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**The Ideological Purity vs. Hybridization Trade-Off: When Do Islamic Banks Hire  
Managers from Conventional Banking?**

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## **ABSTRACT**

Organizations that compete in institutional environments in which oppositional logics compete for dominance face a risk-return trade-off between maintaining ideological purity versus pragmatism by borrowing template elements from the rival ideology. Deviating from ideological purity might improve a firm's competitive strength, however, at the same time, it might also undermine its very identity and legitimacy. Although such decisions are of strategic importance, research about why, how, and where these trade-offs are made is still limited.

We develop the argument that organizations will be more likely to deviate from ideological purity when the potential return of borrowing from the oppositional template exceeds the perceived risk of doing so. The more organizations aspire to be ideologically pure, the more they are constrained by the moral codes that define the category, and, therefore, the higher the risk associated with deviating from purity. However, given the potential benefits of pragmatism, pure organizations will be particularly sensitive to contextual cues that reduce the perceived risk of borrowing, tilting their trade-off balance toward pragmatism. Specifically, we expect that pure (compared to less pure) organizations will be particularly tempted to seize the opportunities offered by pragmatism when (1) they perform below aspiration, (2) the relevant market attaches less importance to ideological purity, and (3) pragmatism is becoming taken-for-granted.

We test our hypotheses on detailed data of the hiring process of branch managers of Turkish Islamic banks analyzing when and in which communities Islamic banks hire managers from conventional banking in order to implement their geographical expansion strategy in the period 2003–2016.

## INTRODUCTION

An essential feature of our era is that competition between organizations is increasingly not only about resources, but also about ideology fueled by institutional contexts in which oppositional logics compete for dominance (Boone and Ozcan 2014, Marquis and Lounsbury 2007, Sine and Lee 2009, Weber et al. 2008). Organizations that compete in such complex institutional environments face a dynamic, strategic trade-off between maintaining ideological purity vs. pragmatism by borrowing template elements from the rival ideology<sup>1</sup> (Wry et al. 2014). While the former choice allows them to avoid identity violations and the associated punishment by core external constituencies (Carroll and Swaminathan 2000, Hsu and Hannan 2005, Roberts et al. 2010), it will also deprive them of access to capabilities and resources that are necessary to compete with ideological rivals outside of their core markets. On the other hand, while the latter choice may make them acceptable to larger segments of society, and improve their competitive strength, it will also alienate core constituencies and confuse others about what is unique and distinctive about the organization's identity (Hsu and Hannan 2005, Negro et al. 2011). Although the outcomes of such decisions have far-reaching implications for the fate of an organization and are, therefore, of strategic importance (Ashforth and Reingen 2014, Foreman and Whetten 2002), our understanding of why, how, and where these trade-offs are made is still limited (Vergne and Wry 2014, Wry et al. 2014). As a result, we have limited understanding about how organizations strategically navigate in complex institutional environments by balancing ideological purity and pragmatism. This is an important omission because borrowing elements of alternative templates is an important precursor of the emergence of hybrid organizational forms and institutional change (Boone and Ozcan 2015, Glynn and Navis 2013, Tracey et al. 2011).

Building on neo-institutional research on the adoption of contested practices (Fiss et al. 2012, Jonsson et al. 2009, Weber et al. 2009), and the category straddling and hybridization literatures (Battilana and Lee 2014, Hannan 2010, Hsu et al. 2009, Kovacs and Hannan 2010, Negro et al. 2011, Pache and Santos 2013, Wry et al. 2014) we develop the argument that organizations will be more likely to deviate from ideological purity when the potential return of borrowing from the oppositional

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<sup>1</sup> As borrowing elements of alternative institutional logics implies hybridization, we use “pragmatism” and “hybridization” interchangeably in the present paper.

template exceeds the perceived risk of doing so. The more organizations aspire to be ideologically pure, the more they are constrained by the moral codes that define the category, and, therefore, the higher the risk associated with straddling oppositional categories. As a result, ideological strategies are expected to be path dependent: ideologically pure (compared to less pure) organizations are persistently less likely to borrow from the oppositional template even if the potential benefits might be relatively large. However, given the potential benefits of borrowing, pure organizations will be particularly sensitive to contextual cues that reduce the perceived risk of straddling, tilting their trade-off balance towards pragmatism. Specifically, we expect that pure (compared to less pure) organizations will be particularly tempted to grasp the opportunities offered by pragmatism when: 1) they perform below aspiration, 2) the relevant market attaches less importance to ideological purity, and 3) pragmatism is becoming taken-for-granted. In these circumstances, the opportunity cost of holding on to ideological purity goes up which decreases the attractiveness of this strategy. We, therefore, predict that these three contextual factors will spur pure organizations to adjust their ideological strategy moderating (i.e., attenuating) the path-dependent baseline relationship explicated above.

In the present paper we focus on the human resource strategies firms use to develop human capital to support their ideological strategy and to deal with the purity-pragmatism trade-off. A high-quality workforce is essential for growth (Bidwell and Keller 2014, Bidwell et al. 2015, Wezel et al. 2006), and organizations characterized by specific ideologies frequently respond to competitive pressures by adjusting their talent acquisition and deployment strategies, even if doing so means deviating from their moral claims, and results in growing ideological pluralism in their organizations that might create enduring identity conflicts (Battilana and Dorado 2010, Pache and Santos 2013). For instance, to improve their competitive strength organizations often hire staff with experience in the oppositional logic, even though this might reduce an organization's legitimacy in the eyes of its core adherents and supporters, and could destabilize its internal environment by creating tensions between groups of employees. Although such decisions lie at the very heart of how organizations try to deal with the tensions resulting from competition in a world with oppositional logics it unfortunately received less attention in prior work (Battilana and Lee 2014).

We will perform an in-depth quantitative study on detailed data of the initial managers of new branches of Turkish Islamic banks. Specifically, we develop and test models about when and where (in which communities) Islamic banks hire managers from conventional banking in order to implement their geographical expansion strategy in Turkish communities in the period 2003-2016. The Turkish case is particularly interesting because there is a fierce competition for dominance between Western- and Islamic-inspired forms of modernization, and because there is substantial geographic heterogeneity across Turkey with respect to local religious preferences and the extent of polarization (Divarci et al. 2015). In such a context hiring branch managers from the “other side” is a double-edged sword: on the one hand it is regarded as an immoral practice by many traditional Muslims, while on the other it might increase the bank’s access to the managerial capabilities needed to support organizational growth. In light of the challenges and risks associated with such choices, the issue of strategic identity-related staffing choices is very salient.

We predict the likelihood that an Islamic bank will open up a new branch with a branch manager with a professional background in conventional banking. We argue that the more Islamic banks care about ideological purity, the less likely they will make controversial hiring choices as the risks associated with deviating from the moral code (risk of external devaluation and internal ideological conflicts) increase with purity. However, pure Islamic banks are expected to be very sensitive to three different classes of contextual contingencies that lower the perceived risk of controversial hiring, which incentivize them to seize the potential returns from transfers. First, following the Behavioral Theory of the Firm, we argue that ideologically pure banks are more likely to make controversial hiring choices when the bank’s performance is below its performance aspiration level, as flagging performance spurs risk-taking behavior. Second, we argue that pure banks will base their hiring choices in part on the ideological signature of the local community in which the new branches are being opened. They will refrain from implementing controversial transfers in communities in which conservative religious ideology dominates, and when polarization is high, as these factors reinforce the saliency of the ideological purity of banking logics in the demand market. Finally, ideologically pure banks are more likely to make such hires if local rivals have paved the way, as prior adoption spurs community members to accept and even adapt to historically controversial

practices. In contrast, Islamic banks that don't aspire to be an exemplar are less likely to be incentivized by these context conditions. Because less pure banks are less constrained by the moral codes associated with the category, the relative risk of such transfers is lower. This provides them with more degrees of freedom to select "optimal" candidates (with respect to human capital) to staff their branches irrespective of the context.

By building a theory about ideological organizations' staffing choices in heterogeneous markets, we advance the literature on strategic violations of identity following category straddling in ideological settings (Carroll and Swaminathan 2000, Dobrev et al. 2006, Hsu and Hannan 2005, Ingram et al. 2010, Negro et al. 2011, Phillips and Kim 2009, Rao et al. 2005, Roberts et al. 2010). We also contribute to the burgeoning hybridization literature, which has mainly focused on the difficulties of implementing and managing hybrid forms (Battilana and Dorado 2010, Battilana and Lee 2014, Jay 2013, Pache and Santos 2013). Following Wry et al. (2014), we argue in this paper that the strategic management of organizational identity deserves more attention, including the strategic trade-off between ideological purity on the one hand, and pragmatism and hybridization on the other. Organizational hybridity cannot be regarded as a given, but is the outcome of deliberate strategic choices to compete in a world of multiple logics. By allowing organizations to adopt elements of a rival ideology, adjusting their managerial staffing behavior can help organizations deal with competing institutional templates, and adapt their human capital to meet changing needs.

## **THEORY AND HYPOTHESES**

### **The Trade-Off between Ideological Purity and Hybridization**

By mixing elements from multiple institutional logics, organizations that hybridize cross the boundaries of different market categories (Glynn and Navis 2013, Wry et al. 2014). Research on categories in markets provides strong evidence that such category straddling reduces a producer's perceived fit with a category, and is strongly disapproved of by external audiences, lowering its appeal (Hannan 2010, Hsu et al. 2009, Rao et al. 2005, Zuckerman et al. 2002). Disapproval is particularly forceful when these categorical identities are oppositional and imbued with values and ideologies. Still, we observe a rapidly growing number of hybrid organizations (Battilana and Lee 2014) even in sectors in which the categories are oppositional and straddling is very controversial, such as traditional

Italian wineries that implement heavily contested modernist production methods (Negro et al. 2011), non-kosher Israeli wine producers that switch to kosher wine (Roberts et al. 2010), conventional banks that start to offer Islamic banking services (Boone and Ozcan 2015), and Islamic schools that borrow curricula elements from their cosmopolitan counterparts (Divarci et al. 2015).

Given this paradox, scholars have recently taken up the challenge of investigating why organizations hybridize in the first place, while stressing that in some circumstances, category spanning might be rewarding (Boone and Ozcan 2015, Vergne and Wry 2014, Wry et al. 2014). Wry et al. (2014), for instance, have argued that external audiences sometimes have a clear understanding about how categories ought to fit together, and that these audiences will positively evaluate efforts at organizational hybridization that match those expectations. These observations suggest that research is needed that examines “how forces for and against hybridization affect a firm’s decision to hybridize as well as the institutional- and firm-level factors that moderate such decisions” (Wry et al. 2014 1327).

The decision to hybridize often poses serious challenges for organizations seeking to build human capital in a way that allows them to adequately compete in a world of oppositional logics. Given that the workforce composition ideally reflects the skill, experiences, and values associated with institutional pluralism, hiring and socialization policies are very important early levers for building and maintaining hybridity (Battilana and Dorado 2010, Battilana and Lee 2014). The hiring of managers with experience in the oppositional logic is an important approach firms can use to borrow and emulate elements of alternative templates. By adopting this approach, organizations can transfer human capital from “the other side” that can be integrated into their existing knowledge, and can make them a stronger competitor. The blending of templates might also spur adaptation and innovation (Jay 2013), increase the pool of scarce managerial capital to select from, and facilitate organizational expansion and access to multiple ideological niches (Bidwell and Keller 2014, Wezel et al. 2006).

However, as is the case for most forms of category-straddling behavior, such transfers are extremely risky for two reasons. First, external audiences might regard them as violations of identity-related hiring codes, which could reduce an organization’s appeal (Baron 2004). Prior research has indeed shown that the “category imperative” (i.e., the straddling of oppositional categories leads to punishment) applies to labor markets, too. For instance, by hiring paid laborers the Israeli Kibbutzim



undermined their legitimacy, because this practice is incompatible with their underlying socialist-Zionist ideology (Simons and Ingram 1997). Similarly, Ashforth and Reingen (2014) found in their ethnographic study of a food cooperative that proposals to hire professional managers and expand the authority of managers generated impassioned and divisive clashes among key outsiders, with the opponents arguing that these proposals represented an assault on cooperative ideals. As such transfers can lead outside core constituencies to charge that the organization is abandoning its ideology, they are major sources of potential discontent (Hsu and Hannan 2005, Voss et al. 2006). Thus, in addition to reducing demand, these transfers can deprive the organization of institutional capital, thereby hampering the progress of an ideology's diffusion (Ingram et al. 2010).

Second, these transfers might also confuse, anger, and alienate internal constituencies, who are likely to view the recruitment of these managers as an attempt to subvert their organization's ideology by introducing incompatible mindsets, values, practices, and connections (Ashforth and Reingen 2014, Hsu and Hannan 2005, Pozner and Rao 2006). These managers will most likely hire employees who are culturally similar to themselves, and will promote those who share their mindset (Bidwell and Keller 2014). This might lead to the emergence of sub-groups who hold dissimilar values, and thus to disruptive conflicts and rivalries (Ashforth and Reingen 2014, Pache and Santos 2013). More broadly, when leaders' divergent beliefs cascade into the organization, the employees' levels of organizational identification and commitment are likely to decrease, serious communication and trust issues may surface, power struggles could become widespread, and the organization's performance may ultimately suffer (Battilana and Dorado 2010, Voss et al. 2006). Before developing specific hypotheses, we first briefly describe the Turkish Islamic banking context in order to illustrate the saliency of this trade-off in a setting with oppositional banking logics.

### **Empirical Context of Islamic Banking and Islamic Banks**

Islamic banking is a distinctive and rapidly growing form of banking. There are currently more than 200 Islamic banks located across the globe in more than 80 countries; together, these banks control close to \$2 trillion in banking assets (Ernst and Young 2016). While Islamic banking and conventional banking share many characteristics, there are fundamental differences in how these types of banking approach interest and debt financing. Islam prohibits the payment and the receipt of interest and all

forms of debt-based transactions; instead, it promotes profit-and-loss sharing and transactions involving asset exchange. Islamic banks do not invest in interest-bearing financial instruments, participate in the interbank lending market, or engage in short-selling or forward contracts. The deposits are invested in concrete projects backed by assets, and the profits are distributed to depositors. For deposit holders, the returns are neither guaranteed nor fixed in advance. When Islamic banks finance mortgages, automobile purchases, or other major purchases for individuals, they acquire ownership of the asset in question, and maintain their ownership until the last payment is made. The same principles apply to commercial clients. Islamic banks finance businesses by buying an asset on behalf of the client and then leasing the asset back to the client; or by selling the asset back to the client at a higher price, which the client pays in installments. The bank may also jointly invest with the client in a project or fully fund a project that the client is then responsible for managing, while the bank's return is based on a predetermined arrangement for sharing the project's profits or losses. In most countries, Islamic banks operate side-by-side with conventional banks. In Turkey, both types of banks offer a wide spectrum of identical retail and corporate banking services. Both types also offer similar and competitive products such as mortgages, auto loans, credit cards, and business loans; but based on different underlying principles.

The founding of Islamic banks in Turkey was the direct achievement of a small but politically powerful conservative social movement. This movement managed to secure the legalization of Islamic banking through a 1983 federal decree, and many of the movement's key members proceeded to found Islamic banks using templates borrowed from those of banks in the Gulf. The first two banks appeared in 1985, and the third was founded in 1989. However, Islamic banking in Turkey had only limited success until relatively recently. By November 2000, Islamic banks had established only 142 branches, and these branches were confined to a few large cities. But a severe banking crisis in 2001 resulted in changes in the staunchly secular political system. In the 2002 general elections, the conservative movement catapulted a newly established Islamist party into a majority position in the government. The economy quickly stabilized, and since the end of 2002 Turkey has had one of the highest growth rates in the OECD. Largely because of this economic growth, the Islamist party won in a landslide in 2002, and has remained in power ever since. The tremendous growth in the economy benefited the

financial sector in general, but the Islamic banks have been the real winners: whereas these banks had just 142 branches and 1.5% of total banking assets at the end of 2000, they now have 1,161 branches and 6% of total banking assets. In January 2003, Islamic banks employed around 3,700 people; by July 2016, this number had risen to 17,000.

### **The Trade-off in Managerial Transfers from Conventional Banks**

To gain more insights into the nature and the dimensions of the managerial transfer trade-off, we conducted semi-structured interviews with 11 Islamic banking executives. The interviews lasted between 30 minutes and two hours. To account for market heterogeneity, the respondents were drawn from six towns in five cities. The initial interviews were conducted with senior executives, and the subsequent interviewees were identified through snowball sampling.

Several strategic gains from the transfers of managers were mentioned. The respondents agreed that the practice was valuable in terms of filling key capability gaps and broadening the capability pool in Islamic banking. The VP (HR) of the largest Islamic bank summed up the benefits of such transfers as follows:

*“Conventional banks do not face the rigid systemic restrictions that we do. Conventional bankers offer a wider range of banking products to their clients, and are also more flexible in constructing financial deals. Back in 2002 [post-financial crisis], we realized that if we wanted to grow and stay competitive, we had to expand our offerings by launching Sharia-compliant versions of lucrative conventional banking products. Over time, however, we realized that especially in retail banking, we lacked experience and skills in positioning and selling these new products [such as mortgages]. We thus turned to hiring as a means to acquire these skills.”*

A branch manager concurred:

*“Their extensive knowledge about conventional banking products is a key asset. When they combine this knowledge with their knowledge about Islamic banking products, they have the unique advantage of offering customized financial solutions to our clients.”*

Several respondents also mentioned gaining access to new pools of customers as a critical benefit of such transfers. They observed that there is a large population of conventional banking customers in Turkey who would bank with any financial institution as long as they received cheaper services and better returns, and that these newly recruited managers help to make Islamic banks more appealing to these potential customers.

Another respondent even said that the sales and the customer acquisition skills of conventional bankers are typically better than those of Islamic bankers. He also pointed out that in addition to offering a wider product range and more room for creative approaches than Islamic banking, conventional banking had faced much more competition than Islamic banking did in its first two decades, which resulted in a great deal of complacency. The Islamic banks were generally small and primarily targeted conservative customers who were more interested in doing the morally right thing than in private returns. Meanwhile, conventional bankers had to fight for customers and compete on tight margins. When asked to describe their colleagues from conventional banking, our respondents used such terms as “performance-oriented,” “results-driven,” and “aggressively competitive.”

*“Even today, we lack their [competitive] culture. In conventional banks, they even have tremendous intra-bank rivalry. Conventional banks create rivalries among their own branches and regions, and rate their performances against each other. When these managers join us, they persist with this behavior.” (Branch Manager)*

While acknowledging these strategic contributions, several respondents pointed out that these recruitment practices also have important costs. They noted that managers hired from conventional banks could undermine the fragile and still emerging legitimacy of Islamic banking by misusing terms and mischaracterizing its principles.

*“In late 2002, we hired eight individuals directly from conventional banks into this branch. As a deputy branch manager back then, it took me literally forever to get them not to use the term ‘interest’ in their conversations with clients. A simple thing became a real struggle.” (Branch Manager)*

*“Their adaptation and acculturation periods are really long. They regularly refer to conventional banking and make derogatory statements such as, ‘This is not like what we used to do’ and ‘Is this really logical?’” (Branch Manager)*

*“They frequently use the term ‘interest’ in their conversations with even the most conservative customers. They fail to grasp the theological details of our banking products and services and they are not able to explain them to our clients. Because of these hires, there is a perception problem in the market about who we are and what our mission and vision are.” (Senior Branch Executive)*

Some respondents even characterized this loose adherence to strict Islamic banking norms as a fundamental flaw that could have long-lasting negative consequences.

*“Unfortunately, we have experienced several cases of branch managers [transfers] engaging in banned practices. Sometimes, they do so by conceptually redefining conventional banking practices in a manner that they think is compatible with Islamic banking guidelines; sort of ‘softening’ it if you will. Other times, there is an outright violation of our norms, such as the manipulation of credit limits for highly leveraged individuals.” (VP (HR))*

*“Their intentional dismissal and loose interpretations of Islamic banking principles harm us. For instance, unlike conventional banking, Islamic banking requires that the loan be extended to a client to acquire a real asset. We should thus know about the asset in question from the very first day of negotiations. Sadly, as soon as our colleagues who joined from conventional banking ‘figure out’ the system, most engage in transactions in which the borrower does not actually acquire any asset. Instead, under the guidance of our branch manager, the client produces fictitious purchase invoices.” (Branch Manager)*

More broadly, these insiders expressed doubts about these managers’ commitment to truly advancing an Islamic economic system, which underscores the tension between the oppositional banking logics.

*“Many of us who started at Islamic banks in the mid-1990s used to feel we were engaged in a form of Jihad, and would sacrifice anything for the cause. Now I go to these annual gatherings for branch managers and it is all about money, status, and individual achievement. I know that the younger generations are generally more materialistic, but transfers from conventional banks are just as responsible for this shift.” (Branch Manager)*

## **Hypotheses**

When insurgent organizations propose alternative templates that challenge the dominant oppositional logics, category-straddling behavior is a very risky choice. Ideological competition makes value differences salient and sharpens the boundaries between categories, which in turn increases the valence of conformity to ideological codes among the relevant audiences. These audiences will carefully scrutinize a firm’s behavior, and any deviation from the normative codes that define the very identity of the insurgent category will be regarded as illegitimate, and will thus result in large penalties (Kovacs and Hannan 2010, Negro et al. 2010, Rao et al. 2005, Roberts et al. 2010). In such a context, there is strong pressure for organizations to strategically develop identities that are perceived to be pure; i.e., true to the normative principles of the category.

However, given that category boundaries are not fixed and that the appeal of category straddling depends on the context and can change over time (Kennedy et al. 2010, Rao et al. 2005, Vergne and Wry 2014), organizations that belong to the same category are likely to deploy different strategies. Even when categories are oppositional, some organizations might aim at developing and preserving an ideologically “pure” identity, while others might strategically choose to be different by borrowing from the oppositional template in order to reap the potential opportunities of straddling (Roberts et al. 2010). An important baseline implication of the “category imperative” is that the risk of

straddling is much higher for organizations that have pursued a strategy of purity in the past than it is for organizations that have a history of experimenting with boundary crossing (Kovacs and Hannan 2010, Paoletta and Durand 2016). The more the identity of a specific organization is aligned with the moral principles that define a category, the more the relevant audiences will negatively react to any attempt to cross the boundary of an oppositional category (Ashforth and Reingen 2014, Foreman and Whetten 2002, Hannan 2010). External audiences will regard the boundary-crossing behavior of “pure” organizations as inconsistent, not credible, and even hypocritical; and this behavior may also be expected to have very large disruptive effects for internal audiences, such as employees. As a result, the attempt to change a pure identity is tantamount to a change of an organization’s “core,” which is, given its far-reaching consequences, the exception and not the rule (Hannan and Freeman 1984). Therefore, our baseline prediction is that the more an organization emphasizes a pure identity, the more the organization’s identity strategy will be strongly path-dependent, persistent, and difficult to change; and the less likely the organization will be to cross the boundary of an oppositional category. In the present context we predict that an Islamic bank is less likely to open up a branch with a bank manager hired from conventional banking when its staffing behavior is based on “purity,” as demonstrated by the relative absence of prior transfers among its branch managers.

*HYPOTHESIS 1. The purer the branch-manager-staffing strategy of an Islamic bank is, the lower the likelihood that the bank will hire a conventional banker to head a new branch.*

This baseline hypothesis stresses that Islamic banks that aspire to be a normative “exemplar” of the insurgent, oppositional category (in contrast to Islamic banks that compete with an identity that is less ideologically sharp) are the most constrained by the moral codes that define the category, and are therefore less likely to deviate from these codes by hiring managers from the other side. However, given the potential benefits of pragmatism, pure organizations will be particularly sensitive to contextual cues that reduce the perceived risk of borrowing, tilting their trade-off balance towards pragmatism. Specifically, we expect that pure (compared to less pure) organizations will be particularly tempted to seize the opportunities offered by pragmatism when: 1) they perform below aspiration, 2) the relevant market attaches less importance to ideological purity, and 3) pragmatism is

becoming taken-for-granted. Below we elaborate in more detail how these conditions moderate the baseline relationship of Hypothesis 1.<sup>2</sup>

### **Performance Feedback**

According to the behavioral theory of the firm (BTF; Cyert and March 1963, Greve 2003), incentives to adapt originate from the myopic learning of decision-makers who dynamically adjust their strategies based on the extent to which past performance is below or above their aspiration levels. As change is risky, organizational decision-makers prefer the status quo when past performance has been above their aspiration level. In this case, past strategies are “proven” to be effective and are thus reinforced, implying that there is no need for change. In contrast, when firms perform below their aspirations, the effectiveness of current strategies is called into question, which provides incentives for decision-makers to take risks and to deviate from the status quo (Audia and Greve 2006, Baum et al. 2005, Greve 2003, Kim et al. 2015). This theory of adaptation is also consistent with prospect theory (Kahneman and Tversky 1979), which predicts that people will be risk-averse if they frame outcomes as gains, but risk-seeking if they frame them as losses. The baseline prediction following from these theories is that positive performance feedback has a negative effect on risk-taking and organizational change (see Greve (2003) for a review).

An organization’s identity is subject to strong inertial pressures as it defines the very core of its existence (Foreman and Whetten 2002, Glynn and Navis 2013, Hannan and Freeman 1984). As a result, decisions to adjust this identity are not taken lightly, and given the associated risks, the “pure” organizations will only consider deviating from their sharp identity if there is a pressing incentive for change. We therefore expect that Islamic banks that aspire to be pure will not consider hiring transfers when their performance exceeds their aspiration level. In such a case, the top managers will receive feedback indicating that their strategy of seeking to be an exemplary Islamic bank is paying off, a message that is further reinforced through competition with banks that carry an oppositional logic. In contrast, performance below the aspiration level is a strong signal to executives that having a sharp identity might not be viable in the long run. This in turn increases the willingness of decision-makers

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<sup>2</sup> We acknowledge that these context variables might also have a main effect on the likelihood of transfers. However, given that the focus is on how context affects the risk-return trade-off for pure compared to less pure organizations we don’t specify main effect hypotheses for these moderators.

to consider strategic alternatives, including borrowing features of the oppositional template that might make them stronger competitors. Therefore, we expect

*HYPOTHESIS 2. The negative effect of a “pure” branch-manager-staffing strategy on the subsequent likelihood of hiring a conventional banker to head a new branch will be reinforced when performance feedback is positive, and attenuated when it is negative.*

### **Ideology of Local Markets**

Whether pure organizations decide to straddle oppositional categories will also depend on the ideological signature of the communities in which the organizations compete. This is because the ideology of the relevant external audiences affects the extent to which the “purity” of organizations is salient and valued. In the present setting, we focus on two important ideological characteristics of the communities in which the Islamic banks want to open up a new branch; i.e., the extent to which the relevant audience is religiously conservative (or traditional), and the extent to which it is polarized along the secular-traditional dimension.

In environments with many conservative customers, there will be little value in acquiring ideologically incompatible practices and processes through mobility. Individuals in these communities are strongly disinclined to accept practices and mental models they have been actively opposing, and to accept product and service innovations based on conventional banking. They not only see themselves as part of a reformist social movement that advocates a new ideological order; they often believe that they are responsible for articulating, embodying, and preserving the core values of the movement. Thus, accepting innovations would be seen as a betrayal of their moral crusades (Sine and Lee 2009, Weber et al. 2008).

Moreover, given that traditional audiences are strong believers in the moral vision and goals of the ideology, they are more likely to react in a hostile way to violations of their default expectations, and to show greater disdain for the appointment to leadership positions of individuals who are considered to belong to the ranks of the enemy and to compromise pure Islamic banking practices. These audiences will not just show passive resistance, but will proactively question why the organization has engaged in illegitimate behavior, and will stage disruptive actions to change the bank’s behavior. Their opposition will be especially fervent because of the frustration that arises from



unmet expectations. If their religious organization is violating the norms in the hotbed of its own ideology, then suspicions that there must be a frenzy of violations happening elsewhere will take hold (Jonsson et al. 2009).

In contrast, when the community is more liberal, the relevant audiences are more likely to embrace the attempts of Islamic banks to hybridize their template by hiring managers from conventional banking. Although religion is an important source of identity for liberal Muslims as well, they do not regard religious principles as universally true and immutable. Instead, they understand the importance of economic and social co-existence in a globalizing world, and the pressing need to borrow, appropriate, or seek inspiration from alternative ideologies; and, if necessary, to forge alliances that address the root causes of social and economic problems, influence policy, and lead to greater economic prosperity (Divarci et al. 2015). Thus, they might appreciate the fresh knowledge and perspectives former conventional bankers can provide, which increases the appeal of the bank's offerings to them. They will see these bankers as sources of innovation that are necessary to operate in a globalized and competitive world. Similarly, they will appreciate the network resources brought in by transfers from conventional banking, as these channels create access to new resources, insights, and the opportunity to build economic and socio-political partnerships with actors with whom they were previously unconnected.

Given that traditional audiences strongly value purity, Islamic banks will have a strong incentive to match the expectations of the local relevant audience by not hiring transfers when opening a branch in a conservative community. Because these audiences will regard deviations from the code as unacceptable especially when Islamic banks with a sharp identity make them, "pure" Islamic banks have a strong incentive not to engage in illegitimate transfers. In contrast, in liberal markets, the risk associated with pragmatism drops substantially particularly for pure banks, which incentivize them to reap the potential benefits of hiring conventional bank managers. We therefore expect that "pure" Islamic banks will be more susceptible to matching the expectations of traditional audiences than ideologically lenient banks.

HYPOTHESIS 3A. *The negative effect of a “pure” branch-manager-staffing strategy on the subsequent likelihood of hiring a conventional banker to head a new branch will be reinforced when the community is conservative, and attenuated when it is more liberal.*

We also expect that organizations with a sharp identity will be less likely to straddle oppositional categories when the ideologies associated with these categories become salient. This is often the case when communities are polarized, creating strong competition between oppositional ideologies (Boone and Ozcan 2014, Divarci et al. 2015). Polarization increases the saliency of individual identities, in-group solidarity, and between-group competition and conflict. Polarization is, therefore, a very potent mobilizing force, spurring actors to protect their ideological position (Esteban and Ray 1994, Olzak and West 1991). As polarization raises audiences’ awareness of ideological markers and identities, it will increase the value they attach to the distinguishing features and the moral superiority of their ideology (Olzak and West 1991).

For our setting this implies that when communities are polarized along the liberal-conservative dimension, conservatives will attach considerable value to the “purity” of their Islamic banks, as these banks are expected to represent and defend their ideology while competing with banks that carry the oppositional ideology. Relevant conservative audiences in a polarized setting will not accept Islamic banks that claim to be exemplars violating the moral principles of Islamic banking by, for instance, hiring from the “enemy.” Thus, for “pure” Islamic banks in polarized markets (compared to less pure banks), the relative benefits of such transfers will be particularly low, and the risks will be very high.

HYPOTHESIS 3B. *The negative effect of a “pure” branch-manager-staffing strategy on the subsequent likelihood of hiring a conventional banker to head a new branch will be reinforced when polarization in the community is high, and attenuated when it is low.*

### **Prior Diffusion and Taken-for-Grantedness in Local Market**

Boundaries between organizational forms and institutional logics are not fixed and start to erode – thereby facilitating category straddling -- when borrowing becomes more common in a social field. Then sheer prevalence of borrowing creates taken-for-granted understandings about what is appropriate and legitimate (Hannan 2010, Rao et al. 2005). The potential negative consequences of straddling decrease because “the greater the fraction of actors who borrow from a rival category and

the more repeated the code violations, the weaker are the defaults and the less severe are the ... sanctions against borrowing” (Rao et al. 2005: 973). Rao et al. (2005), for instance, showed how border crossing between classical and nouvelle cuisine led to the erosion of boundaries in French gastronomy. High status chefs set in motion subsequent hybridization and institutional change by borrowing elements from nouvelle cuisine, which spurred geographically proximate chefs to also cross borders. During this process, the penalties associated with borrowing, in the form of downgraded evaluations by critics, went down as the number of chefs who straddled increased.

In the present setting we expect that the likelihood that pure Islamic banks will cross boundaries by means of illegitimate transfers will also depend on the number of prior transfers that occurred in the focal community. The prior diffusion of transfers signals to pure Islamic banks that there is a growing acceptance and a taken-for-grantedness of these controversial practices, which reduces the perceived risks of such behavior (Fiss et al. 2012, Weber et al. 2009). We therefore expect that the relative cost of a transfer declines with local experience with the contested practice, which might spur “pure” Islamic banks to try to reap the potential benefits of hiring conventional bankers.

*HYPOTHESIS 4. The negative effect of a “pure” branch-manager-staffing strategy on the subsequent likelihood of hiring a conventional banker to head a new branch will be reinforced when prior diffusion of transfers in the community is low, and attenuated when it is high.*

## **METHODS AND DATA**

### **Data for Regression Analysis**

We test these predictions using two datasets. The first contains the complete career trajectories of all Islamic banking employees. This dataset was assembled from the records of the *Turkish Trade Registry Gazette*, which has been published daily since 1957. The *Gazette* covers all organizations in Turkey. By law, every time an organization is founded, the *Gazette* prints the date of its founding, its address, information about its governance and capitalization structures, and the names and ranks of its staff. The *Gazette* also prints information about dissolutions, news of changes in an organization’s name and address, personnel news (entries, exits, promotions, and family name changes), and board announcements. Organizations face hefty penalties if they misreport or do not report this information. During our study period, the organizations reported electronically. It usually takes about three to five

days for the announcement to be printed. Using the data in the *Gazette*, we can track information about a bank's openings (e.g., dates, addresses, and staff names and ranks), closings, and personnel movements (exits, entries, and promotions) at both the branch and the headquarter levels.

The second dataset, obtained from the industry associations for conventional and Islamic banks contains data on all of the branches ever opened in the country since 1889. For every bank branch we know the precise date of its opening (and closure date if it has been closed) and its full address. If there has been any change in the address, we can see that change reported in the *Gazette*.

From 2003 until August 2016, there were seven Islamic banks. These banks collectively opened 1,062 new branches in 209 towns. By August 2016, the largest Islamic bank had 373 branches. Branches do not differ in terms of retail product ranges. New retail products are rolled out simultaneously across all branches. We chose to focus on January 2003 as the initial date, as there had been little branching activity before that date among Islamic banks and the preceding two years had witnessed a severe banking crisis, which also overhauled the political system. Figure 1 shows the yearly number of new branch openings, as well as managerial transfers from conventional banks to new branches. It should be noted that such transfers occurred in the industry every year, even though a large-scale internal labor market developed in Islamic banking over time.

-- Insert Figure 1 about here --

Managerial transfers to *new* branches are particularly controversial because the managers are responsible for setting up a viable organization and establishing external legitimacy. In the process of founding a unit, these managers will make several choices about how the new organization will look, and the way branch managers frame the identity of their organizations will leave a long-lasting imprint on the communities they serve (Almandoz 2014, Burton and Beckman 2007).

Consistent with the banks' own definitions of their "markets," we use town as the spatial unit of analysis. Towns, which are administrative subdivisions of cities, have municipal governments headed by an elected mayor. Turkey has 957 towns.

### **Dependent Variable**

The dependent variable is a dummy, which takes the value of one if the branch manager came from conventional banking and had never worked in Islamic banking, and the value of zero if the manager

was appointed from an Islamic bank. We observe a total of 133 transfers, joining from 28 conventional banks. They accounted for roughly 13% of 1,062 new branch leadership appointments. All seven Islamic banks had engaged in the practice. Given that our dependent variable is dummy, we estimate the coefficients by means of random effects logit regression.

### **Focal Independent Variable and Moderators**

To measure the *staffing purity* of a bank we calculated the proportion of all active branch managers employed by the bank at time  $t$  who were hired from conventional banking. We then subtracted this ratio from one to capture purity. We lagged the variable by one quarter prior to the focal branch's opening date.

Prior research on performance feedback effects highlights that performance aspirations can arise from two types of comparisons. The first is a comparison with an organization's own performance history (Audia and Greve 2006, Baum et al. 2005). We measured *historical aspiration performance* following the standard formula in the literature on aspiration level adaptation (e.g., Audia and Greve 2006, Baum et al. 2005, Greve 2003, Kim et al. 2015). Studies of banks typically use return on asset (ROA) as a performance metric (e.g., Baum et al. 2005), and we also adopted this metric. Our interviews suggested that Islamic banks consider quarterly results as benchmarks for adaptive behavior, which is necessitated by the general level of market uncertainty that exists in an emerging market such as Turkey. For instance, the board abruptly fired one Islamic bank CEO in June 2015 as a result of unexpectedly poor performance in the quarter. We thus took quarterly ROA rather than annual ROA. To compute this measure, we first computed a bank's historical aspiration level

$$\text{Historical Aspiration } (A)_{it} = \alpha \text{ROA}_{it-1} + (1-\alpha)A_{it-1},$$

where  $i$  is the focal bank,  $t$  is the quarter, and  $\alpha$  is a weight given to performance, with high values updating the aspiration level quickly, implying an emphasis on recent performance. Based on the insights from senior respondents, we assumed that the aspiration levels were based on performance in the last four quarters, so we chose a four-quarter window. For the value of  $\alpha$  we choose 0.5 (equal weight), as we did not define very long periods for historical performance (such as a four-year window in Baum et al. 2005). We also experimented with  $\alpha = .75$ , and six- and eight-quarter windows, which did not affect the findings reported below.

For bank  $i$ , we then computed its *historical aspiration performance* as the performance (ROA) in a given quarter, minus its historical aspiration in that quarter. Prior research has shown that the propensity to undertake risky organizational change might differ in magnitude for performance above vs. below historical aspirations. To capture asymmetric dynamics, we used a spline function to compare the effects of performance below and above aspiration as follows (e.g., Audia and Greve 2006, Baum et al. 2005). *Historical aspiration performance* $\geq 0$  equals zero for all observations in which a bank's historical aspiration performance is less than or equal to zero, and equals historical aspiration performance otherwise. *Historical aspiration performance* $< 0$  equals zero for all observations in which a bank's historical aspiration performance is greater than or equal to zero, and equals historical aspiration performance otherwise. We lagged historical aspiration performance by one quarter in the estimations.

The second source of performance feedback is based on social comparison with the performance of a peer group (Baum et al. 2005, Greve 2003). Past research typically operationalizes social aspiration levels by taking the mean performance of similar others (Audia and Greve 2006, Greve 2003, Kim et al. 2015). In a previous study of strategic interactions in the context of Turkish banks, Koçak and Ozcan (2013) showed that Islamic banks were most sensitive to the strategic moves induced by conventional banks that specialized in retail banking. We thus defined Islamic banks' social comparison group as consisting of these banks. Following Koçak and Ozcan (2013), we identified twenty-five banks as belonging to this group and took their mean performance (ROA) in a given quarter as the social aspiration level for that quarter. *Social aspiration performance* was then computed as a focal bank's performance minus its social aspiration level in that quarter. We also lagged social aspiration performance by one quarter in the estimations.

We split the social aspiration performance variable into two categories. *Social aspiration performance* $\geq 0$  equals zero for all observations in which a bank's social aspiration performance is less than or equal to zero, and equals social aspiration performance otherwise. *Social aspiration performance* $< 0$  equals zero for all observations in which a bank's social aspiration performance is greater than or equal to zero, and equals social aspiration performance otherwise (Audia and Greve 2006, Baum et al. 2005, Kim et al. 2015).

We measured the strength of Islamist ideology (*conservativeness in town*) by the voting patterns in the town in which the new branches were opened. To compute this variable, we took the number of votes for conservative political parties with an Islamic message and divided it by the total number of votes in that town. During the study period, there were five political parties with Islamic messages. One of those parties, the Justice and Development Party, has governed the country singlehandedly since 2002. Other than these parties, there were 84 parties representing a wide range of ideologies but no more than 20 of these parties participated in any given election. In fact, during our study period, the Turkish political system was concentrated in the hands of three ideological groups. After the governing party with Islamic roots, the second-largest group was made up of the staunchly secular, anti-Islamist, leftist social democrats, while the third-largest group was comprised of equally pro-secular, pro-market, anti-Islamist nationalists.

We used both parliamentary (2002, 2007, 2011, 2015) and municipal elections (2004, 2009, 2014) to give us a dynamic view of ideological tendencies. Any change in ideological tendencies due to, for instance, migration or economic conditions, is captured by this measure. However, when we look at changes over time, it becomes clear that voting behavior has been quite consistent at the community level. For the years in which no elections were held, we took the average of the nearest two elections. The mean value for this variable in the sample was 0.48. In 45% of the observations, the strength of the Islamist ideology was less than the mean; and in 13% of the observations, the value for this variable was less than 0.30. These data indicate that Islamic banks frequently entered towns that were also liberal strongholds, and that we have a sufficient degree of dispersion in the data.

We used the polarization index originally proposed by Esteban and Ray (1994) to measure the liberal-religious polarization of the local community in Turkey (see also Divarci et al. 2015). This index is based on the Gini coefficient, and takes both the size of the political party bases and the ideological distance between the political parties into account. Divarci et al. relied upon expert political scientists in the country to classify all of the political parties entering elections on a secular-religious scale, ranging from one (extremely secular) to 10 (extremely religious), which then formed the basis for computing the ideological distance between them. Polarization is a function of

$$P = k \sum_{i=1}^N \sum_{j=1}^N \pi_i^{1+\alpha} \pi_j |y_i - y_j|$$

in which  $k$  is the scaling factor,  $\pi$  denotes the size of the groups,  $|y_i - y_j|$  gives the distance between groups  $i$  and  $j$ , and  $\alpha$  parameterizes the degree of polarization sensitivity that takes a value between zero and 1.6. Following Divarci et al. (2015), we measured the size of the groups by using the proportional number of votes that political parties received in each election at the town level. The distance between the polarized groups was measured by the aforementioned classification of political parties. We set  $k = 1$  ( $k$  is a multiplicative constant and does not have any qualitative effect on the results) and  $\alpha = 0.8$ . Hence, we followed most researchers by giving a balanced weight to the size of and the distance between the sub-groups. We ran robustness analyses with  $\alpha = 0.4$  and  $\alpha = 1.2$ , which produced a pattern of findings similar to those we report in this paper. When the index is low, the community members have strongly overlapping ideological beliefs.

We operationalized *prior local mobility* at  $t$  by computing the ratio of the number of transfers from conventional banking in the year before  $t$  that occurred in the focal town, and the average density of local Islamic branches in the town during that year. We lagged this value a quarter prior to the opening of the focal new branch.

### Control Variables

Internal labor market constraints are important determinants of recruitments from ideological rivals (Bidwell and Keller 2014, Wezel et al. 2006). To rule them out, we included the variable *distance to nearest own branch*, which captures managerial availability in the focal bank's local internal labor market. To compute it, we used the latitude and longitude of each branch's postal code to calculate the minimum distance to the focal branch relative to all of the other branches owned by the same bank. We lagged this variable by a quarter.

We included several community-level controls. We controlled for both *Islamic branch density* and *conventional branch density* in the town a quarter prior to the time of entry. These are proxies for the size of the local labor market and the extent of local competition. The *conventional branch exits* variable counts conventional branch exits from the town in the past 12 months. A larger value suggests a greater supply of conventional branch personnel, which raises the bargaining power of Islamic



banks. We took the logarithm of this variable and also lagged it by a quarter. We include the natural logarithm of *town population* to control for community size. We also controlled for whether the branch was located in an *industrial district* by a dummy. Branches in industrial districts generally have a much larger corporate client base than branches in more residential areas. Our interview respondents reported that corporate clients tend to be more pragmatic than purists, and care less about the identity of the manager as long as the bank's products address their needs effectively.

During our study period, two banks went public. Compared with their privately owned counterparts, publicly owned Islamic banks have to meet a broader set of shareholder and institutional expectations, and their actions are more closely followed. The dummy, *publicly owned*, captures the potential influence of public ownership (1 = yes). We controlled for *bank size* by the number of branches. We used the value corresponding to a quarter preceding the branch's opening date.

To control for the potential influence of the past experience of the newly appointed branch managers, we counted the number of bank branches the focal manager had managed prior to the appointment (*managerial experience*). *Local experience* is a dummy that controls for whether or not the appointed manager had worked in a bank in the city of the focal branch in the past (1 = yes). Having local experience implies embeddedness in local institutions and social networks. Finally, we include yearly and quarterly fixed effects; the latter to remove the potential influence of seasonality.

## FINDINGS

Table 1 displays descriptive statistics and correlation coefficients, which are all low to moderate. Table 2 includes the results of logit regressions.

-- Insert Tables 1 and 2 about here --

Model 1 is the baseline model without interaction terms. In Model 1, we find a strong negative effect of staffing purity, which confirms Hypothesis 1. Islamic banks that have in the past avoided managerial transfers from conventional banking do not change their behavior, whereas Islamic banks that have poached managerial talent from conventional banks persist with this behavior.

In Model 2, we include the interactions between staffing purity and the spline components of historical aspiration performance. This model reveals that pure banks are even less likely to hire a conventional banker when they perform above aspiration (significantly negative interaction effect of

Staffing purityXHistorical aspiration performance $\geq 0$ ). However, historical performance below aspiration among pure banks does not appear to generate any impetus for a template change through managerial transfers from conventional banks (insignificant estimate of Staffing purityXHistorical aspiration performance $< 0$ ). In Model 3, we replace the spline components of the historical aspiration performance in interaction terms with the spline components of the social aspiration performance. Neither interaction term is significant. In Model 4, we include all four interactions together. Estimates show that only the interaction between staffing purity and historical aspiration performance $\geq 0$  is significant. Hypothesis 2 is thus only partially confirmed.

In Model 5, we find as expected (Hypothesis 3A) a negative and a significant coefficient for Staffing purityXConservativeness. The likelihood that pure banks will recruit a conventional banker to head a new branch is substantially lower the greater the local community's affinity with Islamic political ideology. Model 6 shows a significant negative interaction effect of Staffing purityXPolarization, which suggests that pure banks are less likely to hire transfers in polarized communities, as expected (Hypothesis 3B). In Model 7, we included both community-level ideological interaction terms simultaneously. Both terms are now strongly significant with the expected negative sign, which provides support for Hypotheses 3A and 3B.

In Model 8, contrary to Hypothesis 4, we find no evidence that pure banks are more likely to hire conventional bankers the more the community has been exposed to these controversial practices in the past (the interaction of Staffing purityXPrior mobility is insignificant). Finally, Model 9, in which we included all of the interaction terms simultaneously, confirms all of our earlier findings.

To illustrate the net effect of staffing purity on the likelihood of observing a transfer we retrieved the average marginal effect of purity (i.e.,  $dy/dx$ ; evaluated at the mean of all variables) for different levels of the focal moderation variables using the “margins” STATA post-estimation command after Model 9. The analyses show that the average marginal effect of purity equals -6.41 at the mean of these moderation variables. These marginal effects of purity range between -4.41 when the variable Historical aspiration performance $\geq 0$  equals zero (i.e., performance below aspiration) and -12.35 when HAP $\geq 0$  equals Mean + 2SD. For Conservativeness the marginal effects range between -.56 (at Mean - 2SD) and -12.26 (at Mean + 2SD), and for Polarization between -.35 (at Mean - 2SD)

and -12.47 (at Mean + 2SD). These results, as expected, underscore the constraining force of purity, as its net effect is negative over the relevant range of the focal moderation variables. In addition, they reveal that pure banks are particularly less likely than less pure banks to hire conventional bank managers when their performance is above aspiration, and towns are conservative or polarized.

Looking across the models, other results are noteworthy. As expected, the distance to the nearest branch is significantly positive in all models. It seems to be easier for Islamic banks to staff new branches using their internal labor market if the branches are nearby. Less populous towns are more conducive for managerial transfers from conventional banks. Larger banks are less likely to engage in these transfers. Even though their large size makes them more attractive to conventional bankers, these banks are likely to have a more developed internal labor market, which reduces their need to recruit outsiders. Managers who transferred from conventional banks tend to have greater branch management experience, which suggests that Islamic banks view these transfers as a means of acquiring a broad set of competitive capabilities. We also find, albeit weakly, that publicly listed banks appear to make greater use of transfers than privately owned banks. We speculate that public ownership opens them up to a more moderate shareholder base, which in turn reduces the potential penalties for category straddling. In addition, these banks should feel greater external pressure to perform than their private counterparts, which may again induce a more pragmatist approach to category straddling.

### **Robustness**

We experimented with additional controls such as bank age, the focal branch's distance to HQ, the tenures of the Islamic or the conventional banking institutions in town, the CEO's tenure in Islamic banking and the quarterly headcount growth in conventional banking to proxy job prospects. Recall that our prior mobility variable was computed based on the recent mobility from conventional banking in town. We reconstructed the variable to capture the cumulative historical prior mobility from 1998 onward, which is the earliest year from which we can track managerial mobility. All of our findings appeared to be robust to these sensitivity analyses.

In the models presented below, social aspiration level performance feedback was based on a peer group of conventional banks ("retail banking specialists"). Prior research found that Islamic

banks showed greater sensitivity to the strategic actions of retail specialists than to those of generalist conventional banks or other fellow Islamic banks (Koçak and Ozcan, 2013). In interviews, Islamic bankers confirmed that they did not view other Islamic banks as cutthroat rivals and that they would rather focus on enlarging the pie by luring clients from conventional bankers. Still, we recomputed the social aspiration performance by replacing the conventional bank peer group by other Islamic banks. Results did not change. We found no significant moderating effect of social aspiration performance feedback.

## **DISCUSSION**

In the present study we investigated how organizations that compete for resources in a field of oppositional logics deal with the strategic dilemma of whether to maintain ideological purity or to hybridize. Given that hiring strategies are major precursors and levers of the organizational hybridization process (Battilana and Lee 2014), we zoomed in on identity-related managerial staffing choices during the geographic expansion wave of Islamic bank branches in Turkey in the period 2003-2016. This setting is particularly interesting for our purposes, as ongoing tensions between secular and traditional fractions in Turkish society make ideological competition between oppositional banking templates extremely salient. Our major findings can be summarized as follows.

The analyses reveal, as expected, the strong persistence of ideological purity in managerial staffing strategies among Islamic banks that have a history of staffing managerial positions with Islamic bankers: i.e., that these banks are less likely to hire conventional bank managers when opening up new branches. Apparently, Islamic banks that position themselves as ideological exemplars are more strongly constrained by the moral codes that define the category, which reduces the likelihood that they will subsequently deviate from these codes. The more an organization emphasizes its pure identity, the more category-straddling attempts will be penalized, and the less frequently they will occur, which is consistent with the category imperative view (Hannan 2010, Kovacs and Hannan 2010; Zuckerman et al. 2002). As expected, we also found that pure Islamic banks are even less likely to deviate from the moral codes when their profitability is above their level of aspiration. Strong performance signals to managers that being an exemplary Islamic bank pays off, which reinforces the bank's ideological strategy. We only observed this effect for historical but not for social performance

aspiration levels. Other research has also reported that managers make expansion decisions based on internal rather than external performance standards especially when they perceive themselves to be unique and heterogeneity among the firms in the reference group is high (Audia and Greve 2006, Kim et al. 2015). Given that Islamic banks want to present a unique alternative to conventional banking this might explain why they do not act upon performance differences with banks carrying oppositional ideologies. Contrary to expectations, we found that performance below the aspiration level does not incentivize pure banks to give up their sharp identity by deviating from the staffing code. Based on our interviews with bank managers, we speculate that hiring from “the other side” is still such a controversial practice for pure banks that poor bank performance *per se* does not provide sufficient incentive to tip the trade-off balance in favor of risky change.

Our results show that the strategic trade-off between purity and hybridization is strongly affected by the ideological signature of the demand market. Pure Islamic banks are much more likely to hire conventional bank managers when they enter markets with a more liberal ideology, and with low levels of polarization among secular and traditional fractions. In seeking to expand into such a market, pure Islamic banks are likely to benefit considerably from the transfer of skills from conventional banking. At the same time, the risk of doing so is low given that liberal markets will not regard such transfers as code violations. In addition, the low levels of polarization reduce the saliency of the ideologies behind the oppositional banking templates, which facilitates category straddling by pure banks. Indeed, analyses of marginal effects reveal that pure banks are almost as likely as their more hybrid competitors to hire conventional bank managers in these markets. In contrast, the likelihood of such “category stretching” behavior (Durand and Paoletta 2013) is much lower when pure banks enter traditional markets and markets that are polarized. Here, religious conservatives attach considerable value to purity, and are therefore likely to object to and penalize code violations. In sum, pure Islamic banks seem to match their staffing strategy to the norms and expectations of the demand markets they enter (see also Krause et al. 2015). The strategic benefits of straddling might outweigh the costs when the transfers are less likely to be regarded as illegitimate, and vice versa.

Surprisingly, we did not find evidence that pure banks are more likely to hire transfers when opening a branch in markets in which this controversial practice had already occurred frequently in the

past. It may be the case that in a setting in which oppositional ideologies strongly compete, these events are so controversial that they do not “sufficiently” increase taken-for-grantedness and acceptance. This assumption seems to be corroborated by the observation that the number of transfers relative to the total number of new branches remains relatively low (see Figure 1). In addition, although the main effect of prior mobility in a town on the likelihood of transfers is positive (as one would expect, e.g., Weber et al. 2009), it is not significant (see Model 1 in Table 2).

### **Contributions**

By studying how organizations strategically navigate in complex institutional environments, we contribute to the literature on categories and category straddling. Much empirical research has confirmed the “category imperative”: organizations that deviate from the category codes lose appeal, especially when the categories contrast sharply (Hsu et al. 2009, Kovacs and Hannan 2010, Vergne and Wry 2014). From this observation a pressing question that has received much less attention in the literature arises: If the value of conformity is so high, why then do we observe so many organizations that straddle different categories, and that borrow and integrate elements of different institutional logics? (Kennedy et al. 2010, Wry et al. 2014). To solve this paradox, dynamic research is needed that re-introduces the producer side into the equation by recognizing the strategic nature of organizational boundary-crossing behavior (Vergne and Wry 2014). Such an approach recognizes that categories are not just constraining; they also provide strategic incentives and opportunities for change. This is underscored by our finding that although pure Islamic banks are less likely to cross the boundaries of oppositional categories, they match their straddling behavior with the characteristics of the local context in which they operate. This finding makes clear that the value of conformity is not fixed, but depends on the context and on changes over time, which means that organizations are able to strategically navigate in their institutional environments (Kennedy et al. 2010).

Given that category straddling in general and personnel selection specifically are major sources of organizational hybridization, our paper also contributes to the growing literature on hybrid organizations (Almandoz 2014, Ashforth and Reingen 2014, Battilana and Dorado 2010, Pache and Santos 2013). As combining elements from alternative (often oppositional) logics triggers internal and external tensions, scholars have mainly studied the complexities associated with the management of

hybrids (Battilana and Lee 2014). However, the origins of hybridization are far less studied, and even less so in the context of managerial talent (Boone and Ozcan 2015). This is an omission, because an important way to borrow and emulate elements of alternative templates is the recruitment of managerial staff with experience in the oppositional logic.

Finally, this study also advances the literature on employee mobility, which has mostly ignored the socio-cognitive underpinnings of labor markets (Bidwell and Keller 2014, Wezel et al. 2006). Recent research has made important strides in remedying this omission, but the bulk of the attention has been devoted to status dynamics (see Bidwell et al. 2015). Labor market identities can also be derived from ideology (Baron 2004, Pontikes et al. 2010), which may subsequently shape both opportunities for and constraints on careers. However, ideology is virtually absent from mobility theories.

### **Limitations**

This research is not without limitations, two of which we discuss briefly. First, although we think that our research setting is highly suited for studying how organizations strategically manage their ideological templates, it remains to be seen to what extent our findings can be generalized to other settings. Our context has some key features that set important boundary conditions. Islamic banking is an emerging form of banking that, in order to successfully contest conventional banking, has had to build up its legitimacy by means of ideological mobilization (Carroll and Swaminathan 2000, Sine and Lee 2009, Weber et al. 2008). The value-laden nature of this contestation implies that the alternative banking logics are strongly oppositional, which might make category spanning particularly difficult. Future research could investigate the framework developed here in settings in which rival organizational forms are well established, and/or the categories to be straddled are less oppositional. We speculate, however, that organizations in other contexts would face the same trade-offs between purity and hybridity, even though their outcomes would likely differ. In these settings the risks associated with straddling are probably lower, which would tip the balance in favor of hybridity. Empirically, this implies that strategic purity may be less persistent over time, and possibly that the moderation effects may reveal that pure organizations -- given certain conditions, such as performance below aspiration -- are even more inclined to straddle categories than their less pure counterparts.

Second, the “category imperative” predicts that non-conformity to category codes reduces subsequent organizational performance. We used this prediction to build our baseline hypothesis about the likelihood of boundary-crossing behavior. In doing so, we implicitly assumed that organizations are able, at least to some extent, to anticipate the negative consequences of category straddling. Although we think this assumption is reasonable, it would be very interesting in future work to explicitly investigate the performance consequences of hiring conventional bank managers. This would reveal whether the trade-off discussed in the paper is also informative in predicting when and where boundary-crossing behavior increases or decreases organizational performance.



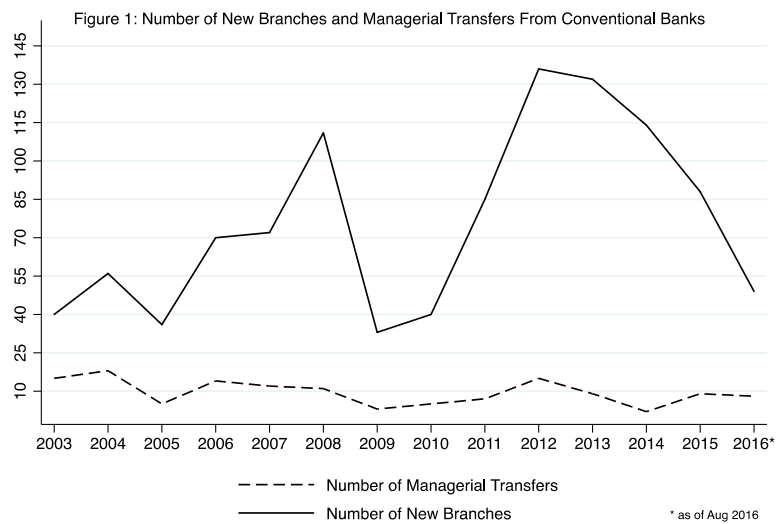
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<b>Table 1: Descriptive Statistics</b>												
	<b>M</b>	<b>SD</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>
1. Transfers	0.13	0.33	1.00									
2. Staffing Purity	0.82	0.13	-0.33	1.00								
3. Hist. Asp. Performance>0	0.24	0.36	0.00	-0.07	1.00							
4. Hist. Asp. Performance<0	-0.29	0.48	-0.06	0.11	0.40	1.00						
5. Soc. Asp. Performance>0	0.43	0.51	0.07	-0.20	0.36	0.15	1.00					
6. Soc. Asp. Performance<0	-0.08	0.32	-0.07	0.13	0.11	-0.03	0.22	1.00				
7. Conservativeness (Town)	0.48	0.15	-0.01	0.01	-0.00	-0.01	0.01	-0.02	1.00			
8. Polarization (Town)	0.86	0.27	0.01	0.04	-0.06	0.02	-0.06	0.04	-0.44	1.00		
9. Prior Mobility (Town)	0.06	0.12	0.06	-0.00	0.06	-0.03	0.04	-0.13	-0.02	0.04	1.00	
10. Distance to Near. Branch	18.43	34.33	0.20	-0.08	0.06	0.03	-0.02	-0.09	-0.02	-0.15	-0.04	1.00
11. Islamic Branch Density	6.00	6.56	-0.08	0.16	-0.12	0.06	-0.12	0.07	-0.09	0.20	-0.00	-0.22
12. Conv. Branch Density	65.81	77.02	-0.04	0.05	-0.03	0.02	-0.07	0.02	-0.40	0.24	0.08	-0.23
13. Conv. Branch Exits	0.52	0.69	0.07	-0.10	0.12	0.06	0.05	-0.18	-0.22	0.10	0.18	-0.13
14. Town Size	12.48	0.76	-0.07	0.07	-0.03	-0.02	-0.01	-0.01	0.01	0.19	0.07	-0.32
15. Industrial District	0.12	0.32	-0.04	0.03	0.02	-0.03	-0.04	0.04	0.12	-0.02	-0.01	-0.16
16. Publicly Listed Bank	0.33	0.47	0.07	-0.39	-0.01	-0.02	0.07	0.08	-0.02	0.06	-0.03	-0.06
17. Bank Size	151.03	86.38	-0.23	0.30	-0.25	-0.00	-0.16	0.21	-0.05	0.13	-0.13	-0.29
18. Branch Man. Experience	0.72	1.07	0.23	-0.05	0.06	-0.01	0.01	0.01	-0.06	0.05	0.06	0.08
19. Local Exposure	0.70	0.46	-0.00	0.02	-0.00	-0.04	0.02	0.03	-0.00	0.17	0.07	-0.28
			<b>11</b>	<b>12</b>	<b>13</b>	<b>14</b>	<b>15</b>	<b>16</b>	<b>17</b>	<b>18</b>	<b>19</b>	
11. Islamic Branch Density			1.00									
12. Conv. Branch Density			0.75	1.00								
13. Conv. Branch Exits			0.37	0.61	1.00							
14. Town Size			0.55	0.52	0.37	1.00						
15. Industrial District			0.07	0.07	0.07	0.11	1.00					
16. Publicly Listed Bank			-0.05	-0.03	-0.12	-0.09	0.02	1.00				
17. Bank Size			0.16	-0.01	-0.27	-0.05	-0.04	0.01	1.00			
18. Branch Man. Experience			0.06	0.10	0.10	0.08	0.03	-0.02	-0.15	1.00		
19. Local Exposure			0.30	0.25	0.18	0.40	0.10	-0.05	0.02	0.08	1.00	
Correlation coefficients below 0.02 and above 0.02 are significant at a 5% level.												

Table 2: Random Effects Logit Estimates of Managerial Transfers from Conventional Banking									
	1	2	3	4	5	6	7	8	9
Staffing Purity	-5.89*** (1.03)	-3.62*** (1.29)	-5.23*** (1.35)	-3.29** (1.56)	-0.47 (2.88)	-0.81 (2.74)	11.95** (5.01)	-5.28*** (1.09)	16.50*** (5.30)
St.PurityXH.A.Performance>0		-7.39** (3.02)		-7.76** (3.17)					-8.28*** (3.20)
St.PurityXH.A.Performance<0		2.48 (1.98)		2.66 (2.01)					2.52 (2.03)
St.PurityXS.A.Performance>0			-1.16 (1.62)	-0.06 (1.71)					-0.33 (1.76)
St.PurityXS.A.Performance<0			0.89 (3.07)	1.85 (3.12)					0.91 (3.08)
St.PurityXConservativeness					-11.42** (5.75)		-19.01*** (6.25)		-20.09*** (6.26)
St.PurityXPolarization						-5.99** (3.03)	-10.40*** (3.44)		-11.22*** (3.50)
St.PurityXPrior Mobility								-9.66 (6.66)	-8.79 (6.64)
Hist. Asp. Performance> 0	-0.21 (0.36)	5.10** (2.11)	-0.15 (0.38)	5.33** (2.20)	-0.19 (0.36)	-0.28 (0.36)	-0.30 (0.36)	-0.21 (0.36)	5.71** (2.24)
Hist. Asp. Performance< 0	-0.49 (0.38)	-2.17 (1.36)	-0.52 (0.38)	-2.27* (1.37)	-0.54 (0.39)	-0.48 (0.38)	-0.54 (0.39)	-0.48 (0.38)	-2.27 (1.40)
Soc. Asp. Performance> 0	-0.27 (0.26)	-0.37 (0.27)	0.50 (1.10)	-0.35 (1.15)	-0.27 (0.26)	-0.20 (0.27)	-0.16 (0.27)	-0.28 (0.26)	-0.07 (1.18)
Soc. Asp. Performance< 0	0.50 (0.34)	0.63* (0.36)	-0.12 (2.14)	-0.65 (2.17)	0.54 (0.35)	0.50 (0.34)	0.55 (0.34)	0.56 (0.35)	0.08 (2.17)
Conservativeness in Town	0.37 (1.02)	0.36 (1.02)	0.38 (1.02)	0.34 (1.02)	8.70** (4.32)	0.38 (1.01)	14.38*** (4.73)	0.28 (1.02)	15.23*** (4.78)
Polarization in Town	0.82* (0.46)	0.77 (0.47)	0.85* (0.46)	0.78* (0.47)	0.84* (0.47)	5.34** (2.34)	8.65*** (2.64)	0.80* (0.46)	9.28*** (2.72)
Prior Mobility in Town	0.85 (0.76)	0.89 (0.77)	0.86 (0.77)	0.86 (0.78)	0.79 (0.76)	0.84 (0.76)	0.73 (0.76)	7.98 (4.98)	7.20 (4.93)
Distance to Nearest Branch	0.01*** (0.00)	0.01*** (0.00)	0.01*** (0.00)	0.01*** (0.00)	0.01*** (0.00)	0.01*** (0.00)	0.01*** (0.00)	0.01*** (0.00)	0.01*** (0.00)
Islamic Branch Density	0.03 (0.04)	0.02 (0.04)	0.03 (0.04)	0.03 (0.04)	0.02 (0.04)	0.03 (0.04)	0.03 (0.04)	0.03 (0.04)	0.03 (0.04)
Conventional Branch Density	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)
Conventional Branch Exits	0.09 (0.26)	0.12 (0.26)	0.10 (0.26)	0.12 (0.26)	0.12 (0.26)	0.08 (0.26)	0.10 (0.26)	0.11 (0.26)	0.14 (0.27)
Town Size	-0.41** (0.20)	-0.41** (0.20)	-0.42** (0.20)	-0.41** (0.20)	-0.40** (0.20)	-0.44** (0.20)	-0.43** (0.20)	-0.43** (0.20)	-0.44** (0.20)
Industrial District	-0.22 (0.39)	-0.28 (0.39)	-0.23 (0.39)	-0.28 (0.39)	-0.22 (0.39)	-0.24 (0.39)	-0.24 (0.39)	-0.23 (0.39)	-0.34 (0.40)
Publicly Listed Bank	0.61* (0.33)	0.53 (0.33)	0.62* (0.33)	0.54 (0.33)	0.60* (0.33)	0.56* (0.33)	0.50 (0.34)	0.59* (0.33)	0.40 (0.34)
Bank Size	-0.01** (0.00)	-0.01** (0.00)	-0.01** (0.00)	-0.01** (0.00)	-0.01** (0.00)	-0.01** (0.00)	-0.01** (0.00)	-0.01** (0.00)	-0.01** (0.00)
Branch Manag. Experience	0.54*** (0.09)	0.56*** (0.10)	0.54*** (0.09)	0.55*** (0.10)	0.52*** (0.09)	0.54*** (0.09)	0.52*** (0.10)	0.54*** (0.09)	0.55*** (0.10)
Local Exposure	0.21 (0.26)	0.20 (0.27)	0.20 (0.26)	0.19 (0.27)	0.19 (0.26)	0.22 (0.26)	0.22 (0.27)	0.21 (0.26)	0.23 (0.27)
Constant	7.53*** (2.52)	6.08** (2.55)	7.01*** (2.61)	5.91** (2.61)	3.46 (3.24)	4.09 (3.07)	-5.31 (4.40)	7.43*** (2.53)	-8.26* (4.59)
Year/Quarter Dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,062	1,062	1,062	1,062	1,062	1,062	1,062	1,062	1,062
Log-Likelihood	-289.52	-285.70	-289.25	-285.51	-287.53	-287.56	-282.86	-288.37	-277.06

\* p<0.1 \*\* p<0.05 \*\*\* p<0.01; coefficient significance tests are two-tailed.