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Founding Teams as Carriers of Competing Logics: When Institutional Forces Predict Banks' Risk Exposure

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Abstract

Through archival data from 225 local banks founded between 2006 and 2009, as well as interviews with 73 bank founders, this paper explores the influence of founders' institutional logics, specifically financial and community logics, on the degree of risk taking in the organizations they found. Local bank founders steeped in a financial logic see the bank as an investment vehicle and seek to maximize profits, while those motivated by a community logic are driven to meet community needs and focus less on profits. Despite demands from regulators and consultants that promote uniformity of operations, variation exists in banks' risk strategies that seems connected to values and taken-for-granted predispositions inherent in such institutional logics. But such a connection is empirically demonstrated only in banks with larger founding teams. In those, increased internal representation of a financial logic is associated with higher use of risky deposit instruments to finance rapid asset growth, while a higher representation of a community logic is associated with lower use of such risky instruments. Furthering research on hybrid organizations that combine competing logics, this paper suggests that individuals are more likely to be the carriers of institutional influences especially when operating collectively in larger teams, in which one expects more group conformity and diffusion of responsibility. In smaller teams, individual discretion is more likely to dominate institutional forces.

Keywords: institutional logics, hybrid organizations, group conformity, embedded agency, organizational risk, founding teams

Institutional theory has demonstrated in many fields that the often contradictory institutional logics in society have powerful effects on organizational practices (Alford and Friedland, 1985). Thornton and Ocasio (1999), for instance,

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documented increased conflict in the competition for resources as the publishing industry transitioned from an editorial to a market logic. Institutional logics in society—taken-for-granted understandings of appropriateness in distinct settings, such as markets, professions, and communities—reside in and are perpetuated through legitimate organizational forms and categories, discourse, practices, and collective identities (Friedland and Alford, 1991; Zilber, 2002; Rao, Monin, and Durand, 2003; Lounsbury, 2007). One way of explaining how logics influence organizational practices is that prior involvement with institutional logics has shaped people's assumptions and values, influencing how they perceive, pay attention to, evaluate, and respond to environmental stimuli (Ocasio, 1997; Pache and Santos, 2010). Such conditioning transforms them into ''carriers'' of those institutional influences (Scott, 2001). Prior literature has shown that organizational members' institutional attachments play an important role in shaping organizational practices (e.g., Glynn, 2000; Tilcsik, 2010; Almandoz, 2012).

More recently, scholars have also begun to explore institutional complexity, a common situation in which organizations are confronted with multiple and conflicting institutional logics (Kraatz and Block, 2008; Greenwood et al., 2011). For example, Dunn and Jones (2010) examined the conflict in health education between the ''logic of care'' and the ''logic of science,'' which creates tensions about how to train future professionals. In those cases, the impact of plural institutional logics on organizational actions and decisions is hard to disentangle and predict. Scholars have begun to address what factors determine the degree to which a hybrid organization, which is subject to multiple institutional logics, steers toward one logic or another (Pache and Santos, 2010; Besharov and Smith, 2014). Building on the notion of individuals as carriers of institutional logics, the literature on institutional complexity has theorized that one of the factors determining an organization's strategic direction may be the degree to which those logics are represented within the organization by individuals with a cognitive and motivational affinity for them (Fiss and Zajac, 2004; Pache and Santos, 2010; Tilcsik, 2010). Research on the internal representation of competing logics has explored under what conditions such multiple representation may lead to conflict in founding teams and under what conditions it may also influence the likelihood of founding teams being able to successfully found an organization (Almandoz, 2012). Such research on the internal representation of competing logics has also explored how internal representation may influence whether organizations follow specific hiring practices, receive support from parent organizations (D'Aunno, Sutton, and Price, 1991), and are able to create a common organizational identity (Glynn, 2000; Battilana and Dorado, 2010). Theory and qualitative research on hybrid organizations has also suggested that the relative power and political skills of each logic's representatives are likely to influence the strategy adopted by an organization (Pache and Santos, 2010; Tilcsik, 2010; Greenwood et al., 2011). Taken together, this literature on the impact of internal representation has been mainly theoretical or qualitative, focused on political or power dynamics to the detriment of more purely institutional mechanisms and not providing much insight into the boundary conditions defining under what conditions internal representation is likely to influence organizational practices.

To address those shortcomings, this study explores with archival and qualitative methods the factors affecting *when* the internal representation of

institutional logics translates into organizational practices. Addressing this question of *when* is important because it can help us come to better understand the conditions under which individuals in organizations reflect institutional influences from the environment rather than use independent discretion (Greenwood et al., 2011). This paper aims to contribute to that stream of research by developing a framework for testing empirically the theoretical link between internal representation of competing logics in hybrid organizations and organizational practices. The paper examines risky practices in the context of the founding teams of local banks, organizations that combine financial and community logics to compete effectively with larger banks and become legitimate within financial and community institutions. This setting is potentially fruitful because financial and community logics offer opposing prescriptions for dealing with brokered deposits, the particular form of risk studied here, and because, as research on founders' imprints on new organizations would suggest (Stinchcombe, 1965; Burton and Beckman, 2007; Johnson, 2007; Marquis and Tilcsik, 2013), institutional influences on founders could potentially have an important impact on banks' behaviors. The relevance of the bank setting is evidenced by the financial crisis of 2008, a crisis that underscored the importance of healthy corporate governance and sound risk management practices in that context (Andres and Vallelado, 2008).

Whether the internal representation of financial and community logics should make a difference in a bank's practices in dealing with risk is an open question. New banks operate in an environment of strong and well-defined legal and regulatory expectations, reinforced and legitimized by the inputs of consultants, lawyers, and other professionals, which could cancel out individual differences in founders (DiMaggio and Powell, 1983; Holm, 1995; Greenwood, Suddaby, and Hinings, 2002). Though one might presume that individual differences in founders will be overwhelmed by institutional field-level forces that promote homogeneity, or by individual discretion (Greenwood et al., 2011), there may be institutional influences on founders stemming from their institutional backgrounds that may make a significant difference in the risk practices of organizations, as Pache and Santos (2010) would predict. In this study, I use a combination of illustrative evidence based on 73 interviews with founders and quantitative data reflecting the formation of 225 local banks in the United States between 2006 and 2009 to test predictions linking the risk behavior of organizations to the internal representation of financial and community logics in their founding teams.

FOUNDING TEAMS AS CARRIERS OF COMPETING LOGICS

Founding teams may become carriers of financial and community logics into hybrid organizations if individuals in those teams have internalized the assumptions, values, and preferences associated with those logics (Scott, 2001). Those individual predispositions of founders, learned by exposure, habit, or socialization in specific settings and occupations, are unlikely to vanish when they join founding teams because group dynamics tend to activate and accentuate stereotypical differences between members, such as those associated with financial and community logics (Van Maanen and Barley, 1984). It is possible that those predispositions will translate into group norms that become the immediate context for future thought and action (Hackman, 1992). It is also

possible that those norms will have measurable implications for organizational practices if founders' motivations, priorities, and the assumptions associated with those logics are legitimate, available, and accessible (Thornton, Ocasio, and Lounsbury, 2012). Those legitimate, available, and accessible logics are more likely to be activated as individual founders meet in founding teams with others who are carriers of the same institutional logics. The company of others sharing in the same logic is likely to provide situational cues directing attention to goals and schemas associated with those logics (Thornton, Ocasio, and Lounsbury, 2012).

Representation of a Financial Logic in Founding Teams

The field of finance has developed a central logic based on profit maximization that guides its organizing principles, its understanding of what constitute legitimate values and interests, and its assumptions about appropriate or legitimate behaviors for individuals and organizations (Thornton and Ocasio, 2008; Davis, 2009). Founders with financial careers are likely to have assimilated a financial logic, carrying with them cognitive and motivational factors associated with a financial orientation that could lead them to be predisposed to tolerate certain risks (Thornton and Ocasio, 2008). First, they are likely to view the purpose of the startup organization through the lens of profit maximization and to focus more than other founders on market performance according to financial metrics (Ocasio, 1995; Thornton, 2004; Davis, 2009), especially the final return on investment when selling the organization. To the extent that founders are motivated by the desire to obtain a higher investment return, they are also likely to exhibit a stronger propensity to adopt risky means of generating such a return (Lounsbury, 2007). The literature on risk taking has suggested that a propensity for risk is influenced by people's expectations or aspirations. Even a positive outcome may be viewed as disappointing if aspiration levels, such as those associated with a financial logic, are sufficiently elevated (Lopes, 1987; March and Shapira, 1987).

Second, as psychological and sociological literature suggests, founders imbued with a financial logic are likely to give less weight to altruistic or community-oriented considerations (Frank, Gilovich, and Regan, 1993; Ferraro, Pfeffer, and Sutton, 2005; Khurana, 2007), making it easier for them to have the emotional distance necessary to sell an organization providing a needed community service and to build the organization mostly for the purpose of selling it. A founding team building an organization with the expectation of selling it in the short term is likely to take more risks.

Third, founders with financial careers, and thus imbued with a financial logic, are likely to have a favorable attitude toward risk taking because they are accustomed to putting capital at risk (Lounsbury, 2007). They are likely to view risk taking as appropriate or legitimate and even a positive normative value (Sanders and Hambrick, 2007) that constitutes part of their institutional environment (Douglas and Wildavsky, 1982).

Finally, experience in financial careers leading to the assimilation of a financial logic is also likely to translate into a greater competence in financial instruments and in risk management. According to the risk literature, self-confidence built on competence (Duncan, 1972; Vlek and Stallen, 1980; Baird and Thomas, 1985) is another factor that could make founders with financial careers more

prone to take risks. Those founders could easily fall prey to overconfidence, failing to appreciate the limitations of their knowledge (Slovic, 1972; Bazerman, 1986; Roll, 1986) and becoming deluded by an ''illusion of control'' (Lefcourt, 1973; Langer, 1975). For those reasons, assembling higher proportions of founders with financial careers into founding teams is more likely to make those founding teams more predisposed to taking risks connected with means and ends associated with a financial logic.

An alternative reason for a similar effect is that, independent of the predispositions of the founders themselves, those founding teams may be especially receptive to financial institutional demands. Those stronger demands may result from the founders having selected investors from among friends and colleagues (McPherson, Smith-Lovin, and Cook, 2001) who, like them, may be more analytical and driven mostly by financial considerations. Or they may result from having deliberately invited people with financial backgrounds to be part of a founding team, precisely to help execute a preexisting aggressive growth strategy associated with higher risk taking (Pfeffer and Salancik, 1978). If founding teams are assembled by a main founder with an initial strategic orientation toward building organizations for the purpose of selling them, that founder could select team members who would likely follow his or her strategic preferences. Chances are that members with financial careers would be more inclined to do so. This would strengthen the association between financial backgrounds and the organization's predisposition toward risk:

Hypothesis 1: Founding teams with a stronger internal representation of a financial logic will found organizations that are likely to assume more organizational risk.

Representation of a Community Logic in Founding Teams

A community logic based on the significance of local proximity, community identity and culture, interrelationships and networks, and local needs (Marquis and Lounsbury, 2007; Marquis and Battilana, 2009) has been shown to be an institutional order in itself, influencing cognitive and motivational frameworks of individuals and organizations (Galaskiewicz, 1985, 1991; Marquis and Lounsbury, 2007; Thornton, Ocasio, and Lounsbury, 2012). Founders actively involved in community associations are likely to have internalized certain cognitive and motivational factors associated with a community logic (Tonnies, 1887; Thornton and Ocasio, 2008). First, those founders are not likely to view a startup with an exclusively profit-maximizing lens. Through their social embeddedness, i.e., dense local ties and meaningful relationships (Portes and Sensenbrenner, 1993; Uzzi, 1999), they have more complex motivations for starting the organization. This may decrease their aspirations for very high investment returns and limit their willingness to take risks to achieve them.

Second, their higher stakes in the community—whether because of altruism, community reputation, or other self-interests that link their welfare to that of their communities—are likely to lead them to hesitate more before selling an organization that is serving the community well (Marquis and Lounsbury, 2007). They are more likely to have longer-term perspectives and feel less urgency to grow rapidly and take more risks (Uzzi, 1996).

Third, their status as community leaders should lead founding team members to feel socially accountable to other stakeholders than just investors

(Tetlock, 1985; Galaskiewicz, 1991). Their local reputation could be tarnished if the organization's condition deteriorates (Sutton and Callahan, 1987; Wiesenfeld, Wurthmann, and Hambrick, 2008). In short, founders enmeshed in community associations should be more predisposed to avoid than to seek risk (Douglas and Wildavsky, 1982; Sitkin and Pablo, 1992). For those reasons, founding teams more involved in community associations are likely to be less predisposed than teams lacking those associations to taking risks connected with means and ends associated only with a financial logic. Independent of the predispositions of the founders themselves, those founding teams may also be especially receptive to community institutional demands because of having selected investors and other stakeholders from among friends and colleagues motivated by the pride they take in their community (McPherson, Smith-Lovin, and Cook, 2001). An alternative explanation for this same relationship between internal representation and risk taking is that community-oriented founders may have been invited into founding teams precisely to help execute a preexisting slow-growth and safer strategy associated with a community logic (Pfeffer and Salancik, 1978).

Hypothesis 2: Founding teams with a stronger internal representation of a community logic will found organizations that are likely to assume less organizational risk.

Team Size as a Moderator of the Impact of Internal Representation on Risk

Because founding teams effectively function as groups, the literature on group conformity and risk taking could provide insights on how mixing logics associated with different risk predispositions ultimately shapes norms about risk in founding teams. Because individuals tend to conform to group influences, groups tend to give more weight than warranted to assumptions, values, and norms believed to be shared by more people (Cartwright and Zander, 1968; Stoner, 1968; Janis, 1972; Lamm and Myers, 1978). In rare cases, the perspectives of the minority succeed in dominating group norms (Moscovici, 1980; Hackman, 1992), but the perspectives of token members are almost always ignored (Kanter, 1977). The literature on risky and cautious shifts in group decision making (Stoner, 1968), for instance, suggests that groups give more weight than warranted to risk-related attitudes shared by more of their members. Generally, this literature has used questionnaires (e.g., Wallace and Kogan, 1965) that require subjects to give advice to a hypothetical person in a decision-making dilemma with a risky and a non-risky alternative. In most cases, experimenters first record individual risk attitudes and preliminary decisions, and then they examine how those attitudes change when decisions are made by groups rather than individuals. They have found that group decisions can be systematically either riskier or safer than the average individual predisposition of the group members.

Risk attitudes shared by more members are disproportionally accentuated in part because individuals often adjust their predisposition to what they perceive is the group attitude (Brown, 1965), often relying on stereotypes, such as those that may be associated with financial careers or community involvement (e.g., Teger and Pruitt, 1967; Moscovici, and Zavalloni, 1969; Blascovich, Ginsburg, and Veach, 1975). Another reason, reinforcing the effect of the first, is that individuals feel less accountable in group decision making (Wallach and Kogan,

1965). These mechanisms of group influence confirmed in laboratory settings are likely to be present also in founding teams in which identifiable stereotypes exist, such as those associated with community and financial logics.

Because of the greater strength of those mechanisms in larger groups—stereotyped group norms based on a more superficial knowledge of team members and diffusion of responsibility—and consistent with empirical laboratory evidence on group decision making (Teger and Pruitt, 1967), one might expect that larger founding teams would accentuate more than smaller founding teams those shared risk assumptions, values, and norms resulting from the internal representation of financial and community logics. Thus the effect of the internal representation of both institutional logics would tend to be accentuated in larger founding teams:

Hypothesis 3: The positive relationship of a founding team's internal representation of a financial logic on organizational risk (hypothesis 1) is likely to be stronger in larger founding teams.

Hypothesis 4: The negative relationship of a founding team's internal representation of a community logic on organizational risk (hypothesis 2) is likely to be stronger in larger founding teams.

Context of the Study

In describing the context of the study, I rely on archival data and on interviews with members of the founding teams of newly established banks, which are described in greater detail in the methods section. Focusing on the founding teams of local banks is well suited for analyzing the impact of community and financial logics on organizational risk because both logics are legitimate, available, and accessible to founders and are also likely to have opposite effects on the kind of organizational risk taking that would lead to very high returns. For example, interviews with community-oriented founding team members often emphasized community needs and focused on ''controlled growth,'' downplaying the importance of rapid growth motivated by expectations of high investment returns.

Founding a local bank: A hybrid organization combining competing logics. Prior research has shown that local banks are frequently formed in the United States in response to acquisitions of community banks by larger banks, especially those from outside the local area (Marquis and Lounsbury, 2007). Supporting that finding, documents aimed at obtaining regulatory approval that describe the rationale for starting a new bank show frequent references to recent mergers of small banks into large regional holding companies that left the area with fewer community banks, thus creating a void in the marketplace. Displaced bankers join displeased customers to start a new bank that will resist the impersonal and bureaucratic practices of larger, more efficient, and more distant financial institutions. Those new local banks succeed, in the face of competition from better-capitalized larger banks, by mobilizing local community resources such as investors, borrowers, and depositors, by maintaining a community orientation, and by providing friendly and customized service that larger banks find difficult to provide. They succeed by drawing on a community logic,

widely studied in institutional research (e.g., Freeman and Audia, 2006; Tilcsik and Marquis, 2013), which could be defined on the basis of strong, affective, and enduring ties among members of small and bounded groups.

At the same time, starting a new bank can be a profitable investment for founders as long as larger banks continue to show an appetite for acquisitions. To mobilize investment capital, these startup banks must also draw on a financial logic, a subject also widely studied in institutional research (e.g., Fligstein, 1990; Thornton and Ocasio, 1999; Glynn, 2000), which could be described in terms of profit-maximizing objectives and a self-interested, individualistic, and transactional ethos. The financial logic's influence on expectations of investment returns and on building the bank to sell it was illustrated by the hopeful expectation expressed by one bank founder interviewed for this study: ''The previous bank we sold it at 11 times [book value]. There is a lot of excitement to see what we can do this time.'' Founders like him often expressed pride at the asset growth rate they achieved, a means to higher investment returns, and at their prior experiences in building and selling banks at a considerable profit. The community logic's influence on founders' motivations other than profit making was also evidenced in interviews. Reflecting on prior experiences, community-oriented founders complained about other founders for exhibiting a narrow focus on returns that negatively affected the community mission: ''In spite of the stated mission, which was to be a local bank that participated in the community, their underlying motive in my view was selling the bank and making a lot of money.'' These community-oriented founders were themselves also the targets of criticism in prior bank experiences for being so enamored of their ''toy bank'' that they neglected profitable exit opportunities.

Differences in how founders envision the organizational means and ends of the local banks illustrate the influence of these two logics. Table 1 shows examples from interviews and from documents describing the banks to regulators of both of the competing perspectives on organizational means and ends.

According to the financial logic, the bank is an investment vehicle to be sold to a larger financial institution at the earliest opportunity to maximize investment returns. According to the community logic, the bank is, as a founder put it, ''a volunteer activity and a way of giving back undertaken for the good of the community.'' Motivating this community orientation may be altruism or receptivity for other reasons to community-oriented normative models (Starr and MacMillan, 1990; Scott, 1995). To succeed as a new local bank, founders must gather investors and community support to get the mix of resources and legitimacy it needs as a community and financial institution. While combining those seemingly contradictory institutional influences into one organization may be difficult, there is abundant experience available, with more than 100 such banks started per year in the period of 1990 to 2006 and long institutional precedent in the United States, going back to the pre-colonial period (Marquis and Lounsbury, 2007). New teams of founders have ready-to-wear models or legitimate templates (Battilana and Dorado, 2010), and a well-defined formation process, as well as abundant help from bank regulators, consultants, and lawyers (DiMaggio and Powell, 1983).

The compatibility of the two institutional logics, which translated into two interrelated but distinct motivations for founders, was illustrated in a number of ways in the interviews conducted. First, a community focus was seen as strategically important for the bank even if only as a means to an end, which may

Table 1. Influence of Institutional Logics on Local Banks

Financial Logic	Community Logic
Basis of mission/key motivation of founder	
Profit maximization upon investment sale: bank built to sell	Service to community: a true community bank
The previous bank we sold it at 11 times [book value]. There is a lot of excitement to see what we can do this time.	[Starting a bank is about] more than just money. It's a way to be an integral part of the community.
The average bank has sold for about two and a half times book value. So, if we start a bank with $20 million, and say at the end of 6 years somebody pays you two and half times [that amount], you cash out, and everybody takes the money and goes home.	A sense of community service was probably a stronger driver [for the founding team] than investment motivations.
Orientation to the community	
Means to an end	End in itself
The purpose is to make money. Starting a new bank is not a left-wing utopian endeavor.	[I] love community banking. I think banking is a powerful engine for growth, both economic growth and social growth of the community, the customers, and the clients we serve. We enable jobs to be created, dreams to come true.
If anyone tells you that this is about serving the community, he is probably lying to you.	
Means to fulfill the mission	
Profit	Local ties
The intent is to build a . . . bank to fulfill the strategic goals of . . . *profitability* and growth.	The directors and organizers are prominent individuals with *significant ties* to the San Gabriel Valley community.
We expect the proposed bank will be efficient and at the same time very *profitable*.	Commitment to the community
Growth	All of the [founders] are successful business and *community leaders*.
The bank intends to pursue an aggressive *growth* strategy.	Differentiation from larger banks
This level of capital will provide the bank … the ability to sustain its projected asset *growth.*	The bank will *differentiate* itself from the existing banks in the marketplace through volunteerism and direct financial support.
Attractive environment	The [founders] believe a *locally owned and operated* bank can provide a high level of customer satisfaction and a reasonable return to investors while being a good corporate citizen.
Long Island is known for its *affluence* and high quality of life.	Long-term investment outlook
The bank will be well positioned for long-term success, especially with continued *consolidation* in the banking market.	It will be a long-term investment, it will grow with the community. You don't really open a bank to sell it. You have to take a long-term view.
Short-term investment outlook	
We saw a bank that was only three years old when it sold out and made a huge profit.	

be a high investment return. As a CEO put it, ''A well-run community bank is a very good investment.'' Second, even if investment goals were primary, founding teams did not think it wise to specify a target date to sell the bank in the future. As a bank CEO put it, ''That is a bridge that we will have to cross when we get to it. Building that in as part of the bank's strategy is too short sighted.'' In the face of uncertainty about when a good offer to sell might come and about future economic conditions, the best policy was seen as one of flexibility, building the bank as if it would remain independent and continuing to serve the community indefinitely. A CEO described his pragmatic approach as follows: ''[We told investors] that the premise was that we were going to be long-term, and that if we should be made an offer to sell, management and directors would present it to the shareholders. It would be foolish not to.'' Finally, there

was evidence of different motivations even among members of the same founding teams. In fact, one of the sources of tension experienced in local banks several years after founding was whether to sell or to remain as a community-oriented independent bank for a longer period.

Assembling a founding team. Both prior literature (Marquis and Lounsbury, 2007) and interview evidence accumulated for this study suggest that the idea of starting a bank begins with an entrepreneurial team that mobilizes in response to a perceived need resulting from bank acquisitions in the local area. Thus the idea of starting a bank is often prompted by exogenous events (local acquisition activity), which bring together a core group of collaborators, generally residents in the community, who contribute important resources, including money, local contacts, and expertise in banking and other professions. The founding team selects a CEO, who most likely is already one of its members, and forms a board of directors that will satisfy regulatory requirements for a minimum level of banking and accounting experience in boards. Other contributors mobilized by the enterprise may remain as investors, organizers, or functional executives of the bank without becoming members of the founding team.

To the extent that the core group conceiving the idea of starting a bank has sufficient human, social, and financial capital, as well as sufficient standing to pass regulatory scrutiny, it will itself successfully constitute the founding board of directors. If the core group lacks sufficient capital of one or more of the types described, it will then invite new directors who can supply those particular critical assets. Those new directors have standing similar to founders, even if they join at a slightly later date, mainly because of their strategic importance in getting the bank established. They, like those in the original group, must help capitalize the bank and add to the legitimacy and qualifications of the founding team. Larger founding boards of directors (the proxy used here for founding teams) are driven largely by greater resource needs, including the need for professional expertise to oversee the bank's management, than can be provided by the initial core group.

According to interview evidence, every member of the founding team matters in defining the bank's organizational priorities and values. Founding teams are relatively small (9.6 members on average) and have democratic norms: ''Everybody has a single vote,'' as one founder put it. This is so for two reasons. First, according to informants, founding team members are seen as ''big men''—which applies to women too, though founders tend to be male—in the communities in which the banks operate; they are used to commanding respect and would not be easily cajoled into passive or subordinate roles by other founders. Second, the founding team members are jointly dependent in this shared enterprise, which is normally quite involved and requires founders to pool their ideas, money, energy, and local influence. Founding team members are significant owners; they finance the startup process and are a critical force later in the capitalization of the bank, as the investor group ordinarily is made up of their local colleagues and friends rather than of more remote institutional investors.

Brokered deposits and liquidity risk. When a financial logic is more dominant in a founding team the resulting bank will have shorter-term investment

horizons and a greater tendency to focus on rapid growth. The faster bank assets grow, the higher the investment return will be when a bank is sold, because a bank is generally assigned a value that is a standard multiple of the accumulated loan portfolio. And the sooner a bank is sold at a certain multiple, the higher the investment return will be over the period from founding to sale. At the same time, the sooner the bank is sold, the sooner the community will lose a local bank focused on serving the needs of the community.

Founding teams with a greater interest in fast investment returns are likely to more readily accept certain risks that, if taken, could help pave the way for higher growth and richer profits from the eventual sale of the bank. Increased use of brokered deposits would be one type of such risks. Brokered deposits, obtained from a brokerage firm channeling money from its customers, are simple and easy for a bank to obtain under normal economic conditions. Those brokered deposits can thus become an alternative pipeline to regular checking or savings account deposits, allowing banks to fuel more lending and reach higher growth targets. Because they are so easy to obtain, as a bank consultant put it, ''the vast majority of bankers have used them, especially before 2009.'' While they are generally accessible for adequately funded banks, brokered deposits entail various forms of risk, especially cash flow liquidity risk, which is the risk of not being able to fund lending obligations when brokered deposits become due and are no longer available from the market. Interviewees often referred to brokered deposits as ''hot money'' because they are more volatile. Unlike retail bank depositors who are more loyal to their banks—or more passive—brokers actively shop around for the highest investment yields. Thus brokered deposits are much more likely to vanish or become much more costly in an economic downturn when money is in short supply. Using brokered deposits exposes banks to greater cash flow liquidity risk and even to the possibility of extreme loss in the event of a severe financial crisis.

The role of founding teams on the banks' use of brokered deposits is, first, to approve the particular policy proposed by management, which has to stay within the boundaries permitted by regulation, and, second, to provide oversight of its execution. As a banking consultant put it, management recommends a ''tolerance of x'' for brokered deposits and gives the reasons why, and the founders (in their role as board directors), if they agree, can approve it. Directors are required to discuss regularly the asset mix of the bank, including the composition of deposits, and such discussion is to be reflected in board minutes that are later reviewed by regulators. Even if some founders do not understand fully all the implications of using brokered deposits but rely on the expertise of management, one expects that the proposed ''tolerance of x'' would be aligned with the founders' growth appetite and risk predispositions. Because the founding team is composed of significant owners of the bank who both select and control bank managers, one would expect that deposit policies would be sensitive and responsive to their motivations and goals.

METHODS

Data

The data for this study have been obtained from several sources combining different strengths: (1) unobtrusive and objective archival data from bank charter

applications to regulators, complemented by a data source of financial institutions (SNL Financial) and by publicly available financial, demographic, and competitive information compiled mostly by the FDIC; (2) rich qualitative data from semi-structured interviews with CEOs, prospective CEOs, consultants, bank regulators, and bank founding team members and employees, which were collected as part of a research program involving the founding process of local banks, and from websites describing banks in the process of formation; and (3) participation in a consultant-run workshop organized for prospective bank founders. The mixed methods allowed me to go back and forth among the archival data, interviews, and theories on institutional logics, risk, and group influences to develop the ideas of this study.

Archival data. The main source of archival evidence was SNL, an organization providing news and data about banking organizations, which publishes comprehensive lists of founding teams attempting to start banks in the United States. Using those lists I gathered the original charter applications from SNL, the banks themselves, or bank regulators to find biographical statements of founding teams. Bank charter applications (Form FDIC 3064-000) vary considerably in length. They include sections to provide information about the proposed management team and board of directors, including relevant backgrounds and qualifications; expected training planned for directors; board structure; compensation and stock benefit incentive plans; capital fundraising plan and target; characteristics of the geographic areas being served; plans to serve the needs of underserved demographic segments; location and cost of fixed premises; and information systems. I have full information, including both bank risk practices and founding team composition, of 225 banks (more than 2,100 biographical statements) established in the period between June 1, 2006 and October 1, 2009, a period selected to capture the effects on bank risk of the crisis. In that period, 420 banks were established, so my sample contains 54 percent of the population of new foundings. Based on bank characteristics for which I had full information in the whole population, there was no sample bias. The bank charter applications to regulators included contact information of prospective CEOs, which helped me recruit interview participants from among CEOs and other founders.

Qualitative data. From a total of 73 interviews, I was able to obtain a wide perspective on founders' motivations. I started with five pilot interviews conducted by phone, between 30 and 60 minutes in length. 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 evidence. After the pilot interviews, I randomly selected additional interview targets from the list of banks included in the statistical analysis. I interviewed founders from groups in all phases of the organization process, including founding teams of banks still in formation (seven groups), as well as groups recently established (31) and groups that gave up on starting the bank (12). In the initial phase, from January 2008 to April 2009, I interviewed six CEOs, two bank employees, four consultants, two bank regulators, and four people contemplating starting a bank. In the second phase, June 2009 to January 2010, I interviewed 37 CEOs and prospective CEOs, two chairmen of the board, 15 other directors, and one

bank employee. The targets included the CEOs and, in some cases, other bank founders. Those phone interviews, which lasted between 30 and 60 minutes, explored the motivations of founders and the influence of internal representation of financial and community logics within founding teams in a sample chosen more systematically. Almost all interviews were audiotaped and transcribed. I asked follow-up questions via phone and e-mail when clarification was needed. The interview protocol included how the idea of starting a bank first arose; what motivated the participant and others in the board to start; how the founding team came together; what the main challenges were, especially with regulators; how the bank is a community bank; and how it is just a business.

Quantitative Measures

Dependent variable. Brokered deposits represent the percentage of bank deposits that were mediated by a broker. This outcome variable associated with aggressive growth intentions captures risky behavior adopted, or at least tolerated, by the founding team. It reflects an organization's behavior that is aligned with the financial logic and misaligned with the community logic. In that sense, extensive use of brokered deposits can be viewed as a favorable response to institutional expectations arising from a financial logic and as an unfavorable response to institutional expectations arising from a community logic. This measure was assessed early, in the first quarter after opening, to best reflect the founding team's influence before other contingencies and considerations intervened. The influence of the founding team is likely to be most evident in the prehistory and early life of the bank. This variable was a good measure of liquidity risk because using such deposits would expose banks to funding shortages if the market turned less liquid, as happened in 2008.

The link between brokered deposit use and greater organizational risk was confirmed both by interview evidence and by evidence based on research and press accounts explaining recent bank failures. First, bankers and consultants interviewed were aware of the volatility of those deposits, which could lead to liquidity problems. One banker mentioned that, unlike core deposits raised locally, brokered deposits do not establish an enduring relationship with bank customers, but are purely transactional. Thus brokered deposits do not ''stick to'' the bank. Second, because they are so accessible (''one phone call away'') for well-capitalized banks, they can potentially lead to looser underwriting standards. One banking consultant commented that brokered deposits allow bankers to fund ''many loans very fast,'' and thus bankers can get ''a whole lot more reckless'' in their underwriting. By contrast, raising deposits locally, which is difficult, forces banks to slow down the lending process, thus acting as a ''natural governor'' for prudent growth. Third, brokered deposits can also create dependency, being ''hard to give up'' (Adler, 2008). Finally, because brokered deposits are often costlier than other sources of deposits, they can push the banks toward the ''riskiest corners'' of the lending market to earn sufficient income to cover those higher costs. Security Bank, for example had to offer interest rates averaging 5.28 percent in 2007 to attract brokered deposits, 20 percent higher than rates paid to local banking customers (Lipton and Martin, 2009).

A review of regulatory audits and warning notices to troubled banks confirmed that overreliance on brokered deposits has become a ''red flag'' for regulators (Lipton and Martin, 2009). Sheila Bair, chairperson of the U.S. Federal Deposit Insurance Corporation (FDIC), warned, even before the crisis of 2008, that new banks relying heavily on them would get more scrutiny (Adler, 2008). As she put it, the problem is that those deposits ''can be used to fuel rapid growth [in] institutions that maybe shouldn't be growing that fast'' (Adler, 2008). Other regulators have expressed similar concerns (Lipton and Martin, 2009). According to a study undertaken for the *New York Times,* the banks that failed in the United States in the 2008 crisis—presumably the riskier banks—had on average four times more brokered deposits than was the national norm. A third of those failed banks had also experienced an extremely high growth rate in their loan portfolio prior to failing (Lipton and Martin, 2009), which showed that using brokered deposits was associated with both greater risk and aggressive growth intentions.

The highly publicized failures of banks with large positions in brokered deposits sparked debate and research over whether the use of brokered deposits led to the increase in bank failures. Former FDIC Chair William Isaac has blamed the volatility of brokered deposits for the earlier savings and loans crisis of the 1980s and 1990s (Lipton and Martin, 2009). While the evidence of a direct causal link between the use of brokered deposits and bank failures is not empirically convincing, research leaves little doubt that ''the demand for brokered deposits is driven . . . by the risk appetite and asset growth preferences'' of the bank, which are in turn significant indicators of bank insolvency (Rossi, 2010: 1).

While regulators discourage using brokered deposits, they still allow their use in some cases, which defines a scope condition for the effects found in this study. If regulators forbade the use of brokered deposits, there would be little or no effect on this practice resulting from competing financial and community logics. Section 29 of the FDIC Act, implemented by Part 337 of the FDIC Rules and Regulations, defines the limits on the use of brokered deposits based on the capitalization of the bank. Well-capitalized banks, those with a high capital ratio relative to assets, can use them without restriction, while adequately capitalized banks need the FDIC's permission and have to follow certain restrictions on the interest rates paid for such deposits. Undercapitalized banks are prohibited from using brokered deposits at all.

Independent variables. The key independent variables for the internal representation of financial and community logics in founding teams were the financial experience and the community involvement of the founding team. I defined a founding team in this context as those people involved in starting the bank who were in the founding board, which always includes the CEO, and with 30 percent of the teams, other members of the management team, such as the chief financial officer or the chief operating officer, who are also called insiders in the board. Starting a bank is a difficult task that requires broad participation, but not all of those who participate deserve to be called founders. Board membership captures well both the stature and degree of involvement of the key participants. Board directors fund and drive the founding effort and determine its orientation. There are other contributors to the enterprise who

remain as investors, organizers, or functional executives of the bank but who are less influential, and I do not consider them part of the founding team. The composition of the founding board is captured as of the initial charter request to regulators, before the bank has been established and before investor capital has been gathered. It includes people from various professions, including entrepreneurs, doctors, politicians, pastors, farmers, and real estate agents.

The measure of internal representation of a financial logic reflected the percentage of those founders who had some experience in the financial sector. I excluded prior banking experience, however, which could be influenced by both financial and community logics. Professionals covered under financial logics included investors (''Mr. X is a principal with Y, Inc., an investment management firm''), investment bankers (''Mr. X is a managing director of Y, LLC, a boutique investment banking firm''), accountants, and insurance providers (''Mr. X has been with Y Insurance as an agent and agency manager since 1978''). As a robustness check, I used number of founders rather than proportion of founders with such financial careers, and the results were the same.

Because banks in this setting are influenced by both financial and community logics, bankers were placed in a category apart, and I controlled for prior banking experience. Another reason for separating bankers, in considering the particular kind of risk this paper focuses on, is that bankers may be more cautious because they understand better the potential risks associated with brokered deposits. That is especially true of those old enough to have personally experienced the savings and loans crisis of the 1980s and 1990s (Lipton and Martin, 2009). Interview evidence supported the assumption that bankers were aware of the risks and regulatory concerns associated with brokered deposits.

The measure of internal representation of community logics in the founding team was the degree of personal community involvement, measured as the number of volunteer community associations (Boy Scouts, Red Cross, local Chamber of Commerce, country club, etc.) that members in the founding team had listed in their biographical statements. That revealed preference is a more credible measure of community representation in the founding team than what may be obtained from survey responses. Community logics may be more internally represented in founding teams that are committed to more volunteer community associations, and therefore the motivation of those founding teams for starting a bank are more likely to include community-oriented or non-financial considerations as well. I used a total count of voluntary associations as the measure for internal representation of a community logic instead of percentage of founders with *some* experience in community involvement because it captures better the community-oriented cognitive and motivational predispositions of a team. Being involved in one—and only one—community board is a weak measure of community-oriented cognitive and motivational predispositions. As a robustness check, I used the average number of community associations in which founding team members participated, with the same results.

Those measures of internal representation of financial and community logics should not be conceived as ends in a continuum but as orthogonal variables, because a founding team could represent high degrees of financial expertise independently from how involved members are in the local community. Conceivably, both logics could be well represented in a founding team, in which

case, the implications for the risk predisposition of the organization would be unclear. The number of cases of founding teams in which both logics were highly represented was more or less in line with what would be expected if those two variables had been uniformly distributed. There were 28 such cases when 25 would have been expected. ''Ideal types'' of community-oriented founding teams—in the top third of community involvement and the bottom third of financial careers—were more common than the ideal types of financially oriented founding teams (top third of financial careers and bottom third of community involvement): 24 cases compared with 17. This particular distribution of community and financial representation in founding teams, however, does not seem to matter with respect to the findings.

Control variables. At the founding team level, I controlled for the number of insiders (people in the founding board who were also in the management team), the size of the board (i.e., the founding team), whether there was a joint chair–CEO, the percentage of founders with banking and entrepreneurial backgrounds, the percentage of local people, and whether anyone owned 10 percent or more of the bank. The first three variables are standard controls in board governance research. Larger founding teams and the presence of strong figures on the board—a chair–CEO or a 10-percent owner—would suggest a potentially greater likelihood of members being selected for the founding team after a preexisting strategy had been formulated.

Banking experience was introduced as a control rather than as an independent variable, thereby capturing the internal representation of a financial logic, because although bankers do have financial backgrounds, in this setting they were likely to be influenced as well by community logics (Marquis and Lounsbury, 2007). The proportion of local residents captured how rooted the founding team was in the geographic area (i.e., the county) where the bank operated. Locals were presumed to be more community oriented and therefore more risk averse. Because there was not always a local address for each founder, this variable was coded as 1 for all founders with community involvement experience or with references to employment, education, or residence in the state in which the bank operated. No assumption was made for founders with no geographical reference in their biographies and with no mention of community involvement. If a mailing address in a different state was given, or if the founder's biography reflected work and education only in other states, I assumed that the individual was not a local resident. The proportion of entrepreneurial backgrounds was defined as the proportion of founders who have started their own business organization and either are or have been entrepreneurs.

At the bank level, I controlled also for the capital available at opening, the size of the loan portfolio, the leverage ratio of the bank, whether the bank had a parent company or was independent, and the primary regulator chosen; dummy variables were entered for banks regulated by the Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, and Office of Thrift Supervision. The amount of initial capital and the size of the loan portfolio were presumed to be positively associated with the ratio of brokered deposits because they both suggest higher levels of planned growth. Independent banks were presumed to be more community focused and therefore more risk

averse. I included the leverage ratio as a control because it is a factor governing regulatory limits on the use of brokered deposits.

Demographic controls at the county level included dummy variables to account for the different FDIC administrative regions of the country. Regional administrative variables were entered to capture potential differences in regulatory emphases, by region, on the use of brokered deposits. Other demographic controls included the population size in the county and its income level, as well as income growth between 2000 and 2008. Population size and income level were assumed to be negatively associated with the ratio of brokered deposits because new banks should find it easier to raise core deposits in richer and more populous counties. Income growth was assumed to be positively associated with the ratio of brokered deposits because it indicates the potential for more bank growth in the area.

Competitive controls included the percentage of deposits in the county that were held by small banks (under $300 million in assets) and by large banks (over $1 billion in assets), which captured the predominant financial and community orientations of banks in the area. Researchers in institutional theory have found that small banks tend to be more community oriented and larger banks more aligned with an efficiency/financial logic (Marquis and Lounsbury, 2007).

Finally, I controlled for quarterly fixed effects so as to capture period effects in the use of brokered deposits. In later periods, regulators discouraged more firmly the banks' use of brokered deposits; hence one would expect lower ratios of brokered deposits in banks opening at later dates.

Analytical Model

To account for the proportional nature of the dependent variable, I used a general linear model with a logit link function and binomial family (McDowell and Cox, 2004) to analyze the ratio of brokered deposits over total deposits (Papke and Wooldridge, 1996). This fractional logit model maintained predictions between 0 and 1 and therefore fit the data better than ordinary least squares (OLS), which can make predictions outside that range, though an OLS regression I also ran provided results in line with those presented here.

RESULTS

Table 2 shows the correlations of all the variables in this study. Interestingly, the internal representations of financial and community logics are not negatively correlated. If banks followed either pure financial or pure community strategies, which would contradict the argument of this paper, one would expect a negative correlation. Model 2 of table 3 confirms hypotheses 1 and 2. Founding teams exhibiting a greater representation of a financial logic led to banks that made proportionally more use of risky brokered deposits. By contrast, teams with a greater representation of a community logic led to proportionally lower use of brokered deposits.

The hypotheses on interaction effects of the internal representation of institutional logics with founding team size (hypotheses 3 and 4) are confirmed in model 3 of table 3. The positive influence of the representation of a financial logic and the negative influence of the representation of a community logic on

the use of brokered deposits were accentuated in larger founding teams.[1] The interpretation of these interactions is complex.[2] To make sense of those interactions, in figures 1 and 2, I graph separately for large and small teams the use of brokered deposits at different values on the horizontal axes of financial and community representation. I define and represent large teams as those containing 12 members and small teams as those with seven. Those endpoints, which are approximately one standard deviation from the mean, contain roughly two-thirds of the observations. Those figures show that the upward and downward slopes predicted in hypotheses 1 and 2, respectively, are confirmed only for large teams. The more significant impact of the internal representation of financial and community logics in larger teams is consistent with the impact of group conformity and diffusion of responsibility in helping to transmit institutional influences. The absence of an effect for smaller teams is consistent with a greater weight for individuating factors in group decision making.

The convex form of the curve for large teams in figure 1, reflecting the positive relationship between internal representation of a financial logic and the use of brokered deposits, is particularly interesting. It suggests that in larger founding teams, each additional founding member with a financial career had a larger effect on the use of brokered deposits than the previous one. The part of the curve with a greater effect on the dependent variable is that reflecting the effect of high proportions of founders with a financial career. In founding teams with already high proportions of founders with financial careers, the risk propensity intensifies as more founders with financial careers are added. In short, this effect of internal representation of financial careers was mostly a case of majority, rather than minority, influence on group norms. The concave form of the curve for large teams in figure 2 suggests that the effect of internal representation of community logic is especially significant in the early part of the

[1] While the founding team size was positively correlated with internal representation of community logic, as measured both in terms of total and average numbers of volunteer community associations listed, the results presented here were robust as to collinearity effects. To show that the interaction effects were not driven by multicollinearity, I also standardized the antecedent variables of the interactions. Using the standardized variables, the interaction effect of community logic and size was significant at $p = .05$, and that of financial logic and size was significant at $p = .05$. No coefficient in the regression with centered variables exceeded a variance inflation factor (VIF) of 10, which is the standard cutoff signaling a multicollinearity problem. The VIF for the interaction effects was 1.5 for the financial logic and 1.9 for the community logic and for the underlying logic variables was 1.5 and 1.8, respectively, and 2.0 for size.

[2] Because all three coefficients of the interaction are involved in the interpretation of its effects, I use examples to illustrate the combined effects. Comparing two hypothetical teams with a large share of representation of the financial logic (say 45 percent of founders), one with 12 members and one with 7, the larger team would have, based on the model, a predicted rate of brokered deposits almost 3.8 times higher. The comparison would be calculated as the exponential of the difference of the sum of products of the coefficients (–.07, –.185, and .01) times the respective variables of financial representation (45 percent in both cases), size of team (12 vs. 7), and interaction terms (45×12 vs. 45×7). By contrast, comparing also two hypothetical teams with a very low share of representation of the financial logic (say 10 percent of founders), the model would predict that the larger team of 12 members would have a rate of brokered deposit use only 65 percent that of the smaller team—a lower rate. If the effects of all coefficients involved were significant, this could be interpreted in line with the overall argument as follows: teams of larger size not only amplify the financial logic's influence on organizational risk (more representation of the financial logic in the founding team entails more organizational risk), but also less representation of financial logic entails less organizational risk in larger teams.

Table 2. Means, Standard Deviations, and Correlations

Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10
1. Brokered deposits	.03	.10										
Board-level variables												
2. Rep. of financial logic	25.26	17.36	.07									
3. Rep. of community logic	17.74	19.91	–.09	.05								
4. Banking professionals	31.35	18.55	–.03	.01	–.15							
5. Number of insiders	1.56	.90	–.02	.01	.07	.37						
6. Chair–CEO	.22	.41	–.04	–.06	–.07	.07	.12					
7. Size of founding team	9.60	3.25	.00	.01	.40	–.37	.18	–.11				
8. Locals	93.03	13.65	–.03	.00	.06	–.25	–.09	.10	.07			
9. Entrepreneurs	35.97	21.96	–.08	.12	.17	–.28	–.18	.07	.05	.08		
10. 10% owner	.18	.39	.02	–.02	–.03	.13	–.06	.01	–.18	–.08	–.06	
Bank level												
11. Capital (000's)	.02	.01	.13	.16	.25	.00	.02	.02	.19	.03	–.09	.10
12. Loans	9.34	.98	.18	.01	.06	–.03	.07	.07	.08	.13	.03	–.15
13. Leverage ratio	20.53	11.98	–.16	–.11	.02	.02	–.02	–.08	–.02	.03	–.08	–.05
14. Pure de novo	.87	.33	–.14	.14	.14	–.33	–.06	.00	.11	.19	.13	.11
Regulator												
15. FDIC	.74	.44	.03	.10	–.05	–.12	–.11	–.09	–.04	.15	.13	.03
16. FED	.10	.30	–.05	–.10	–.03	–.01	.05	.00	–.04	.06	–.08	–.03
17. OCC	.13	.33	–.02	–.03	.06	.14	.06	.04	.07	–.21	–.13	–.04
18. OTS	.04	.18	.03	.14	.07	.06	–.06	.08	.04	–.03	–.03	.04
Environment												
19. Population (000,000's)	1.19	1.76	–.12	.14	–.14	.15	–.05	–.01	–.09	–.02	–.09	.06
20. Area income (000's)	61.65	16.29	.02	.17	–.12	–.05	–.04	.03	.04	–.10	.08	.04
21. Income growth	30.71	5.09	.09	.17	–.08	.11	–.06	–.06	.00	–.12	–.07	.13
22. Small banks	.05	.14	–.06	.04	–.01	.06	.04	–.09	–.12	.00	–.01	–.12
23. Large banks	.87	.23	.08	.09	.00	–.07	–.14	.07	.07	–.02	.03	.12

Variable	11	12	13	14	15	16	17	18	19	20	21	22
12. Loans	.32											
13. Leverage ratio	.00	–.29										
14. Pure de novo	.13	–.14	.16									
Regulator												
15. FDIC	–.08	–.06	–.04	.14								
16. FED	.08	.15	–.03	–.02	–.46							
17. OCC	.05	–.09	.13	–.09	–.75	–.13						
18. OTS	.00	–.07	–.02	–.14	–.16	.07	.18					
Environment												
19. Population (000,000's)	.11	–.01	.02	–.04	–.09	–.08	.21	–.03				
20. Area income (000's)	.07	–.07	.03	.02	–.04	–.02	.03	.07	.07			
21. Income growth	.25	.02	.02	–.04	–.14	.05	.14	–.01	.24	.59		
22. Small banks	–.15	.02	–.07	.01	.04	–.01	–.01	–.06	–.17	–.11	–.15	
23. Large banks	.19	–.01	.04	–.04	.04	–.04	–.06	.09	.25	.15	.26	–.68

curve. The model suggests that for teams with low community involvement, increasing such involvement has a higher impact on decreasing brokered deposit use than for teams with high community involvement.

Table 3 also provides evidence, based on the controls, that banks in areas with greater income growth and with a higher proportion of larger banks used, on average, more brokered deposits. By contrast, independent or de novo banks (banks without parent companies) used brokered deposits less, which

Table 3. Fractional Logit Regression on Risk (N = 225)

	Model 1		Model 2		Model 3	
Variable	Coefficient	S.E.	Coefficient	S.E.	Coefficient	S.E.
Board level						
Representation of financial logic	H1		0.021	0.010••	–0.070	0.046••
Representation of community logic	H2		–0.029	0.011•••	0.061	0.041
Banking professionals	–0.031	0.019	–0.027	0.017	–0.024	0.014
Insiders	0.059	0.239	0.067	0.206	0.062	0.225
Chair-CEO	0.108	0.439	0.314	0.518	0.238	0.415
Size of founding team	–0.058	0.081	0.001	0.071	–0.185	0.180
Locals	–1.340	1.538	–0.250	1.563	–0.193	1.589
Entrepreneurs	–0.008	0.009	–0.005	0.008	–0.015	0.011
10% owner	0.621	0.547	0.822	0.544	0.895	0.525
Bank level						
Capital (000's)	0.016	0.014	0.033	0.013••	0.034	0.013•••
Loans	0.388	0.249	0.283	0.219	0.318	0.231
Leverage ratio	–0.053	0.041	–0.049	0.040	–0.049	0.043
Pure de novo	–1.171	0.458••	–1.426	0.462•••	–1.286	0.505••
*Regulator level**						
FED	–0.745	0.805	–0.409	0.829	–0.386	0.832
FDIC	0.724	1.002	0.898	0.954	0.982	0.946
OCC	0.682	1.278	1.113	1.192	1.344	1.103
OTS	0.145	0.942	–0.414	1.071	–0.329	1.074
Environment level						
Population (000,000's)	–1.610	0.476••••	–1.930	0.592••••	–1.730	0.560•••
Area income (000's)	–0.019	0.019	–0.016	0.016	–0.013	0.014
Income growth	0.159	0.069••	0.131	0.060••	0.099	0.049•
Small banks	–0.799	2.787	–2.401	0.359	–0.855	2.733
Large banks	3.760	1.529••	3.298	1.431••	3.334	1.460••
Time†						
Interactions						
Size × Representation of financial logic	H3				0.010	0.005••
Size × Representation of community logic	H4				–0.008	0.004••
Log pseudo-likelihood		–21.39		–20.58		–19.96
Incremental χ 2 test (df)				10.84 (2)•••		7.12(2)••

•$p < .10$; ••$p < .05$; •••$p < .01$; ••••$p < .001$.

* Regional administrative areas (omitted) were compared with the Midwest.

† All time fixed effects are compared with groups started in 2006.

may be an indication of lower risk-bearing capacity but possibly also of greater community orientation and long-term focus and more modest growth aspirations. In a separate regression, I excluded banks with a parent company and obtained substantially the same result. Additionally, banks in areas with higher populations seemed to rely less on brokered deposits.

Interview data suggest that the financial competence of founders, one of the mechanisms suggested here, would not be the best interpretation of the link between founders' financial backgrounds and use of brokered deposits. Those risky deposits were seen as straightforward and easily accessible to all banks, which implies that financial expertise would not be one of the distinguishing features of groups more willing to use them. A banking consultant and bank director called brokered deposits ''a quick and easy way to fund

Figure 1. Interaction of internal representation of financial logic and team size.

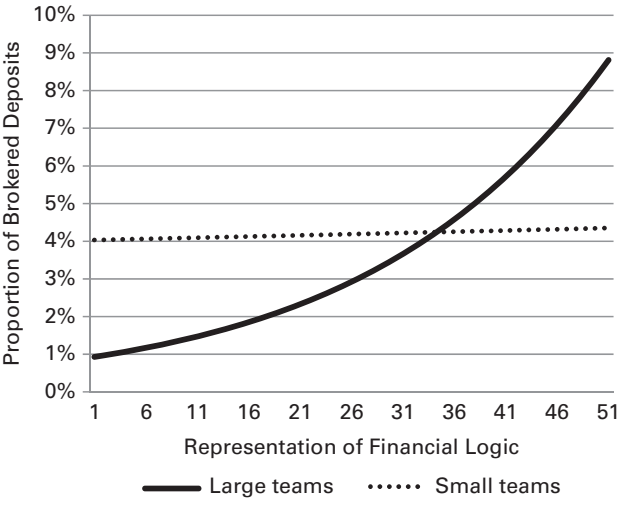
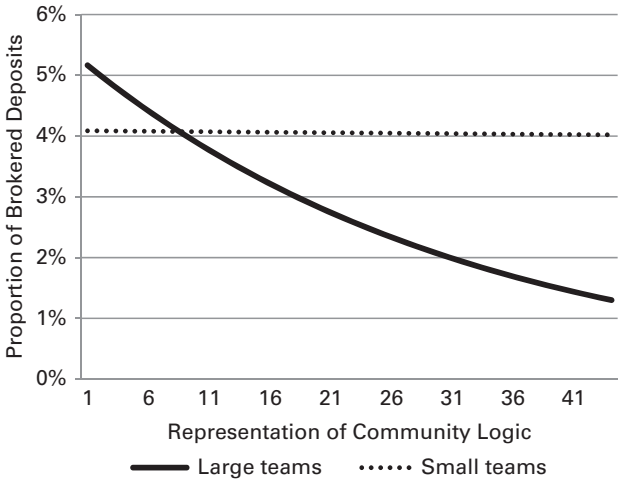


Figure 2. Interaction of internal representation of community logic and team size.



growth.'' As he put it, ''I can go out to the Internet or out to the brokerage community, and I can raise $10 million overnight, and I can turn that spigot on and off.'' All bankers in founding and management teams, especially chief financial officers (CFOs) or former CFOs, should have experience with them.

Interview data also indicate that an alternative explanation suggested here—that such internal representation may itself be driven by preexisting strategies (Pfeffer and Salancik, 1978) defined by the very first founding team members—is less likely. First, local banks are hybrid organizations imbued with both financial and community logics. There was not much evidence of banks at either extreme—with pure financial or pure community logics—that would

justify selecting founding members on either basis. There was, by contrast, considerable evidence of diverse motivations in founding teams and of teams having been rather flexible in their investment exit horizon, at least at the time when they started the bank. Second, bank startups are to a large extent exogenously driven by local acquisition activity. This justifies the assumption, supported by interview data, that a founding team conceives the idea of starting the bank, rather than it being the brainchild of a single individual with a predefined distinctive risk preference that drives the selection of founding team members. Founding teams to some extent come together through social, family, and professional ties. Third, to the extent that some team members are selected, the criteria for selection are primarily a combination of the capital they personally bring to the founding team, the expertise they contribute, and the networks to which they are connected. Risk preferences, or strategic variables correlated with risk preferences, either did not come up at all or were seen as less important. Finally, founding team members are owners of the bank and generally large financial contributors. They are also people of significance in their community and thus not likely to become pawns of other members. Even those who joined the founding team a little after the others are full members, because they would not have been invited (diluting the control and ownership of the very first members) had they not brought important assets to the team.

DISCUSSION AND CONCLUSIONS

The key finding of this study is that in large founding teams there was a positive relationship between the internal representation of a financial logic and organizational risk taking associated with the use of brokered deposits and a negative relationship between internal representation of a community logic and risk taking. Considering teams of all sizes, there was a significant relationship between the internal representation of both financial and community logics and the organizational risk taking in the directions predicted, but the interactions of both variables with team size revealed that the effect was significant only for larger teams. Thus the support for hypotheses 1 and 2 may need to be qualified. Group conformity and diffusion of responsibility could very well explain the larger effect of those institutional influences in larger teams (Gerard, Wilhelmy, and Conolley, 1968). Similarly, a greater influence of discretionary factors could explain the smaller effect of financial and community logics in smaller teams.

Qualitative data also suggest that the relationships between the internal representation of community and financial institutional logics and organizational risk can be explained in terms of the motivations and cognitive predispositions of founding teams, which make them carriers of institutional logics. But the argument that such links may result from recruiting founding team members with an affinity for a predetermined strategy (Pfeffer and Salancik, 1978) cannot be dismissed, even though it is hard to conceive of a good argument for why such an influence, transmitted through selection, would be greater in larger teams. If such an influence were to be significantly stronger than the qualitative data suggest, one would need to interpret this association with more caution. One may be able to infer that certain board compositions are associated with

more or less risk taking but not necessarily that there is a clear causal link flowing from founding team composition to risk taking.

Research to date explains the impact of internal representation of competing logics on organizational practices based on political or power-based mechanisms (Glynn, 2000; Kim et al., 2007; Pache and Santos, 2010). Although power may have played a role in explaining the results, there is no qualitative evidence in this study for overt conflict and political contestation in decisions involving the use of brokered deposits and no clear arguments for why such political factors would play a greater role in larger founding teams. The founding and early period of the bank, as qualitative evidence suggests, is marked by cooperation rather than conflict. Conflict is more likely to arise later in the board when the possibility arises for selling the bank.

One limitation of this study is the implicit assumption (based on theoretical considerations in support of the first two hypotheses) that the values and preferences of founders can be predicted based on their involvement and experience within different institutional logics. But even though variation at the individual level should be expected, such variation should be reduced when considering dynamics in groups with multiple occupations (Van Maanen and Barley, 1984) or in teams including subgroups with stereotypically distinct values and cognitive predispositions. In those cases, individual behaviors are likely to conform to a larger extent to those subgroup patterns, which are more likely to be activated. This limitation presents an opportunity for further research to explore directly, through surveys, the extent to which involvement with distinct institutional logics influences the motivations and values of founders and the extent to which those influences are accentuated in larger teams.

The framework and findings in this study are situated in the particular context of hybrid organizations subject to competing institutional influences and founders' diverse motivations and goals. For example, a hospital with a relatively strong research orientation may be more willing to perform risky but scientifically interesting patient treatments than a more clinically oriented hospital more focused on the health and safety of individual patients. The extent to which hospitals' practices involving risk follow a research rather than a clinical institutional logic may depend in part on the representation on the hospital board of doctors trained in research-oriented residence programs, and, as this study suggests, those effects may be particularly strong in larger hospital boards.

This framework and results can be generalized to hybrid organizations in other contexts as long as there is a sufficient degree of organizational discretion for influences arising from competing institutional logics. That means that an important scope condition for the results of this study is that other economic and institutional forces (regulatory, normative, and cognitive) are sufficiently subdued to allow some degree of variation. For example, in a very regulated banking sector in which the range of permissible use of brokered deposits is very restricted or nonexistent, one would expect no variation arising from the internal representation of financial and community logics. This scope condition plays into this paper's exploration of the conditions under which competing institutional influences arising from internal representation translate, or don't, into organizational practices.

Contribution to Research on Hybrid Organizations

Framework for testing the impact of internal representation. The main contributions of this study to the literature on hybrid organizations are twofold. First, the paper develops a framework to test the impact of the internal representation of competing logics on organizational practices associated with institutional demands (Oliver, 1991; Pache and Santos, 2010; Greenwood et al., 2011). The framework involves selecting a practice (in this case, the use of brokered deposits) that is aligned with one institutional logic and at cross-purposes with the other and then exploring the potential link between such a practice and appropriate measures of internal representation of the relevant institutional logics. This approach introduces the possibility of quantitative analysis in research that has been mostly theoretical or qualitative. By crossing levels of analysis (Barley and Tolbert, 1997; Thornton, Ocasio, and Lounsbury, 2012) at the individual, team, organizational, and environmental or institutional level, this framework permits exploring the interdependence between institutions and individual motivations and cognitive scripts (Dacin, Goodstein, and Scott, 2002), which are inferred in this paper from the exposure of individuals to institutional logics. Using this framework, this study tested empirically and found support in large teams for a carrying effect of institutional influences that are then translated into organizational practices. This is to my knowledge the first large-scale empirical test showing the impact of the internal representation of institutional logics on organizational practices and the first one predicting practices that reflect organizational risk.

Team size as a moderator for transmission of institutional influences. The second contribution of this study is to have explored micro-level conditions under which institutional influences are carried to a greater or lesser degree into the practices of new organizations. This is a meaningful contribution because literature on the impact of internal representation has not sufficiently explored the boundary conditions and moderators explaining when competing institutional logics are likely to influence organizational practices to a greater extent. The moderating impact of team size suggests that the transmission of institutional influences may be facilitated by other micro social mechanisms, such as group conformity and diffusion of responsibility, and that those mechanisms may emerge more fully in larger groups. The impact of team size is actually in line with the prior research of Burton (2001), who found that larger founding teams were less likely to deviate from dominant industry models. There is, of course, always a role for agency, even though consciously or unconsciously individuals often enact normative or taken-for-granted institutional scripts. But in larger decision-making groups, one may expect more action motivated by automatic rationality and taken-for-granted cognition associated with institutional logics and less action motivated by discretionary factors independent of those institutional influences. Put differently, people acting individually or within smaller groups may not be driven as much by institutional influences as are individuals acting collectively as part of larger groups.

The behavior of banks founded by very small teams shows a great deal of variability. The explanations offered in this paper for the interaction effect between internal representation and team size are relevant only to large teams, which is where the effects are found empirically to be important. Had all the

interaction coefficients been significant, one would need to find an explanation for why in very small founding teams the impact of financial and community representation would have an effect opposite to expectations. Using the model to compare two teams with six members, one with a high representation of a financial logic (45 percent) and one with a low representation (10 percent), results in a predicted 42 percent higher use of brokered deposits for the bank with low financial representation. A similar story could be told about a comparison of teams of seven members with high representation of a community logic (40 volunteer associations) and a low community representation (zero associations). Based on the model, the more community-oriented founding team would end up with a 22 percent higher expected use of brokered deposits. These results, based on non-significant coefficients, could be theoretically interpreted as a boundary condition: in banks with very small founding teams, the management team or the bank's CEO may take a stronger role in defining the strategy of the bank, especially when those founding members are more community oriented and less financial in their background. Founding teams with those characteristics may suggest a more financially oriented bank whose board has been created to obtain local legitimacy. In those, a large presence of community-oriented team members may be evidence of ''community-washing,'' disguising a more financial-oriented purpose, rather than a genuine community orientation.

That the effect of group size on the impact of institutional factors was predicted based on the literature on group conformity invites the question of what other mechanisms known to team psychologists, such as stereotyping, in-group and out-group considerations, and development of group norms, could be relevant to the transmission of institutional influences in hybrid organizations (Hackman, 1990, 1992). Engaging further with the social-psychological literature on groups could prove fruitful for understanding better the impact of institutional influences on organizational practices when those are mediated by top management or founding teams. The literature on hybrid organizations, for example, has explored political and conflict-based mechanisms (Glynn, 2000; Kim et al., 2007; Pache and Santos, 2010), but other cognitive and motivational factors discussed in the literature on group decision making have a greater affinity with the social-normative and cultural-cognitive nature of institutional influences and could thus be just as relevant for their transmission.

The institutional logics perspective has been said to provide one possible answer to the paradox of embedded agency: ''How can actors shape institutions if their actions, intentions and rationality are all conditioned by the very institution they wish to change?'' (Holm, 1995: 398). Because actors may be embedded in various institutions, there is room for agency in the intersection of competing institutional logics, as well as in the heterogeneity of institutional influences affecting a field of organizations. The answer from the institutional logics perspective is that individuals embedded in institutions can change them in part because they are not fully embedded in any one institution. The contribution of this paper to the paradox of embedded agency is to go beyond qualitative differences in institutions to consider, in the face of competing institutional influences, the intensity of an institutional imprint, which may depend not only on the degree of a founding team's embeddedness in institutional logics but also on moderating factors such as the size of the founding team.

Another contribution of this paper is enriching the dialogue between institutional logics and the imprinting literature (Marquis and Tilcsik, 2013). At the moment of founding, when they are in greatest need of legitimacy and resources, founders are most likely to be particularly receptive to external social norms and values. Variation in values and cognitive predispositions of founders associated with institutional logics may be in some cases more important for predicting the founding imprint on organizations than variation in human and social capital and other forms of variation that have been the focus of imprinting research. The composition of a founding team, reflecting a team's exposure to particular institutional logics, may contain important clues with respect to future risk tendencies that regulators, investors, and founding team members themselves should not ignore. While risk taking has appeared in this paper as little more than an outcome variable to illustrate the effects of larger institutional forces, another contribution emerging from this paper is to show the potential relevance of the institutional logics perspective to the study of organizational risk, which complements other work on governance and agency theory that has focused on economic, structural, and behavioral factors (Wiseman and Gomez-Mejia, 1998). Institutional influences may have shaped values and cognitive scripts of founders in the past, offering an explanation for how founders negotiate risk–reward tradeoffs now. The specific contribution of this paper to discussions on both imprinting and organizational risk taking is the relevance of group size. Group size in top decision-making bodies may be like the channel bandwidth for the transmission of institutional influences.

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