05| 1.00|
| 22 Number of lines            | 56.0 | 44.4               | 0.15| -0.03| -0.01| 0.05| -0.03| 0.06| 0.01| -0.03| 0.10| 0.02| 0.12| 0.03| -0.06| 0.10| 0.08| 0.17| 0.02| 0.04| -0.02| -0.12| 0.56|

n = 309 for all but variables 20-22, where N = 275
FIGURE 3.5
Survival Estimates of Successful Founding Groups Divided by Financial Experience

Kaplan-Meier survival estimates
Before the crisis (August 2008)

FIGURE 3.6
Survival Estimates of Successful Founding Groups Divided by Community Identities

Kaplan-Meier survival estimates
After the crisis (August 2008)
Table 3.7 presents three models to test the hypotheses, which are indicated next to the appropriate variables. Model 1 includes only the controls; Model 2 tests the direct effects of community and financial identities; and Model 3 includes strategic variables as controls. For each model there are two columns (a and b) for each of the potential outcomes of the organizing process, which are successful establishment of the bank and full withdrawal from the process.

Hypothesis 1 is confirmed in Models 2a, 2b, 3a, and 3b. The percentage of directors with community identities (volunteer board experience) has a favorable effect on reducing the time required to start the bank for successful groups, and on lengthening the time to withdraw for unsuccessful groups, which makes success more likely and withdrawal less likely. This is

---

Footnote: Model 2a, which has a hazard ratio as the dependent variable, shows a .7% (1.007-1) increase in the hazard of succeeding for every one percent increase in directors with volunteer board experience. Model 2b suggests a 1.1% (1-0.989) decrease in the hazard of withdrawing for every one percent increase in the directors with volunteer board experience. Each director added in a team of ten is a ten percent addition, which translates into a 7% increase in the
consistent with teams of community board volunteers exhibiting a more resilient commitment and receiving more support from their local communities.

Hypothesis 2 regarding financial identities receives confirmation as well from directors with financial experience and corporate board experience, but not from directors with banking experience, which will be addressed in the discussion section. This confirmation gives more plausibility to the interpretation of the results of Hypothesis 1, based on identification and team commitment. Model 2 shows that the percentage of directors with financial experience and the percentage of directors with experience in business or for-profit boards have an unfavorable effect on the success of their founding groups, both in lengthening the time it takes to succeed in starting the bank (for successful groups) and in hastening the time before the decision to withdraw (for unsuccessful groups). The result is that those directors make success less likely and withdrawal more likely. All effects are significant with the exception of directors’ corporate board experience on time to succeed for successful groups.\(^6\).

Hypothesis 3 is also confirmed in most of the comparisons. Testing for the equality of coefficients in Table 3.7, Model 2a, shows that directors with community identities are significantly more helpful in attaining shorter bank establishment periods than directors with financial experience (\(p=.001\)), and also more helpful than directors with corporate board experience (\(p=.052\)). Differences between directors with community identities and directors with chances of succeeding (over a base rate of 65%) and an 11% decrease in the chances of withdrawing (over a base rate of 25%).

\(^6\) Model 2a shows a 1% (1-.99) decrease in the hazard of succeeding for one percent unit increase in directors with financial experience. Similarly, it shows a non-significant .7% (1-.993) decrease in the hazard of succeeding for every percent unit increase in directors with corporate board experience. Increasing by one the number of directors with financial experience in a team of ten results in a 10% decrease in the hazard of succeeding, and increasing by one the number of directors with corporate board experience results in a 7% decrease.
banking experience were not significant. Similar tests in Table 3.7, Model 2b show, that directors with community

table 3.7竞合风险模型对设立银行或撤资的危险

<table>
<thead>
<tr>
<th>Variable</th>
<th>Model 1 Controls only</th>
<th>Model 2 with strategic controls</th>
<th>Model 3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Establishment</td>
<td>Withdrawal</td>
<td>Establishment</td>
</tr>
<tr>
<td>Volunteer board experience</td>
<td>- H1</td>
<td>1.007 **</td>
<td>0.989 *</td>
</tr>
<tr>
<td>Financial experience</td>
<td>- H2</td>
<td>0.990 *</td>
<td>1.022 *</td>
</tr>
<tr>
<td>Banking experience</td>
<td>- H2</td>
<td>1.001</td>
<td>1.014</td>
</tr>
<tr>
<td>Corporate board experience</td>
<td>- H2</td>
<td>0.993</td>
<td>1.034 *</td>
</tr>
</tbody>
</table>

Board and bank controls
- Bank board experience: 1.004, 0.987 *, 1.003, 0.980 **, 1.007 +, 0.973 **
- Local directors: 1.007, 0.989, 1.004, 0.989, 1.002, 0.999
- Pure de novo: 0.797, 0.399 +, 0.755, 0.504, 0.597 +, 0.512
- 10% owner: 1.086, 0.403, 1.095, 0.501, 1.291, 0.383
- Executive experience: 1.005, 0.990, 1.006 +, 0.984 *, 1.010 *, 0.982 *
- Joint chair-CEO: 0.912, 1.608, 0.945, 1.176, 0.845, 1.325
- Board size: 1.019, 1.005, 1.007, 1.023, 1.024, 1.008
- Target capital (M's): 1.000, 1.000, 1.000, 1.000, 1.000, 1.000

Strategic controls
- Relative emphasis on community: 0.646, 1.412
- Count of strategic variables: 0.887 *, 0.958
- Number of lines: 0.998, 1.003

Environmental controls
- Bank concentration: 1.000, 1.000, 1.000, 1.000, 1.000, 1.000
- Number of bank branches: 1.000, 1.001, 1.000, 1.001, 0.999, 1.001 +
- Total deposits (M's): 1.000, 1.000, 1.000, 1.000 +, 1.000, 1.000 **
- Income growth: 0.991, 1.039, 0.998, 1.026, 1.014, 1.030
- Population growth: 0.999, 1.007, 0.997, 1.019 +, 0.995, 1.020 +
- Crisis: 0.190 ***, 8.810 ***, 0.170 **, 10.641 ***, 0.121 ***, 12.040 ***
- Time to filing: 0.987, 1.064 *, 0.989, 1.078 **, 0.986, 1.087 **

N: 309, 309, 309, 309, 252, 252
Wald $\chi^2$ (df): 119 (15), 89 (15), 140 (19), 101 (19), 139 (22), 103 (22)
Incremental $\chi^2$ test (p): 14 (.008), 20 (.001), 15 (.002), 1 ns
Number of events: 233, 63, 233, 63, 187, 53
Log-likelihood: -1137, -295, -1130, -287, -854, -224

H1, H2 stand for Hypotheses 1, and 2
+ p <0.1 * p <0.05 ** p <.01 *** p <.001

identities delay the period of withdrawal (which makes withdrawal less likely) significantly more than directors with financial experience (p=.003), banking experience (p=.021), and corporate board experience (p=.005).

Regarding controls, as Model 3 shows, the relative emphasis on community-oriented themes seems to have a negative effect on the chances of establishing the bank but with marginal
significance (p=.107) and that only in Model 3a. This could be an indication that what drives the results is not what founding directors say in their stated strategies, but rather their personal commitment and their reputations as community and financially-oriented directors. On the other hand, making reference to a larger range of strategic dimensions, both financial and community-oriented, seems to have a negative and significant effect on the chances of succeeding (Model 3a), and that holds true even when controlling for the size of the document (line count). While those two variables are highly correlated (.56), those results are not driven by multicollinearity since their variance inflation factors are only 1.66 and 1.6 respectively.

As Models 1 and 2 of Table 3.7 show, teams with more directors with bank board experience accelerated the establishment of the bank for banks that succeeded in getting established, and delayed the withdrawal of the bank for banks that withdrew. Similar effects were found for teams with more directors with executive experience, with a 10 percent owner, and with more local directors. As the logit regression in the appendix also shows, those types of directors made their teams more likely to succeed in establishing the bank. However, only the first three results were statistically significant. Board size had similar but not significant effects. Having a joint Chair-CEO had the opposite effect, even if that effect was not statistically significant.

The more statistically significant results of Table 3.7 is that, as expected, later filing dates in the period of observation are associated with a negative effect on the likelihood of ultimately opening the bank. As the financial crisis deepened, bank applications were less likely to achieve success. That effect was increased significantly after September 2008, as the variable crisis suggests.
DISCUSSION AND CONCLUSION

This paper makes a number of theoretical contributions to the literature on entrepreneurship, institutional logics, and upper-echelons theory.

Entrepreneurship theory

First, it contributes to the engagement of scholarship on institutional logics and on entrepreneurship (Aldrich & Ruef, 2006). Success in getting started is linked with the societal logics influencing these banks, and, more specifically, with micro-level motivational dynamics resulting from those logics that motivate variations in the commitment of different founder identities and in their ability to secure support from local investors. Founder identities, which are institutionally structured (Lounsbury, 2007), matter in the outcomes of these banks. Variations in founder identities in fact matter more than variations in human and social capital factors, which are given greater prominence in the entrepreneurial literature. This paper thus responds to calls by other scholars to explore how human and relational capital processes at the ground level are associated with the identification of, and ability to seize, entrepreneurial opportunities (Hitt, et al., 2001, 2006).

Community identities. Founders with community identities—who volunteer in community boards—do not seem to add human capital to the team, not at least in a clear way, yet those directors contribute significantly to the success of the group (Hypothesis 1). Interview-based evidence suggests that the mechanisms explaining this result are motivational, related to the commitment and identification of the founding team to the bank venture and to the degree of community support that they inspire.

But could that result not be explained by the higher social capital of those directors? Certainly, social capital, which results in better access to local information and capital resources,
is a very important factor for the success of these banks. These banks rely heavily on the social embeddedness of directors to find local investors and customers. One consultant, for instance, called the directors of the bank “an ambassador network” in the community.

Still, the question is what is so particular about volunteer boards, which produce significantly positive effects in contrast to other forms of embeddedness which do not. The effect of having more locals on the board (which is by itself a form of embeddedness) was small and not significant. Similarly, the effect of having more directors embedded in local corporate board networks was actually detrimental for the team’s goal of opening a bank (Hypothesis 2c). In any case, the results presented on the effect of directors with community identities control for the percentages of directors with business board, banking board experience, directors who are local residents in the community, and they also control for the size of the board, all of which are factors that should account for the influence of “mere” local networks. It seems, therefore, that the network story does not explain the results obtained here. The effect of greater volunteer board activity reflects, not networks in the ordinary sense, but, rather, “meaningful networks” which generate motivational capital and facilitate the acquisition of resources not because of having more extensive or richer networks, but because of the greater goodwill and identification with the bank that they inspire. As others have pointed out in different contexts (Mizruchi, Brewster & Marquis, 2006), there is a “conditional nature” to “embeddedness.” Its benefits, as shown in this case, seem to be triggered by founder identities.

Questions in interviews to directors and CEOs about volunteer involvement show few hints of instrumental approaches, that is, such volunteer involvement for the sake of building wider networks through those community activities. When asked, few indicated that the bank gained directly from their immediate contacts on those volunteer boards. There is plenty of
evidence, however, that such participation benefited banks indirectly, by increasing the visibility and reputation of the directors, and by engendering goodwill in the community. As an example, a CEO mentioned that a certain director in a school board brought a good number of investors and clients who had checked his biographical statement at the school's website and became aware in that way of the bank’s existence.

There is qualitative evidence supporting the claim that having good networks is not enough; being motivated to use those networks is what matters. A proposed chairman of a group pursuing the establishment of an ethnic bank that failed to raise the required capital (resulting in a $100,000 loss per director) argued that he had a “stellar board” in terms of its access to local key networks.

I thought that I had exactly the board I needed. There is a very large Guatemalan community in our area, probably the largest outside of LA., and they are very successful. So I really wanted to access that community. I brought on board this man who is actually a State House Representative. He is Guatemalan, from a prominent Guatemalan family, with lots of connections, very connected to his community. [He] knows a lot of people … Well, he didn't bring me one cent of investor money, one cent! I had also a former CEO of a bank. That person, actually, didn't bring me in total [sic] through his connections, I think, $30,000 of investment. That was another big disappointment.

Another indication that the results may be explained by motivational factors more than by access to resources, is that the effect of being an independent or a de novo bank (without a parent company) is actually positive, even if not significant, in the model which does not rely on time duration (see the positive de novo coefficient in the logit regression in the Appendix). De novo banks, which are not dependent on parent companies, are for that reason more embedded in their communities. Absent that community effect, one would expect that they would be less likely to open, since parent companies are able to provide resources that add to the team’s fundraising ability and regulatory legitimacy. The coefficient lower than 1 in Model 2a of Table 3.7, which does rely on time duration, implies that de novo banks take longer in getting established, which
is an indication of their disadvantage in comparison to banks with parent companies. If they can overcome that disadvantage and are not less likely to succeed when given sufficient time, it must be because they are willing to persevere longer, a sign of their sturdier commitment, as the coefficient lower than 1 in model 2b suggests.

**Financial identities.** The findings about financial professionals and corporate directors (confirming Hypotheses 2a and 2c) would certainly be counterintuitive and surprising if only human and social capital levels are accounted for. Financial experience is useful knowledge for bank boards, and corporate directorships in other companies expand, in addition, the relational capital of the bank. Based on such factors alone, those two types of directors associated with financial identities should in principle contribute to, rather than detract from, the effectiveness of the founding team in opening the bank. If those directors end up being less useful for attaining that goal, there must be sufficiently powerful motivational factors to offset those attractive qualities.

Bankers in the founding team, who are perhaps the directors on bank boards who are richest in human capital, turn out to hinder more than help in the process of bank formation. (See the negative coefficient in the logit regression in the appendix). While starting a bank is very different from running one, their professional experience should be helpful for the board’s oversight and thus be viewed favorably by regulators and community investors. Teams of founders with more bankers on the board should therefore be more successful in getting regulatory approvals and acquiring capital. If they are not, there must be other factors that offset their greater human capital.

There is some evidence, based on an interview with an experienced consultant, that bankers on boards are more reluctant to commit capital: “They are the last people to come to the
party.” Two directors who failed in the process of starting a bank blamed bankers on their boards for their hesitation to put their money on the line and to encourage other potential investors to do the same. The reluctance of those bankers, and more generally of other investment-oriented directors, could be explained by their potentially less meaningful identification with the team and attachment to the community or by the irrelevance of that attachment in the context of an investment decision. Bankers influence establishment success in two ways: one positive and one negative. The fact that they are allowed to be the last to fully commit their own capital, as that consultant suggested, is evidence of both their desirability in terms of human capital and their more tenuous commitment, effects that may cancel each other.

If teams of founders with the most human capital are not necessarily those that manage to open, we may have reason to worry. Future studies could explore further the impact of founder identities on later outcomes of the organization, for example, their profitability, the size of their non-performing assets a few years later, etc. Such research may potentially show that the commitment of community-oriented directors to the founding effort may turn out to be a mistake, and therefore, that community logics may have a downside. In some cases, the wise choice may have been to pull the plug, which is something that directors with financial identities may have understood better. In any case, the effects of those competing identities were similar before and after the month triggering the crisis (August 2008), as shown by comparing the success rates of teams in Table 3.5.

**Institutional logics**

This paper makes several contributions to the literature on logics. First, it examines under this lens for the first time a performance outcome, which is success in establishing the organization. The results show that, contrary to the intuitions of certain economists who would
put much stock in the beneficial effect of profit-maximizing objectives, teams of founders are more likely to succeed in the goal of starting a bank when driven by community logics and less likely when motivated by financial logics. The combination of these counter-intuitive results within the profit-maximizing framework strengthen the plausibility of the overall argument, which is based primarily on the effect of those logics on the resilience of the teams’ commitment and on the support that those teams receive from their communities. The lesson here may be that being too centered on investment returns can be detrimental to the entrepreneurial success of these organizations when success depends largely on founder commitment and meaningful community embeddedness.

Second, this paper contributes to the literature on logics by suggesting another potential mechanism for their diffusion in an organization field, which is the founder identities associated with those logics and the associated success rates in establishing organizations. If director identities shaped by dominant logics are more successful in establishing new organizations, we may expect those logics to continue increasing their dominance. If, as this paper argues, the more dominant financial logic in the banking industry results in lower success rates in establishing new organizations, one would predict the community logic to persist longer. Of course, to have a fuller picture of how founder identities affect the diffusion of logics, one would need to know more about subsequent organizational outcomes, such as bank failures and mergers of these banks into larger institutions.

One potential criticism of the findings of this paper is that the time-period under study is one of increasing uncertainty and deteriorating economic conditions. Granted, whether the results here can be generalized to more favorable economic environments is an empirical question and an invitation to further research. Judging from the evidence of this paper, however,
community identities have been more helpful than financial identities before and after the height of the economic crisis. In any case, the contribution of this paper towards understanding the diffusion of logics is not that community identities in these founding groups are always superior, but that under certain conditions they can be. That the effectiveness of those identities in bringing organizations to term could be reversed under other economic conditions would only show that individuals and organizations are embedded not only in societal logics, but also in particular time periods (Stinchcombe, 1965). Those environmental conditions could moderate the impact of founder identities (or societal logics) on founding success rates.

Third, this paper contributes to the literature of logics by responding to calls to study the links between logics at the cultural level and micro processes, such as commitment, that capture dynamics at the ground level (Marquis and Lounsbury, 2007). Those ground-level motivational factors, which shed light on the “origins and structuring of logics” (Lounsbury, 2007), become more observable when using qualitative evidence. That type of evidence becomes particularly enlightening when examining failed attempts at organizing banks, which is when the absence of commitment becomes more glaring. This study thus pushes research on institutional logics away from large-scale variation of logics at the population level into more micro-level phenomena at the organization and founding team levels.

Finally, differences in director identities in the composition of founding teams across multiple banks also suggest the importance of conceptualizing the possibility of variation in logics among similar organizations, rather than relying simply on external categorizations (Lounsbury, 2007; Marquis & Lounsbury, 2007). It may be more helpful to think of institutional logics as matters of degree rather than as clean categories. The relative proportion of founding
identities of different types is likely to be a good proxy of the relative influence of the societal logics associated with them in organizations.

**Upper echelon theory**

Lastly, this paper has obvious links to the literature on upper-echelon theory (Hambrik, 2007) and founder imprinting (e.g., Boeker, 1989; Eisenhardt and Schoonhoven, 1990; Baron, Hannan, & Burton, 1999; Burton & Beckman, 2007). This literature is devoted primarily to the study of how the backgrounds and experiences of directors affect their organizations’ strategies and practices.

This paper builds a bridge between the literature on logics and those other literatures by examining the influence of certain identity-related characteristics of directors on organizational characteristics and outcomes. Directors whose identity has been shaped by a certain institutional order relevant to the legitimate institutional logics will tend to form organizations that are in tune with that identity. That is one of the more interesting findings of this study: the influence of culture apart from other structural considerations, structures which are practically non-existent in organizational startups. What people carry in their heads and hearts as a leftover from previous interactions in careers, schools, and voluntary associations can have a large impact on how those individuals run and structure their organizations. That effect may be enhanced, as suggested here, when those individuals come together with others similar to them in teams assembled to found new organizations.
Testing for the equality of coefficients shows that directors with community identities are significantly more helpful in leading to bank establishment periods than directors with financial experience (p=.003), banking experience (p=.06), or corporate board experience (p=.003).