EVOLUTION OF THE LEBANESE BANKING SECTOR LEGITIMACY IN VIEW OF THE PRESSURE OF THE UNITED STATES REGULATIONS

Dany NASSAR

EDBA, Université Saint-Joseph de Beyrouth
Université Paris Dauphine, France
dany.nassar@yahoo.com

ABSTRACT

In the recent years, many international banks have been fined because of violations of US regulations. Also, their legitimacy was challenged, and questions were raised about the strategic responses adopted by these banks to restore their legitimacy. In Lebanon, the collapse of the Lebanese Canadian Bank (LCB) due to non-compliance with US regulations has shaken the whole banking industry whose legitimacy has been affected, in addition to the compliance measures taken by this sector in face of the mounting pressure of the US Legitimacy, a major concept of the neo institutional theory is crucial for the survival of organizations. This article postulates that the Lebanese banking sector is on continuous quest for the legitimacy of the US regulator on which it is dependent to survive. Thus, the aim of this paper is to explore how the Lebanese banking sector's legitimacy has evolved over time in view of the pressure of the US, by addressing the following question: How the US regulations affect the perception of the Lebanese banking sector legitimacy? Towards achieving this objective, this paper utilizes a retrospective longitudinal design and undertakes a qualitative content analysis of archival data from 1997 to 2018. Our findings revealed that legitimacy in the Lebanese context has passed from a cognitive legitimacy conferred by a domestic regulator before LCB to a more "pragmatic" one that is conferred by a foreign regulator after LCB.

Keywords: Regulation, Compliance, Legitimacy, Banking.

INTRODUCTION

Financial crimes regulations, sanctions programs, anti-money laundering, counter-financing of terrorism, and tax evasion, (collectively labelled "regulations" in this article), are currently of international concern for the financial community around the world and probably one of the hottest topics today in the Lebanese banking sector. Of particular importance to the international financial community and to the Lebanese banking sector as well is the compliance with the United States regulations. This primarily stems from the "exorbitant privilege" of the US to enforce compliance with its regulations beyond its borders. Also, because of the power that the US currency enjoys being a predominant currency for international trade and finance, where trillions of dollars in trade transactions around the world are undertaken in US dollars. Penalties for violations of US regulations can be severe in terms of financial fines, loss of business, and reputational damage. On the international level for instance, many non-US banks have been fined by the US for violation of sanctions programs imposed on Iran, Sudan, Cuba, and others. Just to name few, BNP Paribas paid $8.9 billion in 2014, HSBC made a settlement for $1.9 billion in 2012, and Credit Agricole has been penalized for $787 million in 2015.

In Lebanon, we had our share with the forced closure of the Lebanese Canadian Bank (LCB) which was accused in 2011 as a bank of “primary money laundering concern”, due to violation of the USA Patriot Act. The latter is a US law, not a Lebanese one, and LCB is a Lebanese bank established on the Lebanese territory, not in the United States. Yet, due to the extraterritorial reach of the US regulations beyond the United States, the result of this designation was disastrous because of the US nexus that is represented by the correspondent banking relationships between LCB and US banks. Cutting off access to the US financial system simply led to shutting down the LCB. This scandal has shaken the whole Lebanese banking sector and was like a wakeup call to all Lebanese banks which felt the severe consequences of being in violation of US regulations. The LCB crisis then affected the perception of the Lebanese banking sector legitimacy which was taken-for-granted and never challenged prior to LCB. Hence, the LCB case changed the rule of the game in the Lebanese banking industry which had to immediately react by adopting stringent compliance measures in face of the institutional pressure of the US, and to defend the sector’s legitimacy.

In order to maintain their legitimacy, organizations in general seek endorsement from various constituents, but certain sources may have a larger impact than others (Deephouse & Suchman, 2008). Various studies revealed legitimacy sources as those conferred by the state, the regulator, the professions, public opinion; and the media (Bitektine & Haack, 2015; Deephouse, 1996; Meyer & Scott, 1983; Ruef & Scott, 1998). In the Lebanese context, it is the legitimacy of the US regulator that matters because we live in a highly dollarized economy, because Lebanese banks maintain correspondent banking relationships with their US counterparts and which are essential for their survival, and because we had a real life case which led to the overnight collapse of a Lebanese bank because of non-adherence to the US requirements.

This paper then postulates that the Lebanese banking sector is on continuous quest for the legitimacy of the US regulator on which it is dependent to survive and might encounter challenges along the way to maintain it. Thus, the aim here is to explore how the US regulations affect the perception of the Lebanese banking sector legitimacy and how legitimacy has evolved over time in the Lebanese context.

1. LITERATURE REVIEW & THEORETICAL FRAMEWORK

1.1. Legitimacy

Legitimacy is a central concept of the neo institutional theory. Researchers have for decades called for more empirical attention to legitimacy (Galaskiewicz, 1985; Suchman, 1995), so empirical researches have shown considerable spread across the social sciences in the last decade. Although there was a growing body of research on legitimacy of organizations in various fields, however, empirical attention to the legitimacy of banks is very scarce in the literature. This lack of attention is disappointing because legitimacy is an "*anchor-point of a vastly expanded theoretical apparatus addressing the normative and cognitive forces that constrain, construct, and empower organizational actors*" (Suchman, 1995: 571), and it is worth being studied in the banking industry because banks are more visible than other sectors due to their financial intermediation role, because they are entrusted with people's money, so they have to maintain public trust, and because they face strong institutional pressure from various institutional constituents (regulators, media, public, and others).

1.2. What is Legitimacy?

Many researchers employ the term legitimacy, but few define it, as correctly pointed out by Suchman (1995). In their seminal work, Meyer & Rowan (1977) argued that organizational conformity with rational myths leads to legitimacy and access to resources. They posited that organizations whose structures become isomorphic with the myths of the institutional environment, as opposed to technical production, maintain legitimacy. In an early formulation, Meyer and Scott suggested that "*organizational legitimacy refers to the degree of cultural support for an organization*" (Meyer & Scott 1983a: 201). In his turn, Suchman (1995) offered an inclusive broad-based definition of legitimacy which has been widely adopted in the extant literature. It incorporates both the evaluative and the cognitive dimensions of legitimacy, and it is a generalized perception rather than event-specific. He defined legitimacy as "*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). Also, Deephouse et al. (2017: 33) offered a concise definition and considered legitimacy as *"the perceived appropriateness of an organization to a social system in terms of rules, values, norms, and definitions."*

Organizations need legitimacy in order to survive, so they require social acceptability and credibility rather than material resources and technical information (Scott, Ruef, Mendel, & Caronna, 2000). Since organizational survival is enhanced by legitimacy, Dowling & Pfeffer (1975) viewed legitimacy as a resource which organizations try to acquire while other organizations attempt to deny. Scott (1995: 45) provided a meaningful description of legitimacy when he argued that "*legitimacy is not a commodity to be possessed or exchanged*" but rather adherence to rules and laws, or alignment with cultural-cognitive frameworks. He then considered legitimacy as oxygen in the sense that it becomes apparent only if lost, so it is not a specific resource but a fundamental condition of social existence.

In sum, an organization is considered as completely legitimate when no question could be raised about it; "*perfect legitimation is perfect theory*" (Meyer & Scott 1983a: 201). In the same context, Pfeffer & Salancik (1978) asserted that legitimacy is more known when it is absent than when it is present; when organizations are seen by the social actors as illegitimate, they become more exposed to comments and attacks. Three years earlier, Dowling & Pfeffer (1975) argued that legitimacy is not defined solely by what is legal or illegal, and considered that there is less correlation between legality and legitimacy. As argued by Webb et al. (2009), there is a gap between what some social actors see as legal – that is derived from laws and regulations, and legitimate that is derived from social norms, values, and beliefs.

In brief, an organization is legitimate if it is perceived as proper and desirable (Suchman, 1995), endorsed by social actors (Deephouse, 1996), compliant with the norms of acceptable behavior (Dowling & Pfeffer, 1975; Deephouse et al., 2017), socially fit (Oliver, 1991), and its practices are in line with industry norms and broader societal expectations (Rindova, Pollock, & Hayward, 2006).

Why Legitimacy is Important for an Organization?

Legitimacy is crucial for the survival of an organization and has consequences on its social and economic exchange. Most stakeholders only engage with legitimate organizations, and therefore, it affects market access (Deephouse et al., 2017). In other words, stakeholders do not transact with organizations that are viewed as illegitimate irrespective of the incentives that these organizations might offer. Also, organizations lacking cultural support, approved activities, and normative authorities' endorsement, are less likely to survive than organizations having these evaluations. Legitimacy is then crucial for organizational viability independent of its performance or other attributes (Scott, 2014).

Many case studies examine the importance of legitimacy for organizations, so it would be more explicit to shed the light on some examples. For instance, Deephouse & Suchman (2008) highlighted the legitimacy challenges faced by Exxon, when Exxon Valdez, an oil tanker owned by Exxon Shipping Company, spilled crude oil in the US waters. Concerned about environmental issues, certain stakeholders refused to patronize Exxon due to this incident, which affected the company's legitimacy. Also, studies have shown that investors react immediately to the release of new information about a firm's environmental performance. For example, Hamilton (1995) investigated the pollution data released by the U.S. Environmental Protection Agency's (EPA's) Toxics Release Inventory (TRI) and found out that the higher pollution figures were in a firm's TRI reports, the more likely print journalists were to write about the firm's toxic release, and that companies with significant toxic releases experienced an average loss of $ 4.1 million in equity. Another example also by Deephouse & Suchman (2008) comes from the British Columbia forestry industry, where the province decided to grant timber access only to contractors and their sub-contractors who have acceptable operations safety standards. The Provincial Forests Minister stressed on the importance of legitimacy for market access when announcing the policy about safety and meeting the standards. Also, legitimacy matters because it enhances strategic choice. This was highlighted by Deephouse (1996) in the context of banks when he argued that regulatory sanctions restricted the ability of banks to make certain types of loans.

In sum, legitimacy matters. It has consequences on organizations, and it captures an important element of an organization's access to resources and survival in an institutional environment. It is also a key concern for organizations, because legitimate status is a "*sine qua non for easy access to resources, unrestricted access to markets, and long-term survival*" (Brown, 1998:38). According to Hirsch & Andrews (1984), an organization is legitimate because it has demonstrated its appropriateness and goes unchallenged regarding societal rules, norms, values, or meaning systems.

In the context of this study, legitimacy is crucial for the survival of banks which have to prove congruence with their societal environment, especially with the demands and expectations of those social actors on which they are dependent to survive. In the Lebanese context, the banking industry is highly dependent on its US counterparts – the US Regulator and US correspondent banks – with whom they maintain relationships in order to carry out international financial transactions. Unfavorable perception by the United States about a Lebanese bank may be correlated with perception of illegitimacy of this bank and may also affect its survival.

Sources of Legitimacy

Literature review on legitimacy suggests that legitimacy may be conferred by various constituents. The sources of legitimation are many and diverse because organizations are highly differentiated, loosely coupled systems, and related to many different environments (Scott, 2014). Yet, legitimacy does not have to be necessarily conferred by all constituents. Rather, it is important to be conferred by those crucial for the survival of an organization, on which the latter depends for access to resources. However, it may not be simple to answer the question of who has the right to confer legitimacy on organizations as situated in complex and conflicting environment, and whose assessments count in determining legitimacy. While many structures diffuse because they are viewed as legitimate, their legitimacy is sometimes challenged by other less powerful social actors (Scott, 2014). Organizations then seek endorsement from various constituents, but certain sources may have a larger impact than others (Deephouse & Suchman, 2008). In this respect, Meyer & Scott (1983) considered that the opinion of people who have the capacity to mobilize and confront the organization that matters.

Various studies revealed legitimacy sources as those conferred by the state, the regulator, the professions, public opinion; and the media (Bitektine & Haack, 2015; Deephouse, 1996; Meyer & Scott, 1983; Ruef & Scott, 1998). Legitimacy is also conferred by internal and external sources such as stakeholders who observe organizations and make legitimacy evaluations, by comparing organizations to particular criteria or standards (Ruef & Scott, 1998: 880), whereas Pfeffer & Salancik (1978) considered legitimacy as a conferred status that is always controlled by those external to the organization. Meyer and Scott (1983: 201–2 cited in Deephouse & Suchman, 2008) classified the sources of legitimacy into two basic groups: (1) those who "have standing and license", most commonly the State, and (2) those who "have collective authority over what is acceptable theory (e.g., lawyers, accountants, intellectuals)." Yet, Deephouse & Suchman (2008) added that these obviously may not be the only relevant sources. To be considered a source of legitimacy, the stakeholder must not only assess the legitimacy of an organization, but that assessment must encompass the overall appropriateness of the organization in its social system (Deephouse et al., 2017). Bitektine & Haack (2015) talked about legitimacy evaluators who can be individual or collective actors, namely, groups, organizations, or field-level actors, such as the media or regulators and that evaluators make judgments about an organization through their actions.

Dowling & Pfeffer (1975) focused on the importance of the state as a source of legitimacy and described how the American Institute for Foreign Studies engaged in a wide range of activities to seek legitimacy such as being involved in the co-optation of major political leaders. In contrast, Reimann, Ehrgott, Kaufmann, & Carter (2012) found out that local governments do not have influence on multinational enterprises social strategies, rather they increasingly support the organization as a result of the firm's active development of the local community. An important finding by Deephouse (1996) is that sources of legitimacy may differ by type of audience, when he demonstrated in his study that organizational legitimacy is defined using regulators and the media as sources and recognized that organizations are evaluated by agencies of state, for example, banks evaluated by regulators. Public opinion is another source of organizations' legitimacy due to its reflection of social values. In his study "TVA and the Grass Roots", Selznick (1966) demonstrated that the Tennessee Valley Authority changed its objectives and methods to conform to public opinion. Rao (1994) carried out an empirical study on certification contests in the early automobile industry which depicted reputation as an outcome of legitimation. It shows that victories in automobile contests enhance life chances of auto manufacturers and enable firms to acquire a reputation for competence.

On the other hand, an organization within the same organizational field can be viewed as a source of legitimacy because organizations enhance their legitimacy by aligning themselves with the more influential and prestigious organizations in the field (Galaskiewicz, 1985). The media have also become a source of legitimacy because of the link between media reports and public opinion, and since the media is a major indicator of society-at-large legitimacy. Organizations have come under increasing media scrutiny in recent years (Lamin & Zaheer, 2012). When an organization engages in suspicious, unethical or unpopular activities, its legitimacy is challenged by the media. For instance, the excessive bonuses paid by large banks that have been bailed out by governments after the financial crisis of 2008, have been extensively criticized in the media. Digital technologies and social media are being adopted by organizations and individuals to provide information and convince others of the activities of organizations and their legitimacy. Deephouse et al. (2017: 37) considered that "*one Facebook post or one tweet on Twitter can lead to a legitimacy challenge for even the most well-established organization*".

1.5. Dimensions of Legitimacy

Suchman (1995) identified three different dimensions of organizational legitimacy: *pragmatic*, based on audience self-interest; *moral*, based on normative approval; and *cognitive*, based on comprehensibility and taken-for-grantedness. Pragmatic legitimacy rests on the self-interest of key stakeholders of an organization or the public, being the most immediate audiences (Suchman, 1995). This means that the organization has the support of its constituents as long as it provides valuable and favorable exchanges to these constituents and receives something in return. For instance, stakeholders' support of a firm's policy is based on that policy's expected value and whether it satisfies stakeholders' needs and interests, absence of which might risk the firm's legitimacy. Suchman (1995) addressed a related, but slightly more socially constructed type of pragmatic legitimacy which he called influence legitimacy. The latter suggests that social actors support an organization because they view it in line with their largest interests, and not necessarily because of providing favorable exchanges. A third variant of the pragmatic legitimacy noted by Suchman, is dispositional legitimacy. In this case, legitimacy is conferred because of the shared value of organizations, their honesty and trustworthiness, as if organizations were individuals.

As for moral legitimacy, unlike pragmatic legitimacy, constituents confer legitimacy because of their perception of the organization as promoting societal welfare such as corporate social responsibility for instance. So moral legitimacy is awarded through conformity of an organization to what society perceives as right or wrong. Hence, judgments of constituents are based on whether the organizational activity is the "right thing to do" rather than on judgments about whether a given activity benefits the evaluator (Suchman, 1995). If for example a bank is acting in good faith, it is unlikely to lose its legitimacy just because a customer loses money in a specific product; however, it is quite likely to lose legitimacy if it offers products not commensurate with the customers' profile. The third form of legitimacy is *cognitive legitimacy* which corresponds to "taken-for-granted" organizational form that is conceived as legitimate in nature and has the support and acceptance of audiences who view it as necessary or inevitable (Suchman, 1995). Cognitive legitimacy does not involve evaluation, unlike pragmatic and moral legitimacies (Reast et al, 2012). Banks for example gain their cognitive legitimacy due to their important role in the economy of a country and the intermediation financial role they play so they are seen as inevitable by the society.

1.6. Legitimacy Following Crisis

When scandals or crises hit an organization, the latter is seen by the social actors as illegitimate and become more exposed to comments and attacks (Pfeffer & Salancik, 1978). Also, accidents, crises, or scandals do not only impair the legitimacy of organizations that have been involved in the disruption or that are subject to the scandal, but also affect the legitimacy of other organizations in the same organizational field (Desai, 2011). The author tested this hypothesis in the U.S. railroad industry and concluded that organizations seek to influence their overall organizational fields which are subject to greater scrutiny following a crisis that is externally induced. Also, organizations have incentives to safeguard the legitimacy of their organizational field when it is threatened in order to maintain stability and access to resources (Jonsson et al., 2009). Deviance has impact on the affected organization and may lead to loss of legitimacy (Elsbach & Sutton, 1992). However, scandals may also expand beyond the focal organization to become a social problem (Jonsson et al., 2009). The author revealed that scandals involving a Swedish insurance company affected the deviant organization as well as other non-culpable organizations that have similar characteristics and led investors to withdraw from transactions with similar organizations.

Also, by way of example, Jensen (2006) used the collapse of the audit firm Arthur Andersen in 2002 due to audit failure at Enron whose scandal tainted the reputation of the firm and led clients to withdraw their businesses, in addition to raising a big question about auditing firms in general and their activities. Also, Paruchuri & Misangyi (2015) suggested that when an organization reveals financial misconduct, others in the industry suffer lower valuations and market investors discount bystander organizations operating in the same industry during the days following the event. Negative impacts following a crisis may also affect other organizations even in the absence of direct relationship between the stricken organization and other non-stricken ones (Yu et al., 2008). The authors called this phenomenon as "the spillover of negative impacts" that affects the legitimacy of those non-stricken organizations. In a more recent study, Piazza & Jourdan (2018) found out that scandals lead to competitive advantage for certain organizations over others operating within the same field. Then, scandals affect the "taken-for granted" status of an organization along with the criteria adopted for evaluation of organizations within the field.

In the context of banking, Brown (2005) analyzed the account of the collapse of Barings Bank and how this incident affected the legitimacy of Bank of England which acted to repair its legitimacy in times of crisis. Another study by Arnold & Sikka (2001) about the collapse of the Bank of Credit and Commerce International (BCCI) highlighted the importance of legitimacy for the UK banking system and how the UK allowed BCCI to continue to trade in order to encourage foreign investment despite the bank's involvement in money laundering activities. However, when BCCI wrongdoings negatively affected the legitimacy of the UK banking industry and the reputation of the City of London, the UK shut down the bank.

In sum, legitimacy spillover is influenced by the level of organizations' similarity within an organizational field (Desai, 2011; Yu et al., 2008). A stricken organization following a scandal is individually affected and may expose other similar organizations in the same field whose legitimacy could be also questioned. The rationale behind social actors' perceptions in these cases is their cognition that organizations in the same field have similar features and behave in the same manner (Bitektine, 2011; Meyer and Rowan, 1977).

1.7. Legitimacy of Banks in General

Banks are crucial for both the economy and the society. The wide range of activities they undertake and the many different delivery channels they offer to the public make banks indispensable in people's life. In the absence of adequate substitute that can provide the same services and has the same level of trust, banks are seen as inevitable by the society in view of the central role they play in the economy of a country and due to their intermediation role between depositors and borrowers. The World Bank (2018) highlighted the potential benefits of financial inclusion – that is getting people into the formal financial system to open an account – and has made it a key priority to encourage financial inclusion since financial services can help drive development, reduce poverty, and improve people's income-earning.

In general, banks are legitimate organizations by virtue of the regulatory licenses granted to them by the state and allowing them to operate and provide services to individuals and legal entities. Regulatory endorsement, being the acceptance of banks by the regulatory bodies that regulate them (Deephouse, 1996), is one of the main facets of legitimacy in addition to other social actors who confer legitimacy such as the public and the media. Having a proper license to operate, banks play an intermediary role by receiving deposits from the general public and granting loans to consumers, playing therefore a major role in funding business borrowers, in addition to other services such as advisory role (investment and financial instruments), payments, trade finance, foreign exchange, and others.

Banks therefore contribute to the economic development of the country and to the society in which they are situated, change the aspects of modern societies, and raise income levels and standards of living of citizens. The economic development in any country depends mainly on the development of their financial sectors which are considered as the central drivers of economic growth. Thus, "*banks are essential for any modern economy, not only because of their turnovers but also because they provide a number of important functions for the national economy, being the main financier*" (Drigă, 2006: 55). In their societal role, banks around the globe are increasingly engaged in corporate social responsibility (CSR) activities to enhance their legitimacy and strengthen their reputation especially after being hit by a crisis or further to a scandal. Scandals could overnight destroy the legitimacy and reputation of a bank. Being socially responsible impose more than "business-as-usual" on banks which have to go beyond just compliance with laws and regulations and force them to behave more responsibly.

In sum, the legitimacy of the international banking industry including the Lebanese banking sector is to a certain extent taken-for-granted because it is hard to conceive a society without a banking system. However, it is not to be assumed that this legitimacy could never be lost or questioned although it might seem to be quite unshakable at certain points in time. All of a sudden, further to a scandal, an organization could reach some kind of a "cliff" in its legitimacy and become illegitimate (Boulding, 1969).

1.8. Empirical Researches on Legitimacy of Banks

This part focused on the empirical studies addressing the legitimacy of banks, being the sector of interest in this study. Legitimacy has been studied in various sectors, including banking. However, we noticed that most of the empirical studies addressing the legitimacy of banks have been concentrated on corporate social responsibility and its role in the legitimation process.
This is probably due to the fact that some organizations, such as banks, are more socially visible than other organizational sectors, in addition to being exposed to public scrutiny. Hence, banks engage in social activities, such as corporate social responsibility, which are congruent with social values in order to enhance their corporate image. For instance, in their study of Portuguese banks, Branco & Rodrigues (2006) examined the disclosure of social responsibility information by these banks, and their results suggested that that better-known banks have more reason to justify their existence to society by using social responsibility disclosure, and therefore to maintain legitimacy.

Also, Nilsen (2010) examined how the banking sector, mainly a Norwegian bank and a Danish bank, use corporate social responsibility to repair legitimacy and reputation. His findings indicated that banks are under pressure that necessitates an adequate response to repair legitimacy in view of the increased expectations with respect to corporate social responsibility by public opinion. Another study by Bartlett (2005) investigated how four Australian banks responded to legitimacy concerns through social responsibility reporting. Results show that banks have responded to legitimacy challenges in differing ways in contrary to theoretical claims which revealed that organizations within similar fields respond in similar ways to legitimacy concerns. Shen, Wu, Chen, & Fang (2016) examined whether banks that engage in corporate social responsibility increase their profits and decrease their non-performing loans, and therefore, outperform non- corporate social responsibility banks in terms of return on assets and return on equity. They argued that banks that engage in corporate social responsibility activities improve their financial performance, whereas Margolis, Elfenbein & Walsh (2007) found out that 27 % of corporate social responsibility activities have a positive effect on performance of organizations, 2 % have a negative effect, and 58 % have a non-significant effect.

Also, in the context of banking, Atakan-Duman & Ozdora-Aksak (2014) investigated the role of CSR in building banks' identities in the Turkish banking sector and found out that banks are involved in non-economic social activities such as CSR to gain and maintain legitimacy, irrespective of the banks' core economic functions and regardless of their efficiency. Thus, banks strive to maintain their legitimacy through involvement in social activities, so they are perceived as beneficial for the society rather than being viewed by society as profit-generation organizations only. Fashola (2014) inserted "customer" in the legitimacy pyramid for the banking industry and considered that the basis for the existence of both the regulator and the banks is boosted by a need for the institution to function for the customer. He considered that banks seeking legitimacy and social acceptance should position the customer "as a legitimizing agent". On the other hand, Deephouse (1996) tested a central proposition of institutional theory, isomorphism-legitimacy link, in the entire population of commercial banks in the Minneapolis-Saint Paul metropolitan area from 1985 through 1992. He found out that the sources of legitimacy may differ by type of audience and demonstrated how legitimacy is operationally defined using regulators and the media as sources. He then recognized that organizations are evaluated by agencies of state, for example, banks evaluated by regulators.

Also, Deephouse (1996) highlighted that legitimacy matters because it enhances strategic choice in the context of banks when he argued that regulatory sanctions restricted the ability of banks to make certain types of loans. He finally found a positive correlation between strategic isomorphism and legitimacy and concluded that organizational isomorphism increases organizational legitimacy. Almost 6 years later, Deephouse & Carter (2005) empirically examined the financial, regulatory, and public dimensions of legitimacy and reputation in a population of US commercial banks.

They again demonstrated that isomorphism improves legitimacy, but its effects on reputation depend on the bank's reputation, and that higher financial performance increases reputation, however, it does not increase the legitimacy of high performing banks. Whereas in their study of the tension between the pressure to conform and the pressure to perform in the Portuguese banking sector, Barreto and Baden-Fuller (2006) noted that banks which imitate their reference group and engage in legitimacy-driven mimetic actions have negative contribution on the banks' profitability.

In summary, the literature review on legitimacy had demonstrated its importance for the survival of organizations and how the latter require social acceptability and credibility rather than material resources and technical information in order to maintain their legitimacy and continue to survive. It has consequences on organizations, and it captures an important element of an organization's access to resources and survival in an institutional environment. Also, the literature has shown that organizations seek endorsement and legitimacy from various constituents, but certain sources may have a larger impact than others. However, legitimacy in the banking industry is very scarce in the literature where most of the researches are concentrated on how banks engage in corporate social responsibility activities to maintain their legitimacy. Also, researches on legitimacy did not examine how a foreign regulator could influence the perception of legitimacy in the banking sector of a different country. No previous studies revealed how a banking sector seeks to maintain its legitimacy vis-à-vis a foreign and powerful institutional constituent on which it is dependent to survive and continue business. It is this gap in the literature that we will try to fill in this paper by answering the question: How the US regulations affect the perception of the Lebanese banking sector legitimacy?

2. METHODOLOGY

2.1. Retrospective Longitudinal Analysis

The paper utilizes a longitudinal retrospective design and undertakes a qualitative content analysis of archival data from 1997 to 2018. It is also a processual analysis because it addresses a "*sequence of events that describes how things change over time*" (Van de Ven, 1992: 169), and because we believe that social reality is a dynamic process not a steady state (Pettigrew, 1997) where time is very important to take into consideration since it is the only thing we cannot escape (Gehman et al., 2017). Also, Langley et al. (2013) highlighted the centrality of time in process studies whose focus is on evolving phenomena and on how and why things emerge and develop over time. At their end, Vandangeon-Derumez & Garreau in Thiétart et al. (2014) considered that time and longitudinal research are inseparable. They argued that the evolvement of a phenomenon can be tackled in two different ways: the first consists on studying the variance of the phenomena between two or more periods of time, whereas the second addresses the sequence of events that describes how a phenomenon evolves and changes over time. It is the second approach that we seek in this paper.

2.2. Archival Data Collection

In longitudinal researches, data is collected either in real time or *a posteriori.* This paper relies on collecting data *a posteriori* through the review of four local newspapers and magazines that address banking matters for the period under study (1997-2018), in addition to the annual reports published by the Association of Banks in Lebanon during this period. As for the selection of those newspapers and magazines (Executive Magazine, The Daily Star, Le Commerce du Levant, Lebanon Opportunities), the criteria were based on the fact that they are well-known, reliable and widespread, highly circulated, existed during the period under study, where articles about the Lebanese banking sector can be found, and which collectively cover the Lebanese banking sector landscape.

This study covers the temporal bracket 1997-2018, with major events in-between. We chose 1997 as the starting year because regulations related to anti-money laundering and counter-financing of terrorism and their impact on the banking industry started to emerge in this year. Then, the year 2001 was critical for the whole banking industry after the attacks of September 11 and the heightened pressures of US regulations on banks worldwide including Lebanon. US regulations have since evolved and many banks around the world have been fined for violations of these regulations. In Lebanon, it is the year 2011 that was the turning point in the Lebanese banking industry due to the collapse of the LCB. Finally, the bracket 2012-2018 covers the period post-LCB. Thus, we analyze legitimacy, seen from today, by looking back at its evolution over time focusing on the “before and after” the LCB case.

2.3. Search Method

The approach adopted for corpus building is a top-down one, starting from the “universe of possible texts” and narrowing down to a topic-oriented corpus. This allowed us to stay focused and spared us from becoming overwhelmed with large amount of unnecessary data. We opted for soft copies of articles which are an exact replica of the original paper copy, where they are available in this form, and for paper copies when soft copies are not there. For instance, the articles of “The Daily Star” and “Executive Magazine” were accessed and extracted in soft format through their websites. For the “Le Commerce du Levant”, we had to subscribe to their online archive in order to extract soft copies of articles. As for “Lebanon Opportunities”, we have identified the required articles through their website. However, since they are not accessible, we obtained them from the library of Université Saint Joseph where they are available in paper format, photocopied them, and scanned them. As for the annual reports of the ABL, these were obtained in soft copies from the library of the ABL.

The search encompassed the period under study (1997 – 2018) by using at the first place the keywords: “bank” and “banking”. The initial search based on this criterion has yielded a total number of 2,996 articles. However, after discarding non-relevant ones, those not predominantly focusing on the topic under study, the number of articles has been narrowed down to 436 relevant articles. In addition, the number of annual reports of the ABL amount to 20 reports.

2.4. Content Analysis & Coding

The content analysis of archival data, although burdensome and time-consuming, remains a powerful approach to dealing with large volumes of data, and to squeezing data into fewer content categories based on explicit rules of coding, while having advantages of being systematic and replicable (Stemler, 2001). We analyzed their content using NVivo. The analysis of these documents allowed us to identify the critical events which occurred over time from 1997 until 2018, which is important in longitudinal studies, to infer insights, and finally to understand the strategic responses adopted by the Lebanese banking sector to maintain and defend its legitimacy in face of the mounting pressure of the US regulations.

The approach adopted in the analysis of archival data is a mixture of interpretive and reflexive reading (Mason, 2017). Interpretive means drawing inferences and meanings from the content of newspapers and magazines, rather than word counting, because "*content analysis extends far beyond simple word counts*" (Stemler, 2001: 138). As for reflexivity, it is about exploring and dealing with the relationship between the researcher and the object of the research (Brannick & Coghlan, 2006), being expert in the Compliance field for almost 18 years, with extensive banking background. As observed by Creswell (2013), researchers' experiences and background shape their interpretation of the findings.

As for data coding, Stemler (2001: 138) addressed two approaches to data coding: a priori coding and emergent coding. In the a priori coding, categories are created based on the mobilized theory and concepts, literature review, and documents, prior to data analysis. In emergent coding, "*categories are established following some preliminary examination of the data*", in addition to those created au fur et à mesure. Both approaches are adopted in this paper.

3. RESULTS

In-depth analysis of the selected newspapers and magazines during the period under study have yielded the below results. The latter are presented in three main periods. Period I (1997-2001) is the period which witnessed the first step toward fighting money laundering through a convention signed between the ABL and banks in 1997, until 9/11 terrorist attacks on the US in 2001which had major repercussions on banks. Period II (2002-2010) is the period which preceded the collapse of the LCB. Period III (2011-2018) witnessed the LCB fallout in 2011 and the heightened pressure of US regulations in the subsequent years until 2018, and which have affected the perception of the sector's legitimacy.

3.1. Perception of the Sector's Legitimacy

Perception of Legitimacy	*Period I [1997 - 2001]	*Period II [2002 - 2010]	*Period III [2011 - 2018]	**References
Taken-for-Granted	0	26	24	64
Pillar of the Economy	2	55	32	101
Crucial for the Society	7	13	9	33
Questioned/ Challenged	3	2	66	73
Pragmatic	0	3	44	56
Major Challenges	*Period I [1997 - 2001]	*Period II [2002 - 2010]	*Period III [2011 - 2018]	**References
US Regulations	36	35	446	544
International Regulations	26	43	46	122
Economic	1	18	13	40
Political	2	26	25	59
Technological	0	0	4	4

Archival Data Coding
* Number of Archival Data Files
** Total Number of References *(more than one reference from the same file)*

3.1.1. Pillar of the Lebanese Economy

According to archival data retrieved during the period under study, the Lebanese banking sector has always been the cornerstone of financial, economic, and social stability of the country despite major challenges it has faced over the years. It has proven to be resilient to economic crisis, political instability, and to domestic, regional, and international turmoil. The sector was perceived as "*the best sector in Lebanon*", "*the most successful*" (Executive Magazine, 2002), and "*has been a positive story for Lebanon*" (Executive Magazine, 2005). The Lebanese banking sector is the major pillar of the country's economy. According to the Association of Banks in Lebanon (ABL), "*the banking system contributes to 4.5 % of GDP, employing around 1.2 % of the country's labor force*" (Executive Magazine, 2003). In simple terms, "*the banking sector has outgrown the Lebanese economy and domestic economic growth. It grew eight to 10 times in the last 10 years – while the Lebanese economy did not grow as fast*" (Executive Magazine, 2004). As stated by the Governor of the Central Bank, "*our banking sector is one of the most credible and viable banking sectors in the world, […] adding that total bank assets are three* *times the size of Lebanon's GDP. The banking sector continues to grow despite the political and security disturbances in the country*" (The Daily Star, 2007).

It is sound and it has progressed over the years in a healthy manner in terms of growth, profitability, deposits, capitalization, liquidity, and local, regional and international expansion. This has conveyed confidence for resident and non-resident customers and has attracted deposits which continue to grow. Being perceived as trustful with remarkable resilience, the banking sector attracted consistent increase of funds inflow from Lebanese expatriates living and working abroad, as well as from non-resident. These inflows have been persistent over the years and increased banks' deposits by USD 30 billion between 2008 and 2010, which constituted 86 % of 2009 GDP. Thus, "*an important factor accounting for the banking sector's relatively healthy growth levels are remittances, of which Lebanon receives some $6 billion every year*" (Executive Magazine, 2008). It is also estimated that about 50 % of the banks' deposit growth to be stemming from the Lebanese diaspora living overseas, and that "*the economy largely functions on these inward remittances and on the banking sector*" (Executive Magazine, 2008). The sector was able to overcome local and international financial crisis, playing therefore "*a pivotal role in shaping Lebanon's economy*" (Executive Magazine, 2008). During the financial crisis of 2007-2008, while many big banks around the world have suffered because of this crisis, and as a result, a number of financial institutions collapsed or were subject to governments' bailout, the Lebanese banking sector succeeded to defy the global financial crisis, and "*against all odds Lebanese banks have been weathering the current economic and political crisis*" (Executive Magazine, 2008) due to its conservative policy where "*no Lebanese bank was exposed to subprime mortgages in the United States*" (Le Commerce du Levant, 2008). International and local markets concluded that the Lebanese model is sustainable and that "*Lebanon has been the most resilient in the Middle East and North Africa region facing the international financial crisis*". The performance of the Lebanese economy and the banking sector have been saluted by the large international institutions for "*being isolated from the repercussions of the international financial crisis, whether at the real economic level or at banking sector level*" (Le Commerce du Levant, 2010).

3.1.2. Crucial for the Society

By "*employing around 1.2 % of the country's labor force*" (Executive Magazine, 2003), the banking sector plays a major societal role, where employment in this sector is the weightiest one among other sectors in the country, constituting therefore an important structural pillar of national employee incomes and of the labor market. This owes to the sector's eagerness to provide continuous financial support to the society, and "*its proven ability to create job opportunities both domestically and regionally as banks expand abroad, […] and that add to its thrust to provide continuous financing to the various economic sectors upon which economic growth depends*" (Executive Magazine, 2008). Banks had an extraordinary societal contribution, "*having funded the country's post-war reconstruction through loans to the government and ridden out every kind of systematic risk imaginable*" (Executive Magazine, 2010).

Beside the banking sector's contribution to the national economy through the financing of public debts and private sector needs, its societal role was salient at different fronts. These facets varied from contribution to finance the return of the displaced after the Lebanese civil war where "*the government have begun negotiations aimed at encouraging private banks to contribute, […] calling for the use of private bank deposits with the central bank to finance the return*" (The Daily Star, 1998), to educational donations where the "*British Bank has donated LL16,054,600 to the American University of Beirut's scholarship programme as part of an agreement between the two institutions to promote the education of Lebanese graduate students*" (The Daily Star, 1998), to donations related to rebuilding during the war where "*Byblos Bank donated $1 million to help the government rebuild the damages caused by the Israeli air strikes against Lebanon*" (The Daily Star, 1999), and "*the Islamic Development Bank is offering a $28 million interest-free loan to finance the building of two wastewater treatment plants in the Western Bekaa* (The Daily Star, 2001). Also, the Association of Banks in Lebanon contributed to the fund for reconstruction, which was set up after the Israeli bomb attacks, through a check for $4 million, which "*brings the total donated by banks to $7.3 million, representing 50 percent of the total in the fund*" (The Daily Star, 1999).

There are additional facets to the Lebanese banking sector and its societal functions. Banks contributed to the enhancement of consumer lifestyles, raised income levels and standards of living of citizens, granting housing loans and personal loans to consumers, greasing the economic wheels through financing of small and medium-sized enterprises (SME) and lower income customers where politicians "*underlined the importance of giving loans to small and medium-size operations considered vital to activating the economy*" (The Daily Star, 2001), and sanctioning loans in conjunction with the Central Bank to particular economic sectors such as agriculture, information technology, and tourism. The sector's societal role included also, in addition to its core business activity, sponsorship of events such as Beirut Marathon, cultural events, charitable contributions, and sponsorship of Lebanese art and movies. By doing this, banks have been largely engaged in Corporate Social Responsibility as part of their role in the society.

3.2. Challenges of US Regulations and Impact on the Sector's Legitimacy

During the period 1997-2010, the Lebanese banking sector has been subject to pressure of international regulations which have to do with anti-money laundering and counter-financing of terrorism. The international financial community considered that the measures adopted by the Lebanese banking sector in this respect were not sufficient to deter financial crimes. The lack of proper legislations and the strict banking secrecy regime were the main drivers behind this perception, whereas Lebanon held the issue of banking secrecy highly. For instance, while approving an agreement to cooperate against terrorism in 1998, the Lebanese Interior Minister considered that "*we do not take this issue lightly and we will not agree to anything that may jeopardize secrecy because it is the basis of our banking sector*" (The Daily Star, 1998). Also, responding to the accusations of the FATF, the Head of Lebanese Parliament denied "*money-laundering charges leveled at the country's banking secrecy system […]* and considered that "*Lebanon has never acted as a premise for drug trafficking*" (The Daily Star, 2000). In addition, the United Nations Annual Report on drugs "*criticized Lebanon for its reluctance to impose certain limits on banking secrecy in order to prevent money laundering*" (Le Commerce du Levant, 2000), and the International Narcotics Control Board – an independent control organ for the implementation of the UN drug conventions – asked Lebanon "*to reform its laws in a way that the judicial authorities to suspend the banking secrecy when investigating criminal activities*" (Le Commerce du Levant, 2000). So, the Due Diligence Convention on the Commitment by Banks to Combat the Laundering of Illegal Drug-Trade Funds which has been put in place in 1997 between the Lebanese banks and the Association of Banks in Lebanon were a primitive measure and did not fulfill the requirements of the international community. As a result, Lebanon has been placed in 2000 by an inter-governmental body – the FATF – on the list of Non-Cooperative Countries and Territories (NCCT), among 23 countries. Subsequently, the US Department of Treasury alerted US banks to exercise enhanced due diligence over financial transactions originating in or routed to or through Lebanon, and over transactions related to entities established in Lebanon or persons maintaining accounts in Lebanon.

In view of the heightened pressure of the international financial community and the US as well, the Lebanese banking sector had to take immediate actions. The ABL took the initiative and "*formed a group of lawyers who elaborate in the framework of the juridical commission a text of law which will allow to achieve the referred objective without touching the spirit of the banking secrecy law, in coordination with the monetary and financial authorities in Lebanon*" (ABL Annual Report, 2000-2001). Consequently, and due to extensive efforts of the Lebanese legislator, the ABL, and the Central Bank which felt the seriousness of the necessity to adopt measures to respond to the pressure of the international community, the Fighting Money Laundering Law 318 was born on April 2001. These measures have been applauded by the international financial community, in particular the US, and have had positive impact on the image of Lebanon and its banking sector, and it was appreciated by the FATF which concluded that the adoption of a law to fight money laundering and the establishment of a control commission are satisfactory. A senior country economist at the World Bank stated that "*the law will help the reputation of Lebanon as a financial center abiding by international regulations and will preserve its financial role regionally and internationally*" (Executive Magazine, 2001). Despite promulgating this law, however, lebanon was not delisted during 2001 from the NCCT list because the

FATF wanted to make sure that the law has been seriously implemented, so it "*maintained Lebanon on the blacklist of countries judged as non-cooperative in the fight against money laundering*" (Le Commerce du Levant, 2001).

The pressure on the Lebanese banking sector increased with the imminent war on terrorism by the United States after September 11 attacks, and the birth of the USA Patriot Act in 2001. "*The events of one day have shifted US policy to security concerns and the fight against terrorism, on their own soil and around the world*" (Executive Magazine, 2001). As far as Lebanon is concerned, "*if the country is asked to help the US, by investigating a money trail [...], the authorities would fully cooperate*" (Executive Magazine, 2001). Thus, it was evident that the US measures will expand to Lebanon and its banking sector, so the Lebanese authorities "*have officially declared that they will fully cooperate in the global investigation tracking the finances of suspected networks linked to the September 11 attacks*" (Executive Magazine, 2001). This has affected at the first place the banking secrecy law which became almost inadmissible and somehow less secret because Lebanon cannot afford to be non-lenient about it. Hence, the perception of the Lebanese banking secrecy has changed, and the banking secrecy law has been considered by many "*to be an essential trait of the Lebanese banking system, but not one that is fundamental to its survival*" (Executive Magazine, 2002). In view of these pressures, the Lebanese banking sector had to show its commitment to the US requirements. The Governor of the Central Bank "*vowed that Lebanon would freeze any bank accounts suspected of being linked to terrorism*" and stressed on the sector's commitment to fighting money laundering and on "*not be lenient on the matter*" (The Daily Star, 2001). Also, the Head of Parliament confirmed that "*Lebanon has shown a great deal of cooperation with the US on many issues, including the pre-Sept. 11 endorsement of US-recommended legislation to combat money-laundering*" (The Daily Star, 2001).

During this period, according to archival data, the banking sector has witnessed rare cases of defiance to the US requirements. For instance, Lebanon rejected the designation of Hezbollah as a terrorist organization and the Central Bank "*offered four 'technical reasons' to refuse compliance with US demands to freeze the resistance group's assets in local banks*" (The Daily Star, 2001). Non-compliance was justified by the fact that the request to freeze the assets of Hezbollah is coming from the US, not the United Nations. Also, the demand "*did not originate from the International Court of the Justice, whose requests are internationally legally binding [...] and it was not the result of an internal criminal investigation*" (The Daily Star, 2001). And finally, the absence of "*bilateral agreements between the US and Lebanon that prescribe the conditions for the freezing of bank accounts to be undertaken at the request of one of the two parties*" (The Daily Star, 2001). Consequently, the US warned that "*Lebanon would not succeed in its attempt to secure international financial assistance unless Beirut met Washington's demands [...] and that Lebanon's very survival depended on such compliance*" (The Daily Star, 2001).

On the other hand, having recognized the measures adopted by the Lebanese legislator and regulator, the FATF eased the pressure on Lebanon by delisting it from the NCCT list in June 2002. According to the Governor of the Central Bank, "*with the de-listing behind us, we look forward to a future in which our efforts will enable the Special Investigation Commission (SIC), which is entrusted with inquiring into money laundering activities, to deliver on its commitment to become a leading institution in Lebanon and the region*" (Executive Magazine, 2003). Also, the US and its financial institutions relaxed their scrutiny over transactions related to Lebanon, in recognition of Lebanon's commitment to international standards, after addressing the deficiencies in its regulatory system.

However, the pressure of the US continued to escalate during this period, through the sanctions imposed on the Syrian Lebanese Commercial Bank in 2004, the sanctions on Bank Saderat Iran in Lebanon in 2006, and the OFAC sanctions on Lebanon in 2007. Yet, these sanctions have not dramatically affected the banking sector. It was until 2011, which witnessed the collapse of the LCB due to US regulations violation, that the Lebanese banking sector experimented the seriousness of a foreign regulator impact on its legitimacy as revealed later in this paper.

3.2.1. "Taken-for-Granted" Status

In sum, during the Period I and II, despite its perception as a major pillar of the Lebanese economy, and despite its societal role, the sector has been challenged by international and US regulations which started with the listing of Lebanon in 2000 among the non-cooperative countries in the fight against money laundering and terrorism financing and intensified after the terrorist attacks on the United Sates in 2001. This year revealed slight challenges to the Lebanese banking industry legitimacy. In view of these pressures, the sector took the necessary measures, in terms of laws and regulations for fighting money laundering and terrorism financing, which have been applauded by the international financial community and the US. So, in general, Lebanon and its banking sector were responsive to the US requirements after facing heavy pressure to endorse them, although they have contested very few demands in very rare and specific cases during this period.

Also, the analysis of archival data during this period revealed that the sector got unchallenging media attention with respect to pressures of US regulations. Rather, the concentration of the media was on the importance of the Lebanese banking sector for the Lebanese economy, the high performance of banks, being a major pillar of the country's economy, their regional and international expansion, their immunity against financial crisis, and their important role in the society. Despite being slightly challenged by US regulations during this period, the Lebanese banking sector has been conceived as largely "accepted" and indispensable, having been deemed proper and appropriate, deemed as the most prosperous industry driving the economy, and a major contributor to the society. Thus, it has demonstrated its appropriateness and its right to exit, and therefore, its legitimacy was cognitive, and it got a taken-for-granted status.

3.2.2. "Cliff" in the Perception of Legitimacy

The real challenge to the Lebanese banking sector's legitimacy started at the time of the collapse of the LCB and in the subsequent years (Period III) because of the mounting pressures of the US regulations. The US Department of Treasury designation in 2011 of the LCB as a financial institution of primary money laundering concern "*hit the bank like a missile strike. And, as so often is the case with American 'operations' in the region, the collateral damage was high*" (Executive Magazine, 2011), and the banking sector "*has been rocked by the accusation that the LCB has been laundering drug money as much as $200 million per month*" (Lebanon Opportunities, 2011). This scandal has not only affected LCB, but the whole banking sector has been shaken by this designation; "*LCB is not the only financial institution to have been shaken by FinCEN's designation; all Lebanese banks and foreign exchange houses' relations with the US have been affected*" (Executive Magazine, 2011). Whether the accusations against LCB were legitimate or not, there was no doubt that they have impacted the banking sector at different fronts, mainly business with customers, compliance, laws and regulations, and more importantly the sector's image, reputation, and legitimacy.

In brief, the sudden death of the LCB, which is a Lebanese bank licensed by the local authorities in Lebanon and regulated by the Central Bank of Lebanon, due to accusations by the US Department of Treasury, a foreign "regulator" not a domestic one, was a turning point in the Lebanese banking history which changed the rule of the game. The legitimacy of the sector, which was taken-for-granted and beyond any reproach before this crisis, has been challenged. Moreover, the sector remained paranoid in the subsequent years.

"Pragmatic" Legitimacy

The challenges to the sector's legitimacy continued after the LCB crisis (Period III) because of the mounting pressure of the US regulations. This period has witnessed harsh US requirements which have affected the perception of the sector's legitimacy, impacted the way banks comply with the coercive pressure of the US, and changed the strategic responses adopted by the banking industry to respond to the challenges of the sector's legitimacy in face of the US pressure. The US pressure during this period, which started in 2011 with the collapse of LCB, continued with US sanctions on Lebanese exchange dealers in 2013, sanctions in 2014 on FBME bank – a Lebanese-owned subsidiary of the Federal Bank of Lebanon, the birth of the US Foreign Account Tax Compliance Act (FATCA) in 2014, sanctions on the Chairman of MEAB in 2015, sanctions on Hezbollah (classified by the US as a terrorist organization) in 2015, and with a second wave and harsher sanctions on Hezbollah in 2018, in addition to sanctions imposed on individuals, entities, and non-profit organizations. Thus, the perception of legitimacy, which was cognitive before LCB, has been questioned with the collapse of LCB, and has therefore passed to a "pragmatic" legitimacy.

Legitimacy Status

Taken-for-Granted	Challenged/Questioned	Pragmatic
Period (1997-2010)	Period (2011) – LCB Scandal	Period (2012-2018)

Source: Researcher

CONCLUSION, LIMITATIONS AND FUTURE RESEARCH

This paper contributes to the legitimacy concept. In addition, it has managerial contribution for banking professionals and practitioners. The study has shown how all of a sudden, further to a scandal, an organization could reach some kind of a "cliff" in its legitimacy and become illegitimate because of the coercive pressure of a foreign regulator rather than a domestic one. This was illustrated in the Lebanese context by the collapse of a Lebanese bank due to violation of a foreign regulator's regulations. This has had impact on the entire sector whose legitimacy, which was "cognitive" and beyond any reproach before this scandal, became challenged and had to be more "pragmatic". In order to defend and maintain its legitimacy, the Lebanese banking sector had to adopt pragmatic strategic responses in face of the US pressure by issuing proper laws and regulations, strengthening compliance activities, and distance itself from any defiance of the US demands following a crisis that has affected the sector's legitimacy and which was due to lack of compliance with US regulations. Yet, this paper is not without limitations. It was conducted in a specific organizational field (banking industry) and in a specific country (Lebanon). Thus, results cannot be replicated for other sectors and other countries, or for the same sector but in other countries where the perception of legitimacy could differ, as well as the strategic responses to maintain legitimacy. Therefore, this paper calls for future research in this area.

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