Research Journal of Finance and Accounting
ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online)
Vol.5, No.16, 2014 www.iiste.org

Banking and the Customer: A Neo-Institutional Reconfiguration

Olushola Ibikunle Fashola
Greenwich School of Management, Meridian House, Royal Hill, Greenwich, London SE10, 8RD
E-mail : olusholafashola@yahoo.com

Abstract
The article provides an alternative approach to previous dynamics of relationship amongst key actors in the banking industry. It sees the re-emergence of the global banking industry from the ruins of the last financial crisis as an opportunity for its reconfiguration. This reconfiguration was premised on a neo-institutional inquisition that finds accommodation for strategic choice, institutional theory and legitimacy; before placing these theories within the context of banking. This generated a conceptual outcome in a customer legitimacy model called legitimacy pyramid for the banking industry. This is a proposition for banking industry re-configuration to move beyond a dialogue of regulator cum banks and embrace a 'trialogue' that recognise the customers' voice and accords it primacy.
Keywords: banking, financial crisis, legitimacy, bank customer, neo-institutional theory

1. Introduction

The global economy is yet to fully recover from the aftermath of the seismic shock fostered upon it by activities traceable to prior functioning of the global banking system. Varied commentaries have been provided on the unfortunate episode termed the 'housing market bubble' or 'the 2007/2008 financial crises. Benediktsdottir et al (2011) gave account of how the entire Icelandic banking industry was brought to its knee in the wake of this crisis; Black (2010) drew on its manifestations in the US, Ireland and Iceland to warn on the systemic dangers inherent in mega-sized multi-national banks; and Butler (2009) focused on the lessons that can be learnt from regulatory failures associated with the crisis. An attempt at a fundamental re-definition of relationship amongst key actors in the banking institution remains scarce despite a blame game between banks (or bankers) and their regulator(s). Riaz (2009) attempted a diagnosis of what went wrong via an institutional theory framework and concluded that the banking institution and its actors represent contagion of legitimacy but fell short at proposing any radical transformation of the status quo. Branston et al (2012) argued via a strategic framework for a policy re-direction that will give greater recognition to the customer in the strategic functioning of banks. Current effort is premised on a neo-institutional stance that positions the customer as a legitimacy actor.

The paper aims to use a neo-institutional perspective to make the case for fundamental institutional reconfiguration that gives primacy to the customer in the ensuing post-crisis discussion amongst key actors in the banking institution. Amongst its other objectives are; (a.) relate strategic choice, institutional theory and legitimacy within a neo-institutional framework that revolved around banking (b.) appraise the various strands of legitimacy within the context of financial service practice (c.) position the customer as a legitimacy agent in any attempt at institutional reform of banking (d.) generate an institutional relationship model for the banking industry that gives primacy to the customer.

The rest of the article is structured into three sections. The first section links strategic choice, institutional theory and legitimacy to neo-institutional theory with inferences drawn from banking. This is followed by a focus on conceptual development and the final section is the conclusion.

2. Neo-institutional Theory: A Theoretical Triad Encompassing Strategic Choice, Institutional Theory and Legitimacy

According to Suchman (1995:576) "legitimacy and institutionalization are virtually synonymous". Suchman (1995:572) also argued that legitimacy seem to have ben balkanised into two distinct strands i.e. one with a strategic outlook and the other with an institutional outlook. The strategic outlook on legitimacy was hinged on a managerial focus with deployment of symbols to gain support from the society (Dowling & Pfeffer, 1975; Pfeffer & Salancik, 2003; Pfeffer, 1981; Ashforth & Gibbs, 1990; Bailey et al 2006; Branston et al 2012 are representative of works in this category). On the other hand, institutional outlook on legitimacy takes a rather detached view with emphasis on how the dynamics of structuration in the various sectors of an industry elicits cultural pressures that are beyond the purposive control of any of its constituent organizations (DiMaggio & Powell, 1983, 1991; Meyer & Scott, 1983; Zucker, 1987; Meyer & Rowan, 1991; Scott 2007, 2001 typifies this stance).

Consequently, neo-institutional theory with its focus on change finds accommodation for strategic choice, institutional theory and legitimacy. These theories are next explored within the purview of a banking institution that needs to re-negotiate legitimacy with the customer in particular and the rest of society in general.

2.1 Strategic Choice

Strategic Choice can be defined as the process whereby holders of power in organizations take decisions on the direction of strategic pursuits (Child 1972; 1997:45). Strategic choice involves top management deciding upon specific course of action to be taken by a firm in response to environment, competition or available resources as well as decision about structure, policies and procedures of the organisation (Child 1997). According to Wilson and McKiernan (2011:458), strategic choice emphasizes a theory of managerial autonomy through a choice of thought and action. It simply connotes that organizational features are chosen, to a degree, by top management. This theory places premium on autonomy and freedom which senior managers express through their choice of thought and action that boldly puts their imprint on the strategic direction of their organizations. Organisational dynamics is construed from the stance of political power and social interactions which are shaped significantly by those at the top.

Child (1997:48) clarified the term 'strategic' to mean issues that are vital to an organization as a whole, in particular those with a potential to impact on its ability to flourish in a competitive environment or where it is faced with the challenge of maintaining credibility. He stressed its close relevance to the notion of 'stratagem', which is an attempt to achieve an aim through interaction with, or against, others. Credibility for a bank is often achieved through interaction with the regulator or the customer. The run on Northern Rock (a UK bank) was damage to credibility inflicted by customers.

The strategic choice framework is based on an assumption that governance is the most critical (but not exclusive) issue in productive activities, focus being directed at strategic decision makers, the basis of their strategic choice and the effect of the choices they make (Bailey et al., 2006). The framework is reliant on imperfect competition, gives prominence to economic power, ignore determinism but favour voluntarism. It sees the main reason for production organisation as the generation and use of knowledge for making choices about strategic direction for business activity, and places undue reliance on an extreme governance mode upon which alternatives are benchmarked. This extreme mode of governance is governance by direction - a hierarchy based system for creation and use of knowledge wherein planning, choice and resource allocation is in line with the wishes of an exclusive core; irrespective of concurrence or dissension by others (Sacchetti and Sugden, 2010; Sacchetti, 2004).

This seemingly unfettered autonomy by top management and the over-concentration of organisational power implies that there is a potential for abuse or arbitrariness. The inherent agency dilemma in over-concentration of corporate power in ruling elites (i.e. top management) may run counter to society's perception of fairness. Consequently, strategic choice also advocates an alternative governance mode in which important decisions of firms (or institutions) shall evolve through democratic principles as critical for reconciliation with the public interest, with individual sector viewed in terms of manifest impact on the general economy (Branston et al 2012: 233). Corporate governance code for an institution or economy and individual firms' corporate governance policies are evidence of this view in business.

Executives are an important element in the promotion of institutionalism and conformity (Kraatz and Moore 2002:123). The focus of strategic choice on power holders in organizations (i.e. top management executives or leaders) may have provided an important bridge in linking strategic choice to institutional theory. An understanding of institutional change must place emphasis on values, interests, beliefs and actions of organizations' elites and not neglect the bigger social and economic forces that often influence change process (Kraatz and Moore 2002:122). Child (1997:53-54) agreed that the control which managers have on the environment of their organisations is restricted by the counterbalancing controls vested in institutions. He submitted that neither an individual nor organization constitute environment; environment is made up of other actors in different organizations or amongst the public. Thus, the environment cannot be restricted to the subjective interpretations of a particular group of organization players. Actors interact within the environment of institutions. This explains why contemporary conceptualization of strategic choice is based on an amalgam that takes into consideration; firm specific resource constraint, peculiar industry conditions, and institutional factors of a macro-nature (Peng, Wang and Jiang, 2008; Droege, Lane and Spiller 2009). This evidently maps strategic choice unto institutional theory.

2.2 Institutional Theory

Institutional theory maintains that organizations find social reward in legitimacy, resources, and survival provided they accept coercive, normative, and mimetic institutional pressures (Di Maggio and Powell, 1983). This leads to the generation of isomorphism through a reflection of contextual values, ceremonies, and symbols in structure, strategy, and practice within an organization (Scott, 2007; Zucker, 1987). Organizations are prone to yielding to coercive and normative pressures arising from their institutional context (for example banks adhering to capital base requirements or to a corporate governance code) as these are likely to confer social privileges from their stakeholders.

The traditional concern of institutional theory is hinged on the securing of legitimacy and standing by groups and organizations through conformation to rules and norms in their institutional environment (Scott, 2007). Zucker (1987) observed that normative pressures from within or outside an organization (e.g. government or other organizations) can influence or constrain managerial action. In as much as such pressures are validated by senior managers, then there is an alignment between the organization and its institutional environment. Institutional theorists generally find some comfort in the belief that the structural forms (together with prevalent values and identities) of relevant external institutions impose themselves unto entities dependent on them for the purpose of legitimacy, staffing or resourcing (Child 1997:45).

Institutions can also be a template for economic activities. Every economic order needs a minimum of institutional infrastructure for effective functioning. The importance of such institutional infrastructure have been repeatedly emphasised for business pursuits in emerging or developing economies (Khanna and Palepu 2006). Mahoney et al. (2009) were unequivocal in asserting that there are circumstances in which public institutional environments impact positively on value creation in the private sector. Banking industry consolidation or reform in response to institutional crisis represents typical example.

Institutional theory is fast emerging as an umbrella theory that finds accommodation for such theories as resource based view of the firm (see Oliver 1997) and resource dependence theory (see Proenca et al., 2000; Tsai and Child, 1997). Institutional theory in its traditional form has been accused of rather promoting inertia and resistance with little or no attention devoted to change and adaptation (DiMaggio and Powell, 1991; Bada et al., 2004; Kraatz and Moore 2002).This criticism may have emanated from a perception that institutional theory overlooked the role of the manager, thereby falsely assuming that organizations are passive entities whose course is shaped by institutional context (Bada et al., 2004). This is the crux of the difference between strategic choice and institutional theory.

Zucker (1983:4) affirmed that institutional environments are limiting for an organization and plays important deterministic role on such things as internal structure, organizational growth, fall and survival. Similarly, DiMaggio and Powell (1991) saw institutional environments as thriving on conformity and acceptance, the reality of which manifests in the turning of organizations into ‘iron cages’ and makes them prisoners of institutional isomorphism. Actors invested with the power to make rational decisions build around themselves an environment that makes it impossible for any materialisation of further change in years to come (DiMaggio and Powell, 1991).Thus institutional theory in its traditional form appears rather diametrically opposed to adaptation theories that see organizations as dynamic entities in an ever changing environment.

This traditional precept in institutional theory has however given way to a richer understanding through the analyses of adaptation processes done by DiMaggio and Powell (1991). This new understanding as observed by North (1995) affirms that institutional pressures are ever changing, with constant interaction amongst institutions and organizations; meaning that a process exists for adapting to emerging institutional demands and affirms that institutional change is a product of the actions and dynamics emanating from organizations. Naughton (2008) observed that shifting ideological values increase institutional capacity for receptiveness to conflicting views on the social circumstance of an organisation. The ‘iron cage’ perception is being unshackled with a dynamic view taking root.

The new institutional theory has offered meaningful insights with a bearing on change and adaptation through institutionalism processes (Johnson et al., 2000) such as legitimacy, isomorphism and mimetic process. DiMaggio and Powell (1991) categorized isomorphism into three distinct classes. The first termed “coercive’’ isomorphism emanates from resource dependence and legitimacy needs. The second type is called “mimetic’’ (resonate with the words ‘mimicry’ or ‘mimicking’) isomorphism i.e. social actors’ (be it nations, individuals or organizations) tendency to imitate others that are perceived as successful or in this context-legitimate. “Normative” isomorphism was recognized as the third form of isomorphism. It is defined as: “collective values that bring about conformity of thought and deed within institutional environments’’.

These well-known pillars have been built upon in explaining dynamism of institutions. For instance, the quick acceptance or institutionalization for a cognitive idea like ‘shareholder value’ can lead to the possibility of mobilizing actors in favour of political change to existing institutions via legal reforms favouring shareholders (Gourevitch and Shinn 2005). This dynamism emanates as a consequence from interactions amongst institutional pillars over time e.g. cognitive ‘frames’ providing legitimacy for new strategies for political reform, or coercive rules generating new interaction amongst professional groups with potential for social norms to be reshaped (Campbell 2005). The significant attention paid to isomorphism has led to scholars being accused of giving an ‘over socialized’ account on institutions. This explains increased interest in a deepening of comparative - through systematic ways for institutional change analysis (Streeck and Thelen 2005; Crouch 2005; Campbell 2004).

Neo-institutionalism may not necessarily be a model change theory, it has offered a rational basis for the explanation of not just the similitude of isomorphism and organizational stability, but afforded an understanding of heterogeneity, organizational behaviour and competitive positioning in response to the dynamism and turbulence of environments (Park and Krishnan, 2003). However, the misuse or mis-application of institutional theory has not gone unnoticed. Suddaby (2010) criticised the application of institutional theory beyond its original intent of offering explanation on work, language, categories, and aesthetics.

Institutions are never cast in stone despite common reference to institutional pillars. Institutional Pillars are not immovable. Droege and Brown-Johnson (2007) espoused the concept of meso-institutions, purporting that institutions can take on different identities when prevailing ideologies become susceptible to cracks. Actions thus become the rules of the game rather than the rules of the game dictating actions. Sydow et al. (2009) broke organizational path dependence into the process of pre-formation, formation and lock-in phases. A combination of path dependence (Sydow et al 2009), meso-institution (Droege and Brown-Johnson 2007) and deinstitutionalization (Oliver 1992) make for abundant clarity that institutionalization is not only a route to stability but also has potential for dynamism.

Formal (e.g. regulations and laws) and informal (e.g. conventions, norms and beliefs) features are pervasive in institutions and they act in concert to explain social conduct. Institutional theory viewed from a sociological stance maintains that competition for resource is not the only goal of organizational actors and organizations as they ultimately seek social acceptance and legitimacy. Macro-institutions exert significant influence in the shaping of interactions at lower socio-activity level and in terms of organizational behaviour. Understanding institutional environment is important for understanding the dynamics of social systems as the interplay of forces within institutional environment act as either guide or constraint on the legitimacy seeking actions of organisations and organisational actors (Aguilera & Jackson, 2003).This "dualism" places a demand for stability and engagement with institutional forces for structure on organisations; so that they are appropriately positioned to embrace change and generate positive enactment with their environments (Farjoun, 2010).

Scott (2007) reasoned that institutional theory relies on three analytical levels which may be viewed as hierarchical. At the top of this hierarchy are societal (as well as global) institutions with models and menus being formally initiated but informally enacted. This exemplifies the institutional context: what is deemed possible, acceptable, and legitimate, thereby shaping, constraining and facilitating not just structures but actions at lower levels. Idemudia (2007) observed that societal values vary from culture to culture implying additional constraint for firms (especially multinational ones). Thus, legitimacy posturing will have to incorporate prevailing morals and social responsibility of local society even when organisational values are at variance with social expectations (Palazzo and Scherer 2006; Kennedy and Fiss, 2009).

The second level is reflected in the governance structures, first within the organizational fields (i.e. industry) and then that of the organizations themselves (i.e. firm). Organization field meaning a collective of organizations functioning in the same domain (as evidenced by service similarity e.g. banking industry), and including those other organizations with critical influence on their performance (e.g. suppliers, partners, lenders etc.). The difference that exists among organizations in terms of structure, culture, size, function and change capacity makes analysis at the organisational level important. Organizations impact and are also constantly impacted (through the aforementioned organizational features); by the bigger institutional environment and their organizational field.

The third and final level of analysis finds expression as actors in institutional settings, which can be individuals or groups. The failure of institutions to meet the expectation of actors can raise legitimacy questions. Legitimacy doubts about an institution is a precursor to institutional 'irrelevance', 'death', 'destruction', 'breakdown', 'failure' or 'crisis'. The re-building process may be costly for both an institution and its actors. Such rebuilding exercise involves three stages fractured ideology, retrospective legitimation, and actions-as-rules (Droege and Brown-Johnson 2007). A banking industry ideology that sees change emanating mainly from engagement between regulator and banks has been damaged by the last financial crisis and a new kind of engagement or legitimacy basis is deemed necessary.

2.3 Legitimacy

Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions (Suchman 1995: 574). A legitimate organization is one whose actions are perceived by the broader society as being desirable or appropriate (Santana 2012:257). Mitchell et al. (1997:867) argued that ''legitimacy is a social good, [that] it is something larger and more shared than a mere self-perception, and [that] it may be defined and negotiated differently at various levels of social organization''. Legitimacy has evolved as a focal point for an expansive theoretical construct with an interest in how organizational actors are constructed, constrained and empowered by the interactions of cognitive and normative forces. Acceptability demand from society imposes the need for organisational legitimacy to give cognizance to stakeholder legitimacy (Santana 2012; Neville et al. 2011; Parent and Deephouse 2007). This link between legitimacy and perception by society is plagued by a crucial challenge – measurement is often difficult (Santana 2012; Parent and Deephouse 2007; Eesley and Lenox 2006).

Though, Droege, Lane and Spiller (2011) agreed with Suchman (1995) on the synonymous association between legitimacy and institutionalization; however, they argued that such generalization failed to take account of fine-grained nuances evident in the different types of legitimacy. Suchman (1995) categorized legitimacy as being either pragmatic, cognitive or moral, stating that conferment is external to organizations. Prominent amongst these sources of legitimacy external to organizations are the customers and the general public. This rings particularly true in the case of the banking industry. However, both organisation insiders and outsiders can confer legitimacy even though organisations' posturing for legitimacy seem to be directed more at outsiders. Employees are an important insider within organizations with respect to legitimacy. Loss of confidence by employees in their organisation may put a restraint on loyalty and commitment which ultimately results in a withdrawal of legitimacy (Maclean and Benham 2010; Maguire and Phillip 2008).

The precept of legitimacy evolves from a collective compilation in which personal meanings are constructed and negotiated via sensemaking and sensegiving processes (Weick et al. 2005). Consequently, the different interpretations of legitimacy within a paradigmatic framework of "banking'' (as an institution) and the "customer'' (as a key stakeholder) is subsequently explored with a view to codifying a legitimacy model within this context.

Pragmatic legitimacy is first considered. Droege, Lane and Spiller (2011:102) defined pragmatic legitimacy as a calculative, self-interest and focused form of organizational legitimacy involving the gains accruable to actors in relationships that bothers on either exchange or exercise of influence. Pragmatic legitimacy shares common ground with power dependence (Pfeffer and Salancik 2003). Pragmatic legitimacy is attained through fairness in exchange relationship; with superior power holder in a relationship perceived as not using his position to exploit the weaker partner. Adherents of the view that big banks formed from merger represent threat to competition (e.g. Carow et al 2006; Bonaccorsi di Patti and Gobbi 2007; Craig and Hardee 2007; De Graeve, De Jonghe and Vander Vennet 2007) or effective regulation (e.g. Benediktsdottir et al. 2011; Black 2010; Butler 2009; Pisani-Ferry and Sapir 2010) will find justification for their stance in this form of legitimacy. Big banks resulting from merger have gained monopolistic or oligopolistic power that allows them to extract higher rent from the customer. From a regulatory perspective, such banking giants may become bigger than their domicile national economies, which re-defines power construct between such banks and their supervising national authority (Vives 2011). Intervention is necessary to ensure that customers who 'buy' financial services or products are fairly treated due to the inherent oligopolistic tendencies in banking (Mullineux 2011:445). Consumer protection agencies, financial service ombudsman and anti-trust agencies derive their authorities from pragmatic legitimacy.

Cognitive legitimacy is another type of legitimacy. It arises from the acceptance by society that an organisation serves a purpose, or fulfils an essential role evidenced by social benefits (Suchman 1995; Droege, Lane and Spiller 2011). Cognitive legitimacy is evident in organisations in the form of certifications, professional associations and formalized operations (Droege, Lane and Spiller 2011:102). Though rating agencies have come under severe criticism for their role in the 2008 global financial crisis (see Benediktsdottir et al. 2011 and Oghojafor and Adebisi 2012 for their infamous role in respect of how this crisis engulfed Icelandic and Nigerian banks respectively); they represent part of the cognitive legitimacy apparatus in the banking industry. Shepherd and Zacharakis (2003) viewed cognitive legitimacy has been attained when the broader social community accepts such proxies as proof of an organization's legitimacy or when the community becomes familiar with her top executives or products.

Cognitive legitimacy for banks is essentially premised on the important role ascribed to them in economic functioning. Their intermediation role in resource re-allocation is seen as pivotal to society's progress (Branston et al 2012:233; Oghojafor and Adebisi 2012:148; Laeven 2011:4.2). This legitimacy is under serious threat when banks become perceived by society as having stopped behaving as banks (Llewellyn 2010:8). This is a reality confronting bankers and customers in the aftermath of recent global financial crisis. Legitimacy for banks and the institution it represents has become severely eroded. Indeed, banking typify groups of institutions and organizations forming "contagions of legitimacy" whose survival or failure as an institution or organization in such circumstance is intricately linked (Greenwood and Suddaby 2006; Riaz 2009).

Moral legitimacy is the third type of legitimacy. Moral legitimacy is bestowed through conformity of an organisation to what society prescribes as right or wrong. Moral legitimacy as against pragmatic legitimacy is premised not just on whether the society benefits but stems from an evaluation of an activity as being the right thing to do (Suchman 1995:579) . Also moral legitimacy contrasts with cognitive legitimacy because it seeks to examine organisational credibility with respect to the society's definition of what is right while cognitive legitimacy accepts an organization's conformity to what is right in the eye of society without making any effort to assess the validity of this faith (Droege, Lane, and Spiller 2011:104). For instance, is it morally justified for governments and banking industry regulators to continue to facilitate or promote M&A and create bigger banks whose performance antecedents does not seem to stack up in an efficiency scrutiny (Galbraith 2010; Johnson 2010; Prasch 2012). Palazzo and Scherer (2006) contended that there is a move from pragmatic legitimacy towards moral legitimacy, indicating that, society has moved from mere stable expectations of the firm to an active engagement by firms for a justification of their actions. This finds expression in corporate social responsibility which is premised on the stakeholder theory.

Consequential, procedural, structural, and personal legitimacy are all types of moral legitimacy arising from the level at which assessment is being made. Consequential legitimacy is conferred by society on an organisation based on what society perceives as its accomplishment. Two important issues often complicate the understanding of consequential legitimacy – (a.) What does society define as valuable output? (b.) How to deal with outputs that are by their very nature immeasurable e.g. welfare services. Moral judgement and social values therefore takes pre-eminence in the definition of consequential legitimacy (Droege, Lane, and Spiller 2011). For instance, overall bank industry lending may increase, but society may be more concerned about lending to small and medium businesses or priority sectors of the economy such as agriculture or manufacturing.

Kennedy and Fiss, (2009) argued that since moral legitimacy stems from society, organisations or institutions will have to defer to society's definition even when society's moral belief differs from that of the organisation or institution. This may raise an ethical dilemma for banks with a global presence, since what is moral differs from one society to another. The moral dilemma faced by bankers is also evident in the intermediary role assigned to banks in an economy. This places their employees amongst a class of business practitioners that are described as 'agents'. Thus, the payment of bonuses to bankers may be perceived by society as being in line with the parasitic nature of the phenomenon termed 'agentism'. Hutton (2012:2) described "agentism" as 'agentist' capitalism"…a vast web of 'cream-skimming' services associated with brokerage and agency – everything from investment banking to head-hunters, estate agents and football agents – taking a cut on some transaction or deal but adding precious little value despite sky-high personal rewards…(cited in Ndhlovu 2012:105).

The dim view of investment banking currently held by society emanates from a loss of consequential legitimacy and finds expression in current global disdain for universal banking. Geyfman and Yeager (2009:1667) associated universal banks with higher total and unsystematic risk compared to traditional banks. What Mullineux (2011: 444) described as structural solutions, similar to a Glass-Steagall style regulation, separating investment or casino banking from retail banking based on deposit taking has now gained broad appeal. Butler (2009: 68) advocated the separation of investment banking and commercial banking amongst ways of ensuring that banks do not become so big that they constitute systemic risk. Similar risk argument was used by the Nigerian regulator for stopping universal banking (Agbonkpolor 2010). This growing dislike for investment banking is not without dissent. For instance, Leach (2008) argued that investment banks are not the problem but a lack of effective supervision of investment banks.

Closely related to consequential legitimacy is procedural legitimacy which is gained through the use of procedures that are socially acceptable and contrary to consequential legitimacy, it takes into cognizance how (i.e. procedures through which) outcomes are achieved (Droege, Lane, and Spiller 2011). The era of financial liberalization in the Nigerian banking industry's historical development offers insight into the distinction between consequential and procedural legitimacy. Though financial liberalization adopted following the structural adjustment programme embarked upon by the Nigerian government in 1986 resulted in significant contribution from the financial service sector to the GDP, in fact contributing more to GDP than manufacturing by 1990 (Lewis and Stein 1997). The reality of this achievement is that the financial sector was practically involved in financial disintermediation as majority of banks were courting political favours to access official foreign currency auctions and make quick gains through the pervasive practice of arbitrage (Beck et al., 2005; Hesse, 2007; Okonjo-Iweala and Osafo-Kwaako 2007). Thus, Nigerian banks may have attained consequential legitimacy following the Structural Adjustment Programme but with hindsight this industry may have failed woefully at securing procedural legitimacy.

Sometimes legitimacy emanate from conformity to organizational structures that are socially acceptable with no consideration as to whether outputs of these structures have any value for society, such legitimacy is termed structural legitimacy (Droege, Lane, and Spiller 2011:105). For example, meeting a prescribed minimum capital requirement by a bank does not necessarily mean that such bank shall subsequently be run efficiently. Just as mere compliance with a specified board composition does not necessarily mean that the board's actual functioning will definitely reflect good corporate governance. The compliance of US financial institutions with the Sarbanes-Oxley act enacted in the wake of the Enrol scandal did not deter them from engaging in similar financial shenanigans that left the world economy in comatose over the housing market bubble. Similarly, compliance with a financial reporting standard (such as the IFRS) by a nation or an industry does not necessarily guarantee sound economy (Ritsumeikan 2011; Judge, Li, and Pinsker, 2010). Motivations for IFRS adoption by developing nations find better rationalization through social pressures of legitimacy than economic rationale (Ritsumeikan 2011: 70). This exemplifies the meaning of structural legitimacy. Which provides explanation for countries like Kazakhstan, Malawi, or Peru being quick adopters of IFRS while countries with great traditions in accounting such as the USA, Canada and Australia have slowed in adoption or convergence to IFRS (Ritsumeikan 2011: 63).

The last type of moral legitimacy is personal legitimacy. Personal legitimacy is the least stable of the different types of moral legitimacy due to its being closely associated with individual traits and less of organizational attributes (Droege, Lane, and Spiller 2011:105). It is dependent on personal charisma which society judges as bringing value to it through actions and accomplishments. The transient character of personal charisma notwithstanding, it is still a route to legitimacy. The reality though is that such legitimacy is short-lived. "Whether valid or not, the perception that charismatic individuals can transcend and reorder established routines often allows organizations to dodge potentially stigmatizing events" (Suchman, 1995: 581). Loss of personal legitimacy is very common in banking. Fred Goodwin's role that led to the current state of affairs at Royal Bank of Scotland (Ashton 2013) and Bob Diamond's implication in the LIBOR rate fixing scandal at Barclays Bank (Sutherland et al 2013:2) are recent cases in the UK banking sector. Within the Nigerian context, the case of Mrs Cecilia Ibru erstwhile MD of Oceanic Bank provides ready reference (Makinde 2013:109; Agbonkpolor 2010). The loss of institutional legitimacy can quickly lead to a crumbling of personal legitimacy and vice versa. Indeed, organisations and their actors can become contagions of legitimacy (Greenwood and Suddaby 2006; Riaz 2009) to one another.

3. Conceptual Development: Customer Legitimacy Model

The discussions on strategic choice, institutional theory and legitimacy have clarified meanings and drawn inferences from the financial world. The understanding that; "organizations and organizational actors not only seek to compete for resources, but they ultimately seek legitimacy and social acceptance" (Judge, et al 2010: 162) provides anchor for positioning the bank customer as a legitimizing agent for an institution that is seeking re-engagement with her publics. Strategic choice theory that ascribed importance to the role played by organisational elites enables scrutiny to be placed on how this elite class in bank business run their banks; with Institutional theory shifting focus to the collective functioning of the banking industry – an agenda that is often the mandate of the regulator.

A customer-centric disposition to the dynamics of relationship between the banks (or bankers), the regulator and the customer is proposed as a better premise for the emerging post-crisis discussion in banking. To this end, the article conceptualizes an industry legitimacy pyramid that gives primacy to the customer and seeks to ensure that the ensuing discuss transcends dialogue and embrace a 'trialogue' that gives primacy to the customer.

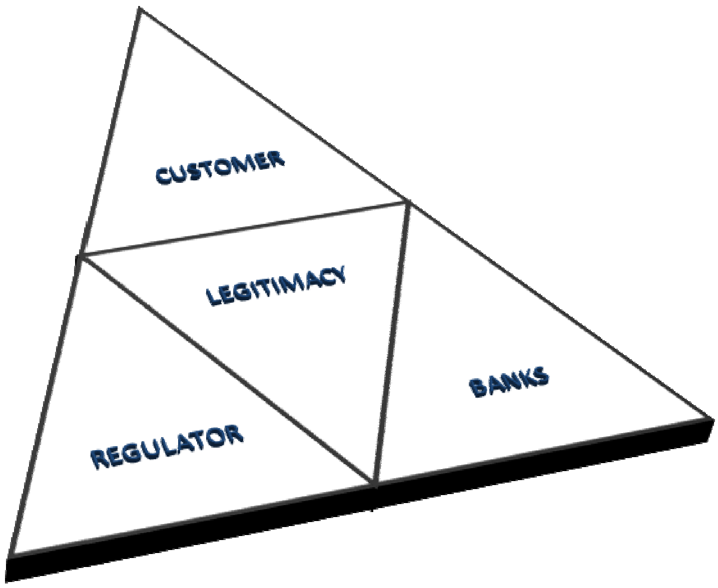

Figure1: Legitimacy pyramid for the Banking Industry.

Figure 1 above is a proposition for a triadic inter-relationship in banking where the regulator and the banks appreciate that the basis of their existence is underpinned by a need for the institution to function for the customer. Policy or strategy of the regulator and the banks must be guided by the key question - what is in this for the customer?

4. Conclusion

The architecture of banking as evident in the last crisis was premised on over-reliance on regulation. Primacy resided in the hands of the regulator with respect to legitimacy. Branston et al (2006: 203) described regulation as 'an arms-length response to failures in arms-length relationships'. King (2012:12) former Bank of England governor admitted the limitation of regulation in banking when he submitted that Basel III on its own cannot guarantee that another crisis will not happen. This suggests that legitimacy premised on regulator seem misplaced.

The position of law that shareholders are the owners of business is also problematic for the banking public. It is depositors fund and not shareholders fund that keeps most banks in business. The question then is who really owns a bank – the depositor or the shareholder? Asher et al (2005) had ignited similar debate in their property rights view on stakeholder theory premised on other stakeholders apart from shareholders staking ownership claim on other assets of a firm (e.g. reputation or expertise).

Segrestin and Hatchuel (2011) held the current position of corporate law on shareholder supremacy responsible for the 2008 financial crisis. They argued that the accountability imposed by agency position of law which hold managers accountable in the main to shareholders has promoted short termism. Decisions may be made by managers; they are solely made to maximize value for shareholders. Since it is the only insurance managers have to protect themselves against job loss and ensure better remuneration. Managers operate in an 'iron cage' imposed by a corporate law that promote value maximization for shareholders, which may not necessarily be in the best interest of other stakeholders (e.g. customers) or the long term interest of the corporation. Ashton (2013) came to the conclusion that the law as it currently stands need a review after finding no basis in law upon which an action against Fred Goodwin for his role in the Royal Bank of Scotland debacle will succeed even if brought by shareholders whom the law accords supremacy amongst other stakeholders.

This also raises query as to whether it is right for bank customers to be precluded from either the regulatory or governance structure of banks. Branston et al (2012:254-255) submitted that the elitist nature of strategic process of decision-making in the financial industry represent a barrier to strategic pursuit that is in the interest of the wider society, choice of strategy is cleverly tailored to the interest of the elite minority that control these entities. They made a case for an alternative model that will ensure democratization and promote what they called the 'public's articulation of a voice'. This proposed legitimacy model is a step in this direction.

References

Agbonkpolor, T. (2010). Risk management and regulatory failures in banking: Reflections on the current banking crisis in Nigeria. *Journal of Banking Regulation,* Vol. 11 Issue 2, 146-155

Aguilera, R. & Jackson, G. (2003). The cross-national diversity of corporate governance: Dimensions and determinants. *Academy of Management Review*, 28: 447–462.

Asher, C. C., Mahoney, J. M., & Mahoney, J. T. (2005). Towards a property rights foundation for a stakeholder theory of the firm. *Journal of Management and Governance*, 9, pp. 5–32.

Ashforth, B. E. & Gibbs, B. W. (1990). The double-edge of organizational legitimation. *Organization Science*, 1: 177-194.

Ashton P. (2013) How 'Fred the Shred' Got Away With It: Loud Calls for Company Law Reform, *Birkbeck Law Review,* Vol (1) Iss (1) (APRIL) 187-210

Bada, A., Aniebonam, M. C. & V. Owen (2004). Institutional pressures as sources of improvisations: a case study from a developing country context, *Journal of Global Information Technology Management*, Vol. 7 No. 3, 27-42.

Bailey, D., De Propris, L., Sugden, R. & Wilson, J. R. (2006). Public policy for economic competitiveness: an analytical framework and a research agenda. *International Review of Applied Economics*, 20, no. 5: 555-572.

Beck, T.A., Cull, R. & Jerome, A (2005) Bank privatization and performance: empirical evidence from Nigeria, *Journal of Banking & Finance*, Vol. 29, 2355-79.

Benediktsdottir, S., Danielsson, J. & Zoega, G. (2011) Lessons from a collapse of a financial system. *Economic Policy* (April) pp. 183–231

Black, W. K. (2010). Too Big To Regulate: Systematically Dangerous Institutions – the U.S., Iceland and Ireland. Benzinga.com, December 6, 2010 (online) Available at www.benzinga.com/life/politics/10/12/670689/toobig-to-regulate-systemically-dangerous-institutions-the u-s-iceland. (Accessed June 8, 2014).

Bonaccorsi di Patti, E. & Gobbi, G. (2007). Winners or losers? The effects of banking consolidation on corporate borrowers. *Journal of Finance*, 62, 669–695.

Branston, J. R., K., Cowling, & Sugden, R. (2006). Corporate Governance and the Public Interest, *International Review of Applied Economics*, 20 (2), pp.189-212.

Branston, J. R., P. R., Tomlinson, & Wilson, J. R. (2012). "Strategic failure" in the financial sector : a policy view. *International Journal of the Economics of Business*, 19 (2). pp.233-253.

Butler, P. (2009). Learning from financial regulation's mistakes. *Mckinsey Quarterly*, (3), 68-74.

Campbell, J. L. (2005). Where do we stand? Common mechanisms in organizations and social movements research. pp. 41-68 in *Social Movements and Organization Theory*. Edited by Gerald F. Davis, Doug McAdam, W. Richard Scott and Mayer N. Zald. Cambridge: Cambridge University Press.

Carow, K.A., Kane, E. J. & Narayanan, R. P. (2006). How Have Borrowers Fared in Banking Megamergers? *Journal of Money, Credit, and Banking,* Vol. 38, No. 3, 821-836

Child, J. (1972) Organization Structure, Environment, and Performance: The Role of Strategic Choice, *Sociology*, 6: 2-22.

Child, J. (1997). Strategic Choice in the Analysis of Action, Structure, Organizations and Environment: Retrospect and Prospect. *Organization Studies*, 18(1) 43-76.

Craig, S. G. & Hardee, P. (2007). The impact of bank consolidation on small business credit availability. *Journal of Banking & Finance*, 31, 1237–1263.

Crouch, C (2005). *Capitalist Diversity and Change. Recombinant Governance and Institutional Entrepreneurs.* Oxford: Oxford University Press.

De Graeve, F., De Jonghe, O., & Vander Vennet, R. (2007). Competition, transmission and bank pricing policies: Evidence from Belgian loan and deposit markets. *Journal of Banking and Finance*, 259-278.

Di Maggio, P., & Powell, W. (1983) The iron cage revisited: institutional isomorphism and collective rationality in organizational fields, *American Sociological Review*, 48, 147–160.

DiMaggio, P., & Powell, W. (1991). The iron cage revisited: institutional isomorphism and collective rationality, in Powell, W. and DiMaggio, P. (Eds), *The New Institutionalism in Organizational Analysis*, University of Chicago Press, Chicago, IL, 63-82.

Dowling, J. & Pfeffer, J. (1975). Organizational legitimacy: Social values and organizational behaviour. *Pacific Sociological Review*, 18: 122-136.

Droege, S. B. & Brown-Johnson. N. (2007). Broken Rules and Constrained Confusion: Toward a Theory of Meso-Institutions. *Management and Organization Review* 3(1): 81-104.

Droege, S., M., Lane, & Spiller, S. (2009). Strategic Choice And Institutional Ambiguity: A History Of Entrepreneurial Emergence In Rural China. *International Business & Economics Research Journal,* Volume 8, Number 10, 1-9.

Droege, S., M., Lane, & Spiller, S. (2011). Intersecting Three Muddy Roads: Stability, Legitimacy and Change. *Journal of Managerial Issues*, Vol. XXIII, No 1, 96-112.

Eesley, C., & Lenox, M. J. (2006). Firm responses to secondary stakeholder action. *Strategic Management Journal*, 27, 765–781.

Farjoun, M. (2010) Beyond Dualism: Stability and Change as Duality. *Academy of Management Review* 35(2): 202-225.

Galbraith, J. K. (2010) On the Economics of Deficits: Most of the Federal Deficit is Caused by the Recession Itself. To Cure the Slump, Fix the Financial System. *The American Prospect*, October 11, 2010.

Geyfman, V. & Yeager, T. J. (2009). On the Riskiness of Universal Banking: Evidence from Banks in the Investment Banking Business Pre- and Post-GLBA. *Journal Of Money, Credit & Banking,* 41(8), 1649-1669.

Gourevitch, P. A. & Shinn. J. (2005). *Political Power and Corporate Control : The New Global Politics of Corporate Governance* Princeton, NJ: Princeton University Press.

Greenwood, R. & Suddaby, R. (2006). Institutional entrepreneurship by elite firms in mature fields: the big five accounting firms, *Academy of Management Journal*, Vol. 49 No. 1, 27-48.

Hesse, H. (2007) Financial Intermediation in the Pre-consolidated Banking Sector in Nigeria. (online) available at:
www.wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2007/06/21/000016406_20070621103202/Rendered/PDF/wps4267.pdf. (Accessed June 10, 2014).

Hutton, W. (2012). Globalisation can work, but only with a unified international plan. The Observer, 29 January, available at: www.guardian.co.uk/commentisfree/2012/jan/29/ will-hutton-economic-global-cooperation (Accessed July 1, 2014)

Idemudia, U. (2007) Community Perceptions and Expectations: Reinventing the Wheels of Corporate Social Responsibility Practices in the Nigerian Oil Industry. *Business and Society Review* 11(23): 369-405.

Johnson, G., Smith, S., & Codling, B. (2000). Microprocesses of institutional change on the context of privatization, Academy of Management Review, Vol. 25 No. 3, 572-81.

Johnson, S. (2010) Implications of the 'Volker Rules' for Financial Stability. Testimony Submitted to the US Senate Banking Committee. February 4, 2010.

Judge, W., Li, S. & Pinsker, R. (2010). National Adoption of International Accounting Standards: An Institutional Perspective. *Corporate Governance: An International Review*, 18(3): 161–174

Kennedy, M. T. & Fiss, P. C. (2009). Institutionalization, Framing, and Diffusion: The Logic of TQM Adoption and Implementation Decisions Among U.S. Hospitals. *The Academy of Management Journal*, 52(5): 897-918.

Khanna, T. & Palepu, K. (2006). Strategies that Fit Emerging Markets. *Harvard Business Review* 84(June): 60-

69.
King, M. (2010). Banking: From Bagehot to Basel, and Back Again. The Second Bagehot Lecture, Buttonwood Gathering, New York City USA, 25th October 2010, (online) available at:http://www.bankofengland.co.uk/publications/speeches/2010/speech455.pdf (Accessed 25/06/14)
Kraatz, M. & Moore, J. (2002). Executive migration and institutional change, *Academy of Management Journal*, Vol. 45 No. 1, 120-43.
Laeven, L. (2011). Banking Crises: A review. *Annual Review of Financial Economics* 3:4.1–4.24
Leach, J. (2008) Regulatory Reform: Did Gramm-Leach-Bliley Contribute to Crisis? *Northwestern Financial Review*, (Oct) 15–31.
Lewis, P., & Stein, H. (1997). Shifting fortunes: the political economy of financial liberalization in Nigeria. *World Development*, Vol. 25, 5-22.
Llewellyn, David T. (2010) Banking after the crisis: Come back Captain Mainwaring – all is forgiven?, *mimeo*, (London: ICAP plc). pp 1-8.
Maclean, T. L. & Benham, M. (2010). The dangers of decoupling: The relationship between compliance programs, legitimacy perceptions and institutionalized misconduct. *Academy of Management Journal*, Vol. 53, No. 6, 1499–1520.
Maguire, S., & Phillips, N. (2008) 'Citibankers' at Citigroup: A Study of the Loss of Institutional Trust after a Merger. *Journal of Management Studies*, 45:2, 372-401.
Mahoney, J. T., McGahan, A. M. & Pitelis, C. N. (2009) The Interdependence of Private and Public Interests. *Organization Science* 20(6): 1034-1052.
Makinde, T. (2013) Global Corruption and Governance in Nigeria. *Journal of Sustainable Development,* Vol. 6, No. 8, 108-117.
Meyer, J. W. & Rowan, B. (1991). Institutionalized organizations: Formal structure as myth and ceremony. In W. W. Powell & P. J. DiMaggio (Eds.), *The new institutionalism in organizational analysis*: 41-62. Chicago: University of Chicago Press.
Meyer, J. W. & Scott, W. R. (1983). Organizational environments: Ritual and rationality. Beverly Hills, CA: Sage.
Mitchell, R. K., Agle, B. R., & Wood, D. J. (1997). Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. *Academy of Management Review*, 22, 853–886.
Mullineux, A. (2011). The Public Duties and Social Responsibilities of Big British Banks. *Int Adv Econ Res*., 17:436–450.
Naughton, B (2008). The Chinese economy, transitions and growth. *Asian Business and Management, 7*, 511-513
Ndhlovu, T. P. (2012). Globalization: a theoretical reflection. *World Journal of Entrepreneurship, Management and Sustainable Development*, Vol. 8 (2) pp. 95 – 112
Neville, B. A., Bell, S. J., & Whitwell, G. J. (2011). Stakeholder salience revisited: Refining, redefining, and refueling an underdeveloped conceptual tool. *Journal of business ethics*, 102(3), 357-378.
North, D. (1995). Five propositions about institutional change, in Knight, J. and Sened, I. (Eds), *Explaining Social Institutions*, The University of Michigan Press, Ann Arbor, MI.
Oghojafor, B. E. A & Adebisi, S.A (2012). Evaluating Mergers and Acquisition as Strategic Interventions in the Nigerian Banking Sector: The Good, Bad and the Ugly. *Intemational Business Research*, Vol. 5, No. 5; 147-157
Okonjo-Iweala, N. & Osafo-Kwaako, P. (2007). Nigeria's economic reforms: progress and challenges. *Brookings Global Economy and Development*, Working Paper No 6. The Brookings Institution, 1-28.
Oliver, C. (1992). The Antecedent to Deinstitutionalization. *Organization Studies,* 13(4): 563-588.
Oliver, C. (1997). Sustainable competitive advantage: combining institutional and resource-based views. *Strategic Management Journal*, Vol. 18 No. 9, 697-713.
Palazzo, G. & Scherer, A. G. (2006). Corporate Legitimacy as Deliberation: A Communicative Framework. *Journal of Business Ethics,* 66: 71-88.
Parent, M. & Deephouse, D. (2007). A case study of stakeholder identification and prioritization by managers. *Journal of Business Ethics*, 75, 1–23.
Park, D. & Krishnan, H.A. (2003). Understanding the stability-change paradox: insights from the evolutionary, adaptation, and institutionalization perspectives. *International Journal of Management*, Vol. 20 No. 3, 265-270.
Peng, M.W., Wang, D.Y.L. & Jiang, Y. (2008). An institution-based view of international business strategy: A focus on emerging economies. *Journal of International Business Studies, 39*, 920-936.
Pfeffer, J. (1981) Management as symbolic action: The creation and maintenance of organizational paradigms. In L. L. Cummings & B. M. Staw (Eds.), *Research in organizational behaviour*, vol. 13: 1-52. Greenwich, CT: JAI Press.
Pfeffer, J. & Salancik, G. R. (2003). *The Extemal Control of Qrganizations: A Resource Dependence Perspective*. 2nd ed., Stanford, CA: Stanford University Press.

Pisani-Ferry, J. & Sapir, A. (2010). Banking crisis management in the EU: an early assessment. *Economic Policy* (April), 341–373.
Prasch, R. E. (2012).The Dodd-Frank Act: Financial Reform or Business as Usual? *Journal of Economic Issues*, Vol. XLV I No. 2, 549-556.
Proenca, E., Rosko, M. & Zinn, J. (2000). Community orientation in hospitals: an institutional and resource dependence perspective, *Health Services Research*, Vol. 35 No. 5, 1011-35.
Riaz, S (2009). The global financial crisis: an institutional theory analysis. *Critical perspectives on international business*, Vol. 5 No. 1/2, 26-35
Ritsumeikan, L (2011). An Institutional Perspective on International Financial Reporting Standards Adoption in Developing Countries. *Academy of Accounting and Financial Studies Journal*, Volume 15, Special Issue, Number 2, 61-71
Sacchetti, S. (2004). Knowledge caps in industrial development. *New Political Economy* 9: 389-412.
Sacchetti, S. & Sugden, R. (2010). Creativity and the public interest in economic development: a knowledge governance perspective. *Eknonomiaz* 74: 36-49.
Santana, A. (2012). Three Elements of Stakeholder Legitimacy. *J. Bus. Ethics* 105:257–265
Scott, W. R. (2001). *Institutions and organizations*, 2nd edn. Thousand Oaks, CA: Sage.
Scott, W.R. (2007). *Institutions and organizations: Ideas and interests*. Thousand Oaks, CA: Sage Publications.
Segrestin, B., & Hatchuel, A. (2011) Beyond Agency Theory, a Post-crisis View of Corporate Law. *British Journal of Management,* Vol. 22, 484–499
Shepherd, D. A. & Zacharakis. A. (2003). A New Venture's Cognitive Legitimacy: An Assessment by Customers. *Journal of Small Business Management* 41(2): 148-167.
Streeck, W. & Thelen, K. (2005). *Beyond Continuity: Explorations in the Dynamics of Advanced Political Economies*. Oxford, Oxford University Press.
Suchman, M. C. (1995). Managing legitimacy: Strategic and institutional approaches. *Academy of Management Review*, 20: 571–610.
Suddaby, R. (2010). Challenges for Institutional Theory. *Journal of Management Inquiry* 19(1): 14-20.
Sutherland N., Land, C. & Böhm, S. (2013) Anti-leaders(hip) in Social Movement Organizations: The case of autonomous grassroots groups. *Organization*, 0(0) 1-23
Sydow, J., Shreyogg, G. & Koch, J. (2009). Organizational Path Dependence: Opening the Blackbox. *The Academy of Management Review*, 34(4): 689-709.
Tsai, T. & Child, J. (1997). Strategic responses of multinational corporations to environmental demands, *Journal of General Management*, Vol. 23 No. 1, 1-22.
Vives, X. (2011). Competition policy in banking, *Oxford Review of Economic Policy*, *27*(3), 479-497
Weick, Karl E., Sutcliffe, Kathleen M., & Obstfeld, David. (2005). Organizing and the process of sensemaking. *Organization Science*, 16(4), 409–421.
Wilson, D., & McKiernan, P. (2011). Global Mimicry: Putting Strategic Choice Back on the Business School Agenda. *British Journal of Management*, Vol. 22, 457–469.
Zucker, L. (1983). Organizations as institutions, *Research in the Sociology of Organizations*, Vol. 2, 1-47.
Zucker, L. G. (1987). Institutional theories of organization. *Annual Review of Sociology*, 13, 443–464.