How are Competing Logics Combined in Managerial Teams? The Impact of Branch Founding Team Hybridity on the Growth of Islamic Bank Branches in Turkey, 2002–19

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ABSTRACT Hybrid staffing – i.e., composing a workforce with individuals with oppositional institutional logics – is a strategy organizations can use to navigate through complex institutional environments. We propose that hybrid teams led by individuals with the legitimate logic from the perspective of the target audiences (conformist-led hybrids) will outperform all-conformist, non-hybrid teams, and that hybrid teams led by individuals with the contested logic (alien-led hybrids) will underperform non-hybrid teams. Moreover, the performance advantage of conformist-led hybrids will be attenuated by ideological polarization and demographic stability of the embedding community, and the performance disadvantage of alien-led hybrids will be exacerbated by these two community characteristics. We tested our multilevel contingency model with the newly founded Islamic bank branches in Turkey in 2002–19. We found that the conformist-led hybrids had a growth advantage over non-hybrids, and alien-led hybrids had a growth disadvantage, especially when the embedding communities were ideologically polarized. Theoretical implications are discussed.

Keywords: founding team, hybrid staffing, institutional logics, Islamic banking, logic plurality

INTRODUCTION

Many organizations face complex institutional environments in which oppositional logics lead to the emergence of incompatible normative principles. One strategy organizations can use to navigate through such institutional complexity is to staff their workforce with
individuals who represent these oppositional logics (so-called hybrid staffing, Almandoz, 2012, 2014; Boone and Ozcan, 2016; Dufays and Huybrechts, 2016; see also Battilana and Lee, 2014; Battilana and Besharov, 2016; Greenwood et al., 2011). Acquired through prior socialization, institutional logics provide individuals with a set of assumptions, beliefs, and rules that shape their interpretations of the social world, and that guide their actions and interactions (Dufays and Huybrechts, 2016). Thus, the representation of these institutional logics in an organization’s workforce will likely shape the organization’s structures, cultures, strategies, practices, and – ultimately – performance. This is particularly the case for founding teams and the organizations they lead to found. As research shows, the backgrounds (including the institutional logics) of the founding team members can imprint blueprints and underscore the logics of organizing in the newly established organization, which affects the path-dependent evolution and the long-term performance of the organization (Almandoz, 2012, 2014; Baron and Hannan, 1999; Beckman and Burton, 2008).

Despite the importance of hybrid staffing, the scholarly understanding of hybrid staffing – and especially of hybrid staffing in founding teams – is scant. At the theoretical level, Dufays and Huybrechts (2016) proposed a process model to explain how logic plurality (i.e., the presence of competing logics) in an entrepreneurial founding team can imprint the organization’s structures and identities, and thus have a long-lasting influence on the organization. At the empirical level, Almandoz (2012, 2014) found that the degree to which a dominant logic is represented in the founding team of a bank can have a long-lasting impact on the operation and performance of the bank. However, as a strategy to combine elements of different templates under one organizational roof, hybrid staffing, like other forms of hybrid organizing, can be a double-edged sword with potential drawbacks and benefits for the organization. There are challenges associated with hybrid organizing. If, for example, there are competing external and internal claims on organizational identities, organizations may have low legitimacy due to category straddling (Battilana and Lee, 2014; Besharov and Smith, 2014; Jay, 2013; Pache and Santos, 2013). But hybrid organizing also has benefits – it provides organizations with access to a wide range of capabilities, resources, and market segments, as well as opportunities to creatively combine elements of different templates for innovation and adaptation (Battilana et al., 2016; Boone and Ozcan, 2016). However, little is known about under what conditions hybrid staffing is beneficial or detrimental for organizations.

To advance research on hybrid staffing and neo-institutional approaches to hybridity, we have developed a multilevel contingency model that predicts under what conditions founding teams with hybrid logics positively or negatively affect long-term organizational performance. We test the model by analysing all Islamic bank branches that were newly established in Turkey from 2002 to 2019 as well as their founding teams. We focus on the branch founding teams, because they were responsible for setting up viable branches, and for establishing the external legitimacy of each branch. We argue that the ideologies that underlie the conventional and Islamic banking logics, and that are represented in the founding teams will likely shape the ‘soft’ cultural elements in the branch, such as how the branch positions and communicates its products to customers, how it serves customers, and how it looks like; all of these will create and imprint an image and identity of the branch in the embedding community and persistently affect the branch’s operation
and performance over time (Almandoz, 2014; Burton and Beckman, 2007; Marquis and Tilcsik, 2013). Our focus on the question of under what conditions is important, because hybrid staffing, as we mentioned above, is a double-edged sword. This issue is particularly salient in our setting, because the logic of Islamic banking is, at least in principle, incompatible with the more pragmatic logic of conventional banking, and this creates a purity-pragmatism trade-off for Islamic banks that implement hybrid staffing (El-Gamal, 2006). Specifically, compared with homogenously composed teams in which the leader and members all embrace the logic of Islamic banking (so-called all-conformist teams), hybrid founding teams are more likely to imprint identities in which purity and pragmatism are combined. This hybrid staffing can have advantages, because moving away from purity and toward pragmatism might increase the branch's market reach (Bidwell and Keller, 2014; Boone and Ozcan, 2016; Wezel and Cattani, 2006); however, it can also have disadvantages, because deviations from purity might result in an ‘illegitimacy discount’ (Battilana and Lee, 2014; Zuckerman, 1999). As a result, hybrid staffing can give an organization an edge in competing for resources and dominance, if it creates organizational identities that combine elements of different templates to broaden customer appeal, but are not regarded as illegitimate by core external audiences (Kennedy and Lo, 2010). In light of this purity-pragmatism trade-off, it is important to identify the conditions under which hybrid staffing is beneficial or detrimental for an organization.

Therefore, building on recent developments in the team and neo-institutional literatures (Almandoz, 2014; Battilana and Lee, 2014; Bunderson and van der Vegt, 2018; Greenwood et al., 2011; Kennedy et al., 2010; Marquis and Battilana, 2009; Marquis and Lounsbury, 2007; Marquis and Tilcsik, 2013), we argue that whether hybrid staffing in a founding team improves the organization’s long-term performance depends on internal contingencies (i.e., team context) and external contingencies (i.e., community context). The overall logic of our arguments is illustrated in Figure 1.2

With respect to the internal team context, we posit, following Bunderson and van der Vegt (2018), that the effect of horizontal differentiation in teams (i.e., logic plurality in our setting) depends on the vertical distribution of these horizontal differences within the team (i.e., the precise distribution of the oppositional logics in the internal formal

Figure 1. Conceptual model. Note: Circles, squares, and arrows with dashed lines represent the theoretical mechanisms that are not directly observed or measured in the study.

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power structure in our setting). For this purpose, we distinguish between two types of hybrid teams, namely, conformist-led and alien-led hybrid teams. We then compare the performance of these hybrid teams with that of all-conformist, non-hybrid teams. In conformist-led hybrid teams, the leader supports the logic of Islamic banking, which is, from the point of view of core Islamic audiences, the legitimate logic for Islamic banks (i.e., in such teams, the internal power distribution and status orders of the two banking logics are aligned). Meanwhile, in alien-led hybrid teams, the leader supports the contested logic of conventional banking – in this case, there is a structural power-status misalignment of the two banking logics in Islamic bank branches. We hypothesize that conformist-led hybrid founding teams tend to outperform all-conformist founding teams, as they can imprint identities that balance purity and pragmatism and, at the same time, appeal to a wide range of local Islamic audiences. We further hypothesize, however, that alien-led hybrid founding teams tend to underperform all-conformist founding teams, as they imprint identities that are rejected as impure, and fail to mobilize a diverse staff to address a variety of customer needs (see the horizontal arrows in Figure 1).

With respect to the external community context, we build on the broader neo-institutional research that stresses the importance of the local context in shaping how audiences respond to an organization’s hybridization strategies, templates, and identities (Boone and Ozcan, 2020; Greenwood et al., 2011; Marquis and Battilana, 2009; Marquis and Lounsbury, 2007). As the context affects the value local audiences place on purity (Kennedy et al., 2010), the relative appeal of a bank branch’s approach to the purity-pragmatism trade-off generally depends on the community context in which the branch is embedded. Thus, we expect that the performance effects of the two hybrid staffing strategies (relative to that of the all-conformist team strategy) will depend on the characteristics of the local community (see the vertical arrows in Figure 1). In this study, we selected two characteristics of the local communities as moderators, namely, ideological polarization and demographic stability. We selected these characteristics, because there is evidence that they are relevant for assessing the degree to which local audiences value purity (Boone and Ozcan, 2014, 2016, 2020; Carroll and Torfason, 2011; Divarci and Boone, 2017; Marquis and Battilana, 2009; Pozner and Rao, 2006; Marquis and Battilana, 2009). In this respect, for example, Boone and Ozcan (2020) reported that the extent of ideological polarization in communities is negatively related with the diffusion of hybrid organizational forms; Carroll and Torfason (2011) found that alien organizational forms that deviate from locally embedded ones are less likely to be supported in more demographically stable communities.

We make two major contributions to the literature on hybrid staffing and neo-institutional approaches to hybridity. First, our study draws explicit attention to the importance of the vertical differentiation of oppositional logics along the organizational hierarchy. It stresses that the way in which logic plurality in a founding team (horizontal differentiation) affects the organization’s imprinted identities will depend on the extent to which the formal distribution of power in the team (vertical differentiation) matches the status ordering of the oppositional logics. While past research on this topic focused exclusively on horizontal representations of oppositional logics (e.g., dominance of a single logic, Almandoz, 2012, 2014; degree of logic plurality, Battilana et al., 2016), our study
moves the field forward by drawing attention to the importance of vertical configurations of oppositional logics in teams and organizations. Given that the effects of both horizontal and vertical differentiations in teams can depend on each other (Bunderson and van der Vegt, 2018), our study responds to an urgent plea to study how different vertical configurations of oppositional logics (in founding teams) can shape the path-dependent trajectories and long-term outcomes of organizations (Almandoz, 2014; Dufays and Huybrechts, 2016).

Second, our study seeks to identify the combination of internal and external conditions that can enable organizations to reap the benefits of both oppositional logics and hybrid staffing. By differentiating hybrid teams based on how the logics are hierarchically structured within the team, and by identifying the community characteristics that affect the purity-pragmatism trade-off, we advance understanding of the conditions under which hybrid staffing can help organizations successfully navigate through complex institutional environments. We deliberately link the team’s internal hierarchy with the community’s external characteristics (e.g., we test the interactive effects of the two). In doing so, we bridge the predominantly micro literature on hybrid organizing (Battilana and Lee, 2014) with more recently proposed macro approaches to this issue (Boone and Ozcan, 2020). Establishing this ‘bridge’ is important, because the consequences of hybrid organizing within an organization generally depend on the broader context that shapes the competition between oppositional logics and ideologies (Boone and Ozcan, 2016; Battilana et al., 2016; Greenwood et al., 2011; Lounsbury, 2007; Marquis and Lounsbury, 2007). Overall, our study also resonates with a recent call for a multilevel perspective in organizational hybridity research (Besharov and Mitzinneck, 2020).

THEORY AND HYPOTHESES

Hybrid Staffing as a Strategy to Navigate through Complex Institutional Environments

When faced with complex institutional environments, organizations tend to combine elements of different institutional logics under one organizational roof to cope with the conflicting demands in the environment. One strategy organizations use is to recruit employees with oppositional logics (Battilana and Lee, 2014). Institutional logics have been defined as ‘socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules by which individuals [italics added] produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality’ (Thornton and Ocasio, 1999, p. 804). Through socialization during their educational and professional lives, individuals learn to take certain rules, assumptions, and practices for granted, and thereby acquire one or multiple institutional logics. In other words, different institutional logics are ‘carried’ and sustained by different individuals (Almandoz, 2014). By endorsing and mobilizing these logics, individuals make sense of their social context, and act accordingly (Almandoz, 2012, 2014; Pache and Santos, 2010; Tilcsik, 2010). It therefore appears that bringing
individuals with oppositional logics together in an organization can have both negative and positive implications. On the one hand, hybrid staffing can lead to interpersonal tensions and power games in the organization (e.g., Ashforth and Reingen, 2014; Pache and Santos, 2013), and it can also elicit disapproval from external audiences concerned about the impurity of the organization’s identity (Boone and Ozcan, 2016). On the other hand, hybrid staffing can provide the organization with an informational advantage to pursue entrepreneurial opportunities (Dufays and Huybrechts, 2016). Through hybrid staffing, an organization can gain access to a diverse set of employees with multiple ideological niches, which enables the organization to combine elements of oppositional logics to develop new knowledge and to be more innovative, adaptive, and competitive (Bidwell and Keller, 2014; Jay, 2013; Wezel et al., 2006; also Boone and Ozcan, 2016; Vergne and Wry, 2014).

In sum, hybrid staffing can have profound impacts on an organization’s operations and performance in complex institutional environments (Battilana and Lee, 2014; Boone and Ozcan, 2016; Dufays and Huybrechts, 2016). This is even more likely the case for founding teams and the organizations they lead to found, because the backgrounds of the founding team members – including the logics they support – can imprint identities, strategies, structures, cultures, and practices on the organization and affect the long-term operations and performance of the organization (Dufays and Huybrechts, 2016). The founding team members’ prior work experiences (and normative beliefs shaped by these experiences) can influence their initial decisions regarding the core values and strategic directions of the newly founded organization; this can place the organization on a particular trajectory, and affect its operations and performance over time. For example, Baron et al., (1999) found that the employment logic and the gender composition of the founders affect the administrative intensity of young Silicon Valley technology firms over time. Similarly, Beckman and Burton (2008) showed that the prior functional experiences of an organization’s founding team members, as well as the organization’s initial functional structures, predict the subsequent backgrounds of the organization’s top managers and the organization’s functional structures. Almandoz (2012, 2014) found that the degree to which the founding team members of a bank embrace a financial (versus a community) logic affects the likelihood that the founding will be successful as well as the bank’s risk propensity. Going beyond the focus on one dominant logic, Dufays and Huybrechts (2016) proposed a process model about how a founding team with logic plurality imprints hybridity on the organization’s structures and identities, and thereby has a long-lasting influence on the organization. Because of these imprinted features, an organization is, at least in part, a reflection of the logics represented in the founding team. Hence, hybrid founding teams may imprint organizational features that are distinct from those imprinted by non-hybrid founding teams, and thereby have different long-lasting effects on organizations.

Among the organizations that face institutional complexity, and that resort to hybrid staffing (especially at founding), are Islamic banks in Turkey. To serve religious customers, these banks tend to market their products as ‘halalized’ versions of conventional banking products (Çokgezen and Kuran, 2015; El-Gamal, 2006). It is only after the Sharia supervisory board of a bank declares financial products (e.g., bonds, credit cards, mortgages) to be Sharia compliant that they can be marketed to customers as legitimate Islamic banking products. Such Islamic adaptations of conventional
banking products also have downsides, including increased transaction costs, product complexity, and legal fees. Thus, for Islamic banks and their customers, there are difficult trade-offs to be made between the purity/legitimacy and the functionality of Islamic banking products (El-Gamal, 2006). Within an Islamic bank, the products are, to varying degrees, Islamic adaptations of conventional banking products; outside the bank, the potential Muslim customers are widely distributed along the religious spectrum, from more liberal to more conservative. Therefore, to compete with each other and with conventional banks that also offer Islamic banking products, Islamic banks are pressured to strike a balance between purity/legitimacy and pragmatism, and to effectively combine elements of the inherently incompatible Islamic and conventional banking logics in their products and services.

To tackle these challenges, Islamic banks resort to hybrid staffing, especially at the founding of new branches, and hire managers with conventional banking backgrounds. As has been observed for other forms of hybrid organizing, hybrid staffing in the founding teams of Turkish Islamic bank branches appears to be a double-edged sword too. On the one hand, it is still controversial, because Islamic and conventional banking logics are fundamentally incompatible. For example, while interest and debt-based transactions are the pillars of conventional banking, they are prohibited in Islamic banking that is based on principles of profit and loss sharing. This incompatibility between the two banking logics may raise serious concerns about the branch’s operations and identity. On the other hand, it may open up new business opportunities with diverse forms of managerial capital to effectively address the demands of a wider spectrum of religious customers (for details on the trade-off, see Boone and Ozcan, 2016, 2020; Syakhroza and Paolella, 2019). In the following sections, we will elaborate further on these potential benefits and drawbacks, and propose contingencies that may limit the drawbacks and/or help to realize the benefits of hybrid staffing (e.g., Gumusay and Smets, 2020).

Hybrid Staffing in Founding Teams and Long-Term Organizational Performance

Founding team members with oppositional logics can generate good ideas for implementing templates that come from different spheres, and that represent the best aspects of these spheres. To reap the potential benefits of hybrid staffing, organizations need to be ‘pragmatic yet pure enough’. That is, they need to imprint a balanced identity that can stimulate the subsequent performance of the organization in complex institutional environments (Dufays and Huybrechts, 2016). In Turkey, Islamic banks offer products that are, to varying degrees, adapted from conventional banking products, and that appeal to a broad spectrum of Muslim audiences, ranging from more liberal to more conservative. Although these products are devised and certified at the bank level under the supervision of a Sharia board, branches retain considerable autonomy in interpreting the terms and conditions of the products, and in deciding how they market and communicate the details of the products to new and existing customers.

To gain a better understanding of the branch founding process, we interviewed one chief HR officer and nine branch managers and branch deputy managers from three Islamic
banks, who had branch founding and management experience. These interviews underscore the importance of the contributions of the founding teams in setting up new branches:

'I would say the founding team is extremely important. The branch manager and his team must establish systems and processes and culture. I have not seen a single new branch in our bank in which everything was in place from day one. (I was a founding branch manager in two branches). It's always a struggle. Not all positions are filled immediately, so people have to assume a multitude of tasks and responsibilities; most people have not worked with each other before; the IT infrastructure experiences all kinds of issues…Then there is the lack of familiarity or reputation in a new environment. The branch manager has to get out there, proactively introduce the branch to the community, and engage in various activities, like inviting community leaders or prominent business owners to dinners, and organizing events, sponsorships, visits to government officials…A new manager in an established branch will only improve the performance – change some routines and all – whereas the founding team will create everything from scratch, including the positioning'.

In earlier times – that is, before the financial crisis in 2001 – founding branch managers did not need to be proactive in their communities. They were not anti-social or anything but had no interest in socializing beyond a narrow group of highly pious people. Islamic banking was a very negligible niche player with a hardcore customer base and a relatively narrow product range, and there was little performance pressure from headquarters. Now it is very competitive. You must reach out to everyone in the community, be very customer centric, and constantly innovate new solutions'.

Given the considerable influence of the founding teams on the new branches, the banking logics of managers and their deputies play an important role in shaping the practices and culture of each branch, and how the branch is positioned in the market. One branch manager we interviewed, for example, pointed out that founding managers hired directly from conventional banks tended to forge nuanced and differentiated relationships with customers, which enabled these managers to better serve each customer’s unique needs:

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

However, for a new Islamic bank branch, hiring a manager from a conventional bank who supports the contested banking logic also carries risks. As a deputy manager explained:

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

Thus, logic plurality in branch founding teams is likely a double-edged sword. That is, compared with all-conformist founding teams in which only the Islamic banking logic is represented, hybrid founding teams are more likely to project a particular branch image and identity to customers in the local community that can have positive or negative implications for the branch’s long-term performance. Building on
the neo-institutional approach to hybridity and the imprinting literature (Almandoz, 2014; Battilana and Lee, 2014; Marquis and Tilcsik, 2013), we expect that whether the potential advantages or disadvantages of hybrid founding teams affect the long-term performance of the organization depends on both internal and external contingencies. As we explain below, we expect that hybrid founding teams with conformist leaders are able to implement a balanced identity that improves long-term organizational performance, whereas those with alien leaders are not. Moreover, the extent to which conformist-led and alien-led hybrid founding teams outperform or underperform all-conformist founding teams will also likely depend on how much the external audiences in the embedding community value (identity) purity, and are willing to accept practices and customer experiences that deviate from (identity) purity. The extent to which audiences value purity is captured by two community characteristics. One is ideological polarization (the degree to which the community is polarized by the ideologies that underlie the oppositional logics, Boone and Ozcan, 2016, 2020); the other is demographic stability (the level of immigration in the community, Carroll and Torfason, 2011).

Vertical power differentiation and the legitimacy of the leader in hybrid teams. The collective social dynamics in a founding team can greatly affect the outcome of the imprinting process. If, for example, the founding members with oppositional logics are more willing to familiarize themselves with each other’s logics, they will be better able to meaningfully combine different perspectives, recognize entrepreneurial opportunities, and formalize multiple logics in the organization. These actions can, in turn, set the stage for the imprinting of an effective and balanced identity in the organization that is valued by external audiences (Dufays and Huybrechts, 2016). The likelihood that this imprinting process will be successful depends on how the oppositional logics are vertically differentiated across the organizational and team hierarchies (see also Greenwood et al., 2011). Specifically, we predict that if the leader of a hybrid founding team supports a contested logic (alien-led hybrids), the leadership may be regarded as illegitimate both externally and internally, and be unable to effectively combine templates of the oppositional logics to serve a broad range of customers (see also Vial and Napier, 2016). This could, in turn, hamper the development of a balanced branch identity that meets the approval of external audiences. Consequently, such branches may be expected to perform worse than those with all-conformist founding teams. In contrast, if hybrid founding teams are led by managers with the legitimate logic (conformist-led hybrids), they can convey leadership legitimacy externally and internally, while also harnessing the expertise on the contested logic of their subordinates. Hence, conformist-led hybrid founding teams may be able to develop legitimate but distinctive organizational identities that spur organizational performance (Navis and Glynn, 2011) – this legitimate distinctiveness can give such hybrid teams a performance advantage over all-conformist founding teams (see the horizontal arrows in Figure 1). To back up this prediction, we also make two specific arguments below based on external audiences’ direct and indirect approval of internal vertical logic representations.
First, we argue that to succeed, hybrid organizations need to strike a good balance between purity and pragmatism. That is, they need to claim and convey legitimacy to external audiences, while mobilizing a diverse workforce to serve a wide range of customer bases and market niches (Boone and Ozcan, 2016, 2020; Pache and Santos, 2013). In our setting, Islamic banks that hire both conventional and Islamic bankers have a diverse set of employees who can offer various Islamic adaptations of conventional banking products and serve a wide spectrum of liberal to conservative Muslim customers. At the same time, however, the Islamic banking logic, which emerged in opposition to conventional banking, is considered by Islamic audiences to be more legitimate for Islamic banks than the conventional banking logic. Thus, in Islamic banks and among Islamic audiences, the Islamic banking logic has a higher status than the conventional banking logic. Given the status differences of these two banking logics, whether the individual who is appointed to lead a hybrid founding team does or does not support the legitimate logic will affect the identity that is imprinted in the new branch, and that is conveyed to external audiences. Appointing conventional bankers with the contested logic as founding team leaders in an Islamic bank branch may be seen as controversial by Islamic audiences, because it signals the willingness of the branch to deviate from the core principles of Islamic banking and Islamic identity. Thus, compared with an all-conformist founding team, an alien-led hybrid founding team may be penalized by external audiences for deviating from Islamic principles; this could have long-term negative consequences for the branch’s operations and performance. In contrast, appointing an Islamic banker with the legitimate logic to lead a hybrid founding team may be seen as appropriate by Islamic audiences, because the formal power distribution in the founding team matches the legitimacy status orders of the two banking logics for Islamic banks. Thus, compared with an all-conformist founding team, a conformist-led hybrid founding team may not be penalized by external audiences, or experience negative long-term consequences.

Second, we argue that a misalignment of power and status in an alien-led hybrid founding team may lead to severe conflicts in the team, which could, in turn, prevent the team from developing effective approaches to operating the branch and serving diverse customers in the local community. In Islamic bank branches, low-status leaders (e.g., founding leaders with the conventional banking logic) often face challenges from high-status subordinates (e.g., founding members with the Islamic banking logic), and reciprocate with aggressive behaviours (Anicich et al., 2015; Fast and Halevy, 2012; Vial et al., 2016). Lower-status alien leaders who are not regarded as legitimate leaders by higher-status conformist subordinates may lack sufficient support to lead founding teams, to develop effective services that create positive experiences for diverse Muslim customers, and to form and imprint an appealing branch image and identity in the local community. Thus, compared with all-conformist founding teams, alien-led hybrid teams may be unable to translate the advantage of their diverse human capital into strong branch performance. In contrast, in conformist-led hybrid founding teams, the power-status alignment can reduce conflicts within the team, and allow for the efficient mobilization of the expertise of lower-status subordinates (see Halevy and Chou, 2011). Higher-status leaders with the legitimate Islamic banking logic are able to smoothly mobilize the unique expertise of lower-status subordinates with the conventional banking logic, and can use it to develop the measures needed to operate...
the branch and to serve its customers. Thus, compared with all-conformist founding teams, conformist-led hybrid founding teams are better able to develop services that appeal to a wide spectrum of consumers, create pleasant customer experiences, and imprint a positive branch image and identity in the local community – this may have a positive impact on the branch’s long-term performance.

Based on the two arguments above, we posit that compared with Islamic bank branches founded by all-conformist teams, those founded by alien-led hybrid teams may face long-term liabilities due to an illegitimacy discount, while being unable to benefit from diverse expertise; branches founded by conformist-led hybrid teams may not suffer from those liabilities, while being able to reap the benefits of diverse expertise. We expect:

**Hypothesis 1a**: The long-term performance of Islamic bank branches founded by alien-led hybrid teams will be lower than that of branches founded by all-conformist teams.

**Hypothesis 1b**: The long-term performance of Islamic bank branches founded by conformist-led hybrid teams will be higher than that of branches founded by all-conformist teams.

**Local community context, the saliency of ideologies, and the value of purity.** The degree to which hybrid staffing at the founding of a bank branch affects the branch’s imprinted identities and long-term performance depends on the community context in which the branch is currently operating (Boone and Ozcan, 2020; Marquis and Battilana, 2009; Marquis and Lounsbury, 2007; Marquis and Tielcsik, 2013). This is because the community’s characteristics affect the extent to which ideological differences become salient, and how much external audiences value purity. In other words, the community context moderates the performance effects of how branches approach the purity-pragmatism trade-off, and imprint associated identities (see the vertical arrows in Figure 1). We focus on two such community characteristics that have been shown to affect the saliency of ideologies, namely, ideological polarization and demographic stability (Boone and Ozcan, 2020; Divarci et al., 2017; Carroll and Torfason, 2011).

In ideologically polarized communities, the ideologies underlying the oppositional logics are more salient, and the value placed on purity (and conformism) is higher than in ideologically homogeneous communities (Boone and Ozcan, 2014, 2016, 2020; Divarci et al., 2017; Pozner and Rao, 2006). In line with social identity and faultline theory (Lau and Murnighan, 1998; Tajfel and Turner, 1979), when communities are ideologically polarized, the identities associated with these ideologies are seen as salient, which spurs community actors to protect their ideological positions, and increases in-group solidarity and between-group competition (Olzak, 2011; Rao et al., 2010; see also Syakhroza et al., 2019). In such cases, community actors will attach greater value to pure identities, and are more likely to penalize organizational identities that deviate from purity (Boone and Ozcan, 2016). As a result, in the our setting, customer experiences associated with less pure branch identities (i.e., those shaped and imprinted by alien-led and conformist-led hybrid teams) will be less appealing to – and thus more severely penalized by – (potential) Islamic customers in ideologically polarized communities than in ideologically polarized communities.
non-polarized communities. In other words, for a bank branch, the contemporaneous ideological polarization in the local community will aggravate the long-term performance disadvantage associated with having an alien-led hybrid founding team, and will attenuate the long-term performance advantage of having a conformist-led hybrid founding team. We therefore expect:

**Hypothesis 2a**: The long-term performance disadvantage of Islamic bank branches founded by alien-led hybrid teams relative to those founded by all-conformist teams will be larger when community ideological polarization is higher.

**Hypothesis 2b**: The long-term performance advantage of Islamic bank branches founded by conformist-led hybrid teams relative to those founded by all-conformist teams will be smaller when community ideological polarization is higher.

Because communities demarcate the geographic territories in which organizations and local audiences interact (Marquis and Battilana, 2009), *demographic stability* in the community can provide organizations with a stable reference point for local values, norms, and traditions, and can reinforce bonds between organizations and local audiences (Carroll and Torfason, 2011). In demographically stable communities (i.e., those with low levels of net migration), the expectations of organizations are widely shared by local audiences (Cruz and Beck, 2018), and the levels of social cohesion and solidarity tend to be high (Putnam, 2000). In our setting, Muslim audiences in more demographically stable communities are more likely to share strong social ties and have a strong collective impact on external evaluations of local Islamic bank branches. It is important for Islamic banks in such communities to have a pure identity and a shared ideology with local audiences, because deviations from pure Islamic banking principles and identity are more likely to be observed, scrutinized, and collectively commented on – and, eventually, penalized – by local audiences. In contrast, local audiences in less demographically stable communities might be more receptive to alien organizations whose logics deviate from the logics represented in local organizations (Carroll and Torfason, 2011). In our setting, shared ideologies are expected to be less salient, and pure identities less valued by local audiences, if the demographic boundaries of a community are more blurred by high levels of migration. In sum, the identities that alien-led and conformist-led hybrid founding teams have imprinted on organizations may lead to more severe external penalties in more demographically stable communities. We therefore expect:

**Hypothesis 3a**: The long-term performance disadvantage of Islamic bank branches founded by alien-led hybrid teams relative to that of branches founded by all-conformist teams will be larger when the demographic stability of the community is higher.

**Hypothesis 3b**: The long-term performance advantage of Islamic bank branches founded by conformist-led hybrid teams relative to that of branches founded by all-conformist teams will be smaller when the demographic stability of the community is higher.

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METHODS

Sample and Data Sources

We test our hypotheses using data from Turkish Islamic banks from 2002 until 2019. Although modern-day conventional banking has a history spanning 150 years in Turkey, Islamic banking is a relatively recent phenomenon in the country. The first Islamic banks emerged in the mid-1980s following a period of financial liberalization and trade deregulation. Since then, the industry has grown steadily. As of 2019, Islamic banking assets in Turkey had reached nearly 45 billion USD, and accounted for nearly 6 per cent of total banking assets. Currently, there are around 1,200 Islamic bank branches operating in Turkey, which employ more than 15,000 people. All Islamic banks are retail banks.

During our study period, eight Islamic banks were operating in the country. These banks collectively launched 1,165 new branches. Figure 2 below shows the yearly numbers of new Islamic bank branches launched over time.

By law, private organizations of all types (commercial enterprises, foundations, NGOs, charities) must register with the Chamber of Commerce offices in their districts at the time of their establishment. The Chamber of Commerce then prints this information in a daily publication called the Turkish Trade Registry Gazette, which has been published since 1957.

For each newly created entity, the Gazette publishes information on the entity, including its official address and details about its ownership structure, governance, capitalization,
management, and employees. After the establishment, the owners/managers of the entity must report all critical changes at the company, such as changes in the management roles, the ownership structure, the official address, and the workforce; they must also report information on the outcomes of annual shareholder meetings, lawsuits, and dissolutions. From the Gazette archives, we could obtain precise information on the date when each bank branch was established, the branch’s official address, and its founding team (e.g., names and positions/titles). By tracking the information on a branch in the Gazette, we could also observe the evolution of the branch’s personnel (e.g., names, positions/titles, and exits and entries).

The Gazette is our primary source of information. By searching the Gazette archives, we constructed a daily career dataset for all Islamic banking personnel. Besides capturing the evolution of both the new and old branches and of the headquarters of each bank, we tracked employee promotions and mobility across the branches, as well as between the banks.

We started our data period in 2002 for two reasons. First, prior to this period, there was very little branching activity in Islamic banking. Second, between November 2000 and January 2002, the country underwent a major banking crisis and had to be bailed out by the International Monetary Fund. In early 2001, the country initiated a major financial sector restructuring program, and the newly created stability fund closed several small banks and merged others. By the end of 2001, the financial sector had stabilized.

### Dependent Variable and Modelling

Our unit of analysis is a newly created branch. During our study period, the banks collectively launched 1,165 new branches. Our estimations model the growth of 1,147 of these new branches. We are unable to model the remaining ones, either because they opened in the last period of our study (10), or because they were so-called ‘satellite branches’ (8), which did not have full branch staff, and were only open on certain days with limited service.

As we do not have financial data on each branch (e.g., assets, deposits, loans), we attempt to predict the growth of each branch based on its employee numbers over time. We use this approach, because is well accepted in the literature that organizational growth is an excellent indicator of long-term performance (see, e.g., Barron and West, 1994).

Employee growth is a good indicator of the long-term performance of these branches for several reasons. First, although Islamic banking is an insurgent logic that is still emerging, there is a growing demand for its products on a global scale. As a result, it accounts for a small, but rapidly growing share of all financial transactions. The increase in the number of employees at the bank branches is a clear indicator of the successful diffusion of Islamic banking in communities, because the employees were hired to meet the growing demand for banking services at these branches. At the same time, Islamic banking products and their principles are not as easily and widely understood as conventional banking products. Thus, Islamic banks need to educate the public about their products through personal contact and customized experiences, which requires the banks to
equip their branches with enough employees. Second, the environment in which these branches are operating is extremely competitive, with the competition from both Islamic and conventional banks. This leaves little room for branches to overinvest in employees, or to have resources that are not used. More broadly, Islamic banks are subject to the same banking regulatory oversight as conventional banks, which requires them to adhere to certain performance ratios in order to maintain their banking licenses.[5] All Turkish Islamic banks are required by law to publicly disclose their financial statements and a wide range of performance metrics every quarter. They are also obligated to produce and publicly distribute in-depth annual reports. This high level of operational transparency makes it possible to compare among Islamic banks, and to compare Islamic banks with their conventional peers. Thus, Islamic banks are pressured to be performance-oriented. We can therefore conclude that the level of employee growth at each branch can be used to measure the extent to which the branch successfully meets local demand. Indeed, the Islamic branch managers we consulted for our research pointed out that the focus of Islamic banking has shifted toward aggressive growth over time. As one veteran branch manager explained:

“The first two generations of Islamic bankers were true idealists. To them Islamic banking was a mission, a form of Jihad if you will. Over the past two decades unfortunately this spirit has entirely vanished. Islamic banking has become all about profits and aggressive growth”.

For our analysis, we have selected six months as the time unit. As bank branches are relatively stable organizations, the use of this window enables us to capture the nature of each branch’s turnover and expansion.

We estimate standard growth models in which the proportional employee growth rate \((\text{Size}_{i,t+1}/\text{Size}_t)\) of the branch is assumed to depend on the size at time \(t\), and an exponential function of independent variables that impinge on that growth rate (for details, see Carroll and Hannan, 2000). To simplify our estimations, the growth models are log-transformed. This implies that we are estimating the models with the natural logarithm of the branch size in a given time unit (half a year) on the left-hand side, and the previous period’s logged branch size on the right-hand side. In formal terms, the model we estimate can be expressed as:

\[
\ln \left( S_{i,t+1}/S_{i,t} \right) = \theta \ln \left( S_{i,t} \right) + r_{it} + \varepsilon_{i,t+1}
\]

where \(S\) is the size of the branch, and \(r\) represents other covariates, including the explanatory variables. If we rewrite the formula as in the following, we obtain proportional growth as a function of branch size multiplied by an exponential function:

\[
\left( \frac{S_{i,t+1}}{S_{i,t}} \right) = S_{i,t}^{\theta-1} \exp \left( r_{it} + \varepsilon_{i,t+1} \right)
\]

This equation then has the same setup as a hazard rate model. All coefficients can thus be interpreted as multipliers of growth rates. As we have panel data, we estimate the branch
growth by GLS random effects models; because the branches are nested in banks, we cluster the observations by banks. It is worth noting that the distribution of our dependent variable is close to being bell-shaped symmetric (skewness: 0.45, and kurtosis: 3.4).

**Independent Variables and Moderators**

Our independent variables are categories of founding teams. We define a branch’s founding team as the branch’s initial manager and the deputies (i.e., branch management) in the first six months after it is established. These individuals collectively set up the branch’s operations, influence the personnel selection, seed the branch’s culture and norms, and supervise the operations. In a newly established branch, the founding personnel beyond the management typically include specialists or analysts (e.g., loan, credit), relationship managers, sales representatives, and customer service staff. These personnel roles and titles in the branches differ marginally across Islamic banks.

We construct four categories of founding teams (all dummy variables) by examining the prior career experiences of the founding team members to operationalize which logic each member represents (see also Almandoz, 2014). **All-conformist teams** are teams in which all of the founding team members were previously employed in Islamic banking (66 per cent of all newly established teams). At the opposite end of the spectrum are the **all-alien teams** in which all of the members were employed in conventional banking prior to joining the focal branch (3 per cent). Stated differently, these team members had never worked in any Islamic bank until their current appointment in the new branch. In between these two ends, we defined two hybrid categories: **alien-led hybrid teams** (12 per cent) and **conformist-led hybrid teams** (19 per cent). In an alien-led hybrid team, the branch manager was directly recruited from conventional banking to head the new branch, but at least one of his/her deputies was transferred internally from the Islamic bank or was hired from another Islamic bank. In a conformist-led hybrid team, the branch manager was appointed from the same or another Islamic bank, but at least one of his/her deputies had been a conventional banker.\[6\]

Recall that we have career data for the Islamic banking professionals, which allows us to identify each founding team member’s prior context of employment. When an individual did not appear in our data before s/he was employed at the current branch, we identified the individual as a conventional banker (i.e., an alien). After identifying all aliens, we cross-checked their backgrounds with publicly available information (e.g., press releases, newsletters, print and online news, LinkedIn profiles) for verification. Moreover, as we explained above, the Gazette covers all conventional bank branches as well. As a second form of verification, we also examined the Gazette’s archives for information about the aliens we identified.

Our first moderator variable, **community ideological polarization**, captures the degree to which the community where the focal branch was located was polarized along the ideological lines of religious liberalism and conservatism. Following prior work (Boone and Ozcan, 2016), we adopted the town as the community unit, and operationalized the polarization by examining the voting patterns in national and regional elections. We used the polarization index proposed by Esteban and Ray (1994) to measure the liberal-conservative polarization of the local community in Turkey (see also Divarci et al., 2017). This index is based on the Gini coefficient, and takes into account both the size of the political party bases and the ideological distance between the political parties. Divarci et al. (2017) relied upon political scientists
in the country to classify all of the political parties entering elections on a secular-religious scale, ranging from one (extremely secular) to 10 (extremely religious), which then formed the basis for computing the ideological distance between them. Polarization is a function of

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

in which \( k \) is the scaling factor, \( \pi_i \) denotes the proportional size of the groups, \( |y_i - y_j| \) gives the distance between groups \( i \) and \( j \), and \( \alpha \) parameterizes the degree of polarization sensitivity that takes a value between zero and 1.6. Following Divarci et al., (2017), we measured the size of the groups by using the proportional number of votes that political parties received in each election at the town level. The distance between the polarized groups was measured by the aforementioned classification of political parties. We set \( k = 1 \) (\( k \) is a multiplicative constant and does not have any qualitative effect on the results) and \( \alpha = 0.8 \). Hence, we followed most researchers by giving a balanced weight to the size of, and the distance between, the sub-groups. We ran robustness analyses with \( \alpha = 0.4 \) and \( \alpha = 1.2 \), which produced a pattern of findings similar to those we report in this paper (available upon request). When the index is low, the community members have strongly overlapping ideological beliefs.

Our second moderator variable, community demographic stability, is operationalized by the yearly growth rate of the population in the town of the focal bank branch. Since our focus was on migration, we adjusted the town populations for deaths and births before computing the yearly growth rates. A higher growth rate suggests that the community experienced greater net migration, which should have led to more disruption to its demographic stability. We multiplied this variable by \(-1\) to capture stability.\(^6\)

**Control Variables**

We include several groups of control variables to rule out alternative explanations. The first group is made up of contemporaneous controls for branch management. Manager tenure captures the branch manager’s duration of service at the focal branch. As expected, we find that over time, the branches experienced leadership turnover. This variable is set to zero with every new arriving manager in the six-month window. The variable branch management experience is included to rule out the prior managerial experience of the branch manager. It is a count of the number of branches the focal manager managed prior to the current appointment. Prior managerial experience should increase the branch manager’s capability to grow his/her branch.

Our second group of controls are included to remove the effect of the branch characteristics. We control for the previous period’s branch size. As in the case of the dependent variable, we take the natural logarithm of this variable. Branch age measures the age of the branch since its founding. It is likely that holding the size constant, branch growth will decrease with branch age.

Our third group of controls are included to rule out the bank-level determinants of branch performance. Bank performance is the return on assets in a given half year. Bank size captures the size of the Islamic bank in terms of its logged assets.
Our fourth group of controls encompasses community-level factors that may affect the growth of the focal branch. Conservative town captures the degree of conservatism in the town. This is an additional proxy for demand for Islamic banking products and services. We operationalize this variable by the percentage of votes for Islamist political parties in the town in the previous election. Islamic branch density and the conventional branch density (count variables) are also included to rule out the effects of competition. We re-scale the latter by dividing it by 100. Town population (logged) is a proxy for the local demand.

We lag all of our independent and control variables by one period (i.e., performance at time $t$ is regressed on the vector of predictor variables at $t-1$). We also include bank dummies and year dummies to net out the effects of unobserved bank differences and time. Turkey is divided into seven geographic regions. We include region dummies to account for heterogeneity across regions in terms of economic and social factors that may affect branch growth.

### Estimation Method

Our estimations may suffer from endogeneity, as the selection of the founding team is not random, but is likely to be driven by the bank’s assessment of the branch’s growth potential. To correct for this endogeneity, we apply a two-stage Heckman framework (Certo et al., 2016; Heckman, 1979; Wolfolds and Siegel, 2019). This framework involves the estimation of a probit model for selection in the first stage in which the focal explanatory variable of the second stage (i.e., the type of branch founding manager/team) is regressed against a carefully chosen set of variables that may affect the selection process. In the second stage (i.e., the growth models), one then includes in the estimations an endogeneity control variable (the inverse Mills ratio), calculated from the first-stage probit model by using the predicted values of the regressors.

To test the robustness of our results, we estimate four first-stage models, each with a different dependent variable. The models measure the selection of an alien founding branch manager (Model 1 in Table I), the selection of a hybrid founding team (Model 2), the selection of an alien-led hybrid founding team (Model 3), and the selection of a conformist-led hybrid founding team (Model 4). The independent variables capture the community-level demand conditions (e.g., the town’s ideological polarization and population), the local competitive conditions (e.g., the conventional branch density), and the firm-level characteristics (e.g., bank performance) at the time of the branch founding. Thus, the variables are factors that might affect the types of branch manager/teams the banks select. We also include the number of employees at the time of the founding, as this initial investment is an excellent indicator of the bank’s estimation of the growth potential of the focal branch.

Furthermore, we introduce two variables as exclusion restrictions, namely, profit orientation and new branch openings. We develop the former measure of profit orientation through a content analysis of all the CEO letters to shareholders from the annual reports during our study period. Our content analysis method builds upon the Sapir-Whorf hypothesis on linguistic relativity, which suggests that words are not used accidentally, but reflect the authors’ attitudes. In a similar vein, letters to shareholders have been shown to be
‘excellent sources of managerial cognitions’ (Short et al., 2010, p. 334). To derive the variable, we implement a dictionary (word list) based on the findings of previous studies. This dictionary includes such words as income, profit, value, revenue, return, money, earnings,
rewards, and productivity (see Zachary et al., 2011, and Short et al., 2010). We then calculate a ratio, which has the number of words in the word list as the nominator, and the total number of words that appeared in the letter as the denominator. The latter measure of new branch openings is the count of the new branches the bank opened in the previous time period. We include this variable, because a large number of branch openings in a short time period could strain the bank’s internal talent pool, and force it to look outside its boundaries. In addition to these two variables, we include both year and region dummies.[8]

In Model 1 (Table I) in which the unit of analysis is the individual branch manager, we also include branch management experience and local experience. These two variables capture the human capital of the founding branch manager, which is, in turn, likely to affect the manager’s probability of being selected. We present these estimates in Table I.

In the second stage, we apply a GLS random-effects model to our panel data, and we present robust standard errors clustered on the bank. For the sake of parsimony, we include in our second stage models the inverse Mills ratios obtained from both Model 3 and Model 4 (of Table I). The results remain qualitatively the same when we include the inverse Mills ratios obtained from either Model 1 or Model 2 (available upon request).

**FINDINGS**

Table II displays the means, the standard deviations, and the Pearson correlations for all of the study variables. The correlations between the variables are low to moderate.

Table III provides the regressions for branch size growth. In Model 1, we test the effects of the alien-led hybrid team variable and the conformist-led hybrid team variable on branch size growth (both variables are dummy variables). As we want to compare the growth of these branches against the growth of branches founded by all-conformist teams, the latter branches are the omitted category. In Hypothesis 1a, we predicted that Islamic bank branches founded by alien-led hybrid teams would grow less than those founded by all-conformist teams. The results in Model 1 support this prediction. The corresponding variable (alien-led hybrid teams) has a strongly significant and negative coefficient. In Hypothesis 1b, we predicted that the growth of Islamic bank branches founded by conformist-led hybrid teams would be greater than that of branches founded by all-conformist teams. Our results also confirm this prediction. The coefficient of the conformist-led hybrid team variable is found to be statistically significant, with the predicted positive sign ($p = 0.051$; two-sided).

We add our community interaction variables stepwise. In Model 2, we include the terms alien-led hybrid teamXcommunity ideological polarization and conformist-led hybrid teamXcommunity ideological polarization. In Model 3, we include the terms alien-led hybrid teamXcommunity demographic stability and conformist-led hybrid teamXcommunity demographic stability. In Model 4, we include all four interaction terms simultaneously.

In Hypothesis 2a, we predicted that in communities with greater ideological polarization, the growth disadvantage of Islamic bank branches founded by alien-led hybrid
Table II. Descriptive statistics and correlations

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<tbody>
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<td>(2) Alien-led h. f. team</td>
<td>0.12</td>
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<td>(4) All-alien f. team</td>
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<td>(5) Comm. ideol. polar.</td>
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<td>0.07</td>
<td>0.04</td>
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<td>(7) Manager tenure</td>
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<td>(8) Branch manag. exper</td>
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<td>(9) Branch size (lag)</td>
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<td>(11) Bank performance</td>
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<td>0.01</td>
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<td>(12) Bank size</td>
<td>16.71</td>
<td>0.96</td>
<td>0.22</td>
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<td>(13) Conservative town</td>
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<td>(14) Islamic branch density</td>
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<td>7.35</td>
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<td>-0.05</td>
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<td>(18) Inv. Mills ratio (2)</td>
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<td>-0.11</td>
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<td>0.12</td>
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Note: All coefficients greater than 0.01 or smaller than -0.01 are significant at p < 0.05.
### Table III. Determinants of branch size growth (Random-Effects GLS Regressions)

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<td>Alien-led hybrid f. team</td>
<td>−0.013***</td>
<td>0.019</td>
<td>−0.013***</td>
<td>0.019*</td>
<td>−0.009</td>
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<td></td>
<td>(0.005)</td>
<td>(0.015)</td>
<td>(0.005)</td>
<td>(0.011)</td>
<td>(0.006)</td>
<td>(0.010)</td>
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<tr>
<td>Conform.-led hybrid f. team</td>
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<td>0.006*</td>
<td>0.001</td>
<td>0.008</td>
<td>0.009***</td>
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<tr>
<td></td>
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<td>(0.003)</td>
<td>(0.016)</td>
<td>(0.016)</td>
<td>(0.003)</td>
<td>(0.015)</td>
</tr>
<tr>
<td>All-alien founding team</td>
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<td>0.012***</td>
<td>0.012*</td>
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<td>0.014*</td>
<td>0.014*</td>
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<tr>
<td></td>
<td>(0.006)</td>
<td>(0.006)</td>
<td>(0.006)</td>
<td>(0.006)</td>
<td>(0.008)</td>
<td>(0.007)</td>
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<td>Comm. ideol. polariz.</td>
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<td>−0.001</td>
<td>−0.008***</td>
<td>−0.000</td>
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<td>(0.004)</td>
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<td>Comm. demogr. stab.</td>
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<td>0.038**</td>
<td>0.043**</td>
<td>0.043**</td>
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<td>(0.017)</td>
<td>(0.021)</td>
<td>(0.019)</td>
<td>(0.017)</td>
<td>(0.016)</td>
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<td>−0.002***</td>
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<td>(0.001)</td>
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<tr>
<td>Branch manag. experience</td>
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<td>0.004**</td>
<td>0.004**</td>
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<td>0.004***</td>
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<tr>
<td></td>
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<tr>
<td>Branch size (lag)</td>
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<td>0.850***</td>
<td>0.851***</td>
<td>0.851***</td>
<td>0.833***</td>
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<tr>
<td></td>
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<td>(0.037)</td>
<td>(0.037)</td>
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<tr>
<td>Branch age</td>
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<td>0.002*</td>
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<tr>
<td>Bank performance</td>
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<td>1.560***</td>
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<td>Bank size</td>
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Table III. (Continued)

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<td>(0.004)</td>
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<tr>
<td>Inverse Mills ratio (1)</td>
<td>−0.031***</td>
<td>−0.030***</td>
<td>−0.031***</td>
<td>−0.030***</td>
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<td>(0.003)</td>
<td>(0.003)</td>
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<tr>
<td>Inverse Mills ratio (2)</td>
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<td>−0.021*</td>
<td>−0.021*</td>
<td>−0.021*</td>
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<td>(0.215)</td>
<td>(0.213)</td>
<td>(0.194)</td>
<td>(0.192)</td>
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<td></td>
<td>−0.035**</td>
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<td>(0.014)</td>
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<td>Bank Dummies</td>
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<td>Yes</td>
<td>Yes</td>
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<td>Yes</td>
<td>Yes</td>
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(Continues)
Table III. (Continued)

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<th>M4</th>
<th>M5</th>
<th>M6</th>
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<td>Year &amp; Region Dummies</td>
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<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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<td>Observations</td>
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<td>14,662</td>
<td>14,662</td>
<td>14,662</td>
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<tr>
<td>R-Sq Overall</td>
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<td>0.89</td>
<td>0.89</td>
<td>0.89</td>
<td>0.89</td>
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</tbody>
</table>

Notes: Robust standard errors clustered on banks. Inverse Mills ratio one is derived from the first stage equation that predicts the selection of an alien-led hybrid founding team, whereas the second inverse Mills ratio is derived from a selection equation that predicts the selection of a conformist-led hybrid founding team. Models 5 and 6 exclude the inverse Mills ratios.

*p < 0.10; **p < 0.05; ***p < 0.01; two-sided tests.
teams relative to those founded by all-conformist teams would be larger. Conversely, in Hypothesis 2b, we predicted that in the same communities, the growth advantage of branches founded by conformist-led hybrid teams relative to those founded by all-conformist teams would be smaller. In Model 2, the interaction term alien-led hybrid team X community ideological polarization is negative and significant, supporting Hypothesis 2a. In Model 4, the same term is also negative and strongly significant. The stability of the coefficient across these models strengthens the interpretation of the results. For Hypothesis 2b, we find no support in Models 2 or 4. The corresponding interaction term is statistically insignificant in both models.

In Hypotheses 3a and 3b, we sought to identify the moderating effect of community demographic stability. We predicted that in communities with greater demographic stability, the growth disadvantage of Islamic bank branches founded by alien-led teams relative to those founded by all-conformist teams would be larger (Hypothesis 3a), but the growth advantage of Islamic bank branches founded by conformist-led hybrid teams relative to those founded by all-conformist teams would be smaller (Hypothesis 3b). In both Model 3 and Model 4, the corresponding interaction terms are statistically insignificant. Thus, neither Hypothesis 3a nor Hypothesis 3b is supported.

We replicate Models 1 and 4 in Models 5 and 6 by excluding the inverse Mills ratios. The results from these models are broadly similar to the findings from Models 1 and 4, with the exception that the coefficient of the main effect of the alien-led hybrid teams is no longer significant (but is still negative; see Model 5). In line with earlier findings, branches founded by conformist-led hybrid teams outperform those founded by all-conformist teams (see the significant positive main effect of conformist-led hybrid teams in Model 5). Model 6 also shows (as Model 4) that the association between alien-led hybrid teams and branch performance is negatively moderated by the ideological polarization in a community.

In terms of the effect sizes, we first calculate them for the baseline hybrid team variables based on Model 1. The half-year multiplier of the growth rate of branches founded by alien-led hybrid founding teams is 1.3 per cent lower than that of branches founded by all-conformist teams. The half-year multiplier of the growth rate of the branches founded by conformist-led hybrid teams is 0.6 per cent larger than that of the branches founded by all-conformist teams. In terms of the community interactions, Models 2 and 4 indicate that the growth disadvantage of alien-led hybrid teams (per half-year) increases with community polarization from 1.3 per cent (at mean polarization) to 2.1 per cent and 2.9 per cent, when the polarization is one and two standard deviations above the mean, respectively.

In terms of control variables, several findings are noteworthy across the models. The coefficient of the lagged branch size is smaller than one, implying that the proportional branch growth decreases when the branch size becomes larger, as we would expect. Contrary to our expectations, manager tenure negatively affects the growth of the branch. Managerial inertia is one potential explanation for this finding. Managerial turnover can energize the branch, and the incoming managers are likely to set aggressive growth targets. In line with our expectations, an Islamic bank branch is more likely to grow, if its branch manager has more branch management experience, if the branch is located in a more populous town, and if the bank that opens the new branch is performing well.
It is also noteworthy that both inverse Mills ratios are significantly negative, suggesting that selection is an issue, and that the selection of both types of hybrid teams affect the subsequent growth of the focal branch. We ran a Wald test to test whether the inclusion of the inverse Mills ratios in Model 1 led to a statistically significant improvement in the fit of the model. The results showed that it did (chi-square: 179.31; prob>chi-square = 0.000), which confirmed the importance of controlling for endogeneity.

SENSITIVITY ANALYSIS

To check the sensitivity of our results to our modelling choices, we first experimented with additional controls to capture the following: whether the focal branch manager had previously worked in the city where the branch was located; whether the founding team had changed (i.e., whether any founding team member had been added, replaced, or removed); the distance to the nearest branch of the same Islamic bank (in kilometres); the number of conventional bank branches that closed in the town in a given period; whether the branch was located in a manufacturing district or a residential district; whether the focal bank was listed on the stock market; whether the CEO of the Islamic bank came from a conventional banking background; the entrepreneurial orientation of the bank (derived through content analysis); and the age of the industry. We also included half-year dummies. The results remained substantially the same. In the presented estimations, we clustered the observations by individual banks, as branches are nested in banks. We then re-estimated the same models by clustering the observations by branches. While the significance level for the conformist-led hybrid founding team was slightly weakened, there was otherwise no substantial change in any result. Alternatively, we dropped the clustering of both the banks and the branches, and did not observe any significant changes in our results.

We also re-estimated our models by excluding the branches founded by all-alien founding teams. These teams were rare, and the exclusion reduced the number of observations by 2.8 per cent. The results we obtained were almost identical to those reported in Table III.

We also examined whether the founding team effects disappeared over time. We created interactions between the hybrid founding team categories and branch age, and added them first sequentially, then simultaneously, to Model 1 in Table III. We found that the interaction between branch age and alien-led hybrid teams was negative and statistically significant (coefficient: $-0.003$, $p = 0.00$). This finding suggests that the detrimental effects of alien-led hybrid founding teams on branch growth increased over time. On the other hand, these models also showed that the interaction between branch age and conformist-led hybrid teams was positive, but insignificant. All of the results from our robustness checks are available upon request.

DISCUSSION

In this study, we examined how internal and external contingencies jointly determine the long-term organizational performance of hybrid founding teams. Focusing on
How are Competing Logics Combined in Managerial Teams?

newly established Islamic bank branches in Turkey from 2002 to 2019, we found that compared with branches founded by all-conformist teams, branches founded by alien-led hybrid teams had a yearly growth disadvantage of about 2.6 per cent, and branches founded by conformist-led hybrid teams had a yearly growth advantage of 1.2 per cent. The growth disadvantage of alien-led teams increased substantially with the extent of community ideological polarization, reaching 5.8 per cent on a yearly basis in highly polarized communities (i.e., the mean plus two times the standard deviations). Interestingly, we found that the growth advantage of the conformist-led teams did not seem to depend on the two community characteristics. We also found that the demographic stability of the community did not affect the growth differences of both the alien-led and the conformist-led teams relative to the growth of the all-conformist teams. We further discuss these findings below and draw a few important implications for future research.

Theoretical Implications

First, our study shows that beyond the degree of logic plurality, the vertical structure of oppositional institutional logics is a key internal contingency for the long-term failure and success of hybrid founding teams and the organizations they lead to found. Because oppositional logics are indicative of both identity incompatibility and resource heterogeneity (Battilana et al., 2016; Boone and Ozcan, 2016, 2020), simply making multiple logics available within an organization – via hybrid staffing or other strategies – is no guarantee of a long-term performance advantage for the organization (e.g., Wry and Lounsbury, 2014; see also Gumusay et al., 2020). In addition to behavioural processes such as creating negotiation spaces (Battilana et al., 2015) and co-developing organizational artifacts (Christiansen and Lounsbury, 2013), our study shows that the ideographic blending of oppositional logics can also be made effective through a structural arrangement in which the formal distribution of power in the organization is aligned with the legitimate status ordering of oppositional logics. It is important for hybrid organizations to have both leaders who support the legitimate logic (from the perspective of the focal organization) and subordinates who support the contested logic. In this way, the conformist leader possesses power and status, which allows the hybrid team and organization to effectively mobilize the novel expertise of the alien subordinates with the contested logic, yet to convey a balanced identity that is sufficiently legitimate from the perspective of external audiences (see also McMullen and Warnick, 2016). Consequently, such hybrid founding teams and their newly established organizations are able to develop products, implement services, and create (and imprint) identities that are appealing to a wide range of customers (and other audiences), and that create a performance advantage relative to non-hybrid founding teams. In contrast, the reverse logic structure in alien-led hybrid founding teams is unlikely to be effective, as the power-status misalignment tends to create internal conflicts (see Halevy et al., 2011), and conveys to external audiences that the organization deviates from its legitimate identity. Unable to draw on heterogeneous resources and facing an illegitimacy discount, alien-led hybrid founding teams and their organizations are destined to lose the competition with non-hybrid founding
teams and their organizations – especially when local audiences value (identity) purity (i.e., in ideologically polarized communities).

By drawing attention to the vertical structure of oppositional logics in the organization, our study advances two streams of hybrid organizing research. One stream of literature suggests that intra-organizational power distribution determines how an organization responds to multiple institutional logics (i.e., the logic represented by the leaders tends to gain dominance in the organization, Greenwood et al., 2011; Pache and Santos, 2010; Tilcsik, 2010). As noted, ‘appreciation and recognition of logics, and the choice of which logic to prioritize and how to do so, will be dictated by those with power’ (Greenwood et al., 2011, p. 344). Our study advances this knowledge by showing that the distribution of power alone is only half of the story. Instead, the legitimate status orders of oppositional logics also need to be taken into account and respected in the formal distribution of power in the organization. As shown, the power-status alignment and misalignment of oppositional logics in hybrid founding teams (i.e., conformist- vs. alien-led hybrids) can have different performance implications (even when the degree of logic plurality is the same). More broadly, another stream of hybrid organizing literature prescribes a formula for successfully combining elements of oppositional templates, that is, to manage the purity-pragmatism trade-off by incorporating the oppositional logics, yet conveying legitimacy. For example, Pache and Santos (2013) identify a ‘Trojan horse’ or selective coupling strategy. Using this strategy, an organization that lacks legitimacy in a field can achieve success in hybrid organizing by selecting intact elements from multiple logics, and strategically manipulating them to gain acceptance. Navis and Glynn (2011) argue that legitimate distinctiveness in entrepreneurial identities is crucial for investors’ judgments of entrepreneurial plausibility. Our study adds to this stream of literature, and suggests that the power-status structural alignment of oppositional logics is one of the strategies organizations can use to take advantage of the novel templates of the oppositional logics and to convey sufficient legitimacy to external audiences.

Second, our study shows how the external contingencies at the community level interact with the internal contingencies of hybrid founding teams in determining long-term organizational performance. It has been argued that one external challenge for hybrid organizations – including those implementing the hybrid staffing strategy – is to obtain legitimacy (and, hence, vital resources) from key external audiences (Battilana et al., 2016). Although previous studies attempted to identify the internal means and the external conditions that help hybrid organizations to reduce the illegitimacy discount of external audiences, they seldom integrated the two and examined their potential interactive effects. The internal means include, for example, the strategic naming of hybrid products and organizations (Smith and Chae, 2016; Zhao and Ishihara, 2013). The external conditions include, for example, flux or reform in the category system (Liu and Wezel, 2015) and the number of category-spanning organizations (Rao and Monin, 2005). Our study extends this literature and underscores the importance of the characteristics of the embedding community, which can affect the value local audiences place on (identity) purity. Specifically, if local audiences assign greater value to (identity) purity (i.e., in ideologically polarized communities), more severe penalties will be incurred to organizations with identities imprinted by alien-led hybrid founding teams. Thus, the contemporaneous community context can
exacerbate the long-term performance disadvantages associated with alien-led hybrid founding teams. The communities in which hybrid staffing strategies are more likely to succeed are those with less ideological polarization (also Boone and Ozcan, 2016, 2020).

Limitations

This study has four major caveats. First, our findings should be generalized with care to other types of organizations that employ hybrid staffing strategies. A few boundary conditions should be noted. While Islamic and conventional banking logics are highly incompatible and value-laden, other types of institutional logics may not be so (Besharov and Smith, 2014). Moreover, the branches we have studied are ‘spin-offs’ of organizations that are traditionally associated with one pure ideology and identity. This creates natural legitimacy status orders between the two banking logics in new Islamic bank branches. Again, this might not be the case for other types of organizations in which oppositional logics can have equal orders of legitimacy status. Additionally, we examined the vertical differentiation of only two oppositional logics across only two hierarchical levels of power and status. Future research could delve into nuances that involve more logic and hierarchical variations (Battilana et al., 2016).

Second, we did not actually observe what was being imprinted during the new branch founding process, or what identity-related beliefs or cultures the internal and external audiences had. Instead, we assessed the dynamics in founding teams and internal and external identity-related beliefs or cultures based on the structural features of the founding teams and the characteristics of the embedding communities. Future research should attempt to measure more directly the ‘black box’ of such dynamics and identity-related beliefs and cultures.

Third, we used community net migration growth to argue about the constraints and opportunities of different types of Islamic bank branches. We hypothesized that audiences would value purity less in communities with higher net migration, but did not find significant interactions with our hybrid team types. We speculate _ex post_ that high levels of migration in communities might have also destabilized them, spurring negative attitudes toward strangers, and making ideological differences more, rather than less, salient (Ceobanu and Escandell, 2010; Garcia-Faroldi, 2017). However, to differentiate between such opposing effects of migration, one needs more detailed data to map, for example, how much of the growth in immigration stems from liberal or conservative sectors. Unfortunately, such data are not available at the community level in the context of our study.

Finally, for studies that use non-experimentally generated data, making valid causal claims is a huge challenge due to problems of endogeneity (for a discussion in upper echelons research, see Neely et al., 2020). To deal with this issue, we paid considerable attention to the _ex ante_ selection of branch managers/hybrid teams in newly established branches, which might account for why some teams appear to be more successful than others _ex post_. As our results seemed robust to a variety of detailed, theoretically derived selection models and endogeneity controls, it increases our confidence in the hypothesized relationships.

Despite these caveats, this study – based on a detailed, comprehensive, and original dataset – provides valuable and novel insights into the hybrid organizing literature. It
points to enablers and inhibitors that organizations with hybrid staffing strategies can use to achieve long-term success in complex institutional environments.

**ACKNOWLEDGMENTS**

We thank our action editor Riikka Sarala and a second editor for their excellent editorial guidance and three anonymous reviewers for their valuable feedback. We gratefully acknowledge the financial support from the Research Foundation – Flanders (FWO) under project grant number G011917N. We very much appreciate all the constructive comments we received from the participants of the 2018 Nagymaros Organizational Ecology conference at the University of Cambridge (June 2018), and of the research seminar at Grenoble Ecole de Management (February 2020). Correspondence regarding this research can be addressed to Jia Li, jia.li@rug.nl or j.li@rsm.nl.

**NOTES**

[1] As is explained in more detail below, all-conformist teams are the ‘natural’ baseline, because Islamic banking emerged as an insurgent banking logic in opposition to conventional banking, which is based on principles that are not aligned with the faith of conservative Muslims. As a result, hiring managers from conventional banking in Islamic banks is still regarded as a contested practice especially by conservative Muslims, as it dilutes the purity of the bank’s identity. However, these hiring practices continue, because they allow Islamic bank branches to better serve liberal Muslims (which is a huge potential market niche consisting of clients who value pragmatism more than purity).

[2] Because our study is a large-scale quantitative analysis, we are not able to measure the underlying theoretical mechanisms indicated in Figure 1. This is a limitation, which we come back to in the discussion section.

[3] We conducted these interviews as part of a broader research program. We sampled the 10 interviewees from three Turkish Islamic banks. Five interviews were conducted face to face, and consisted of generic questions about branch management, performance measurement, and so forth. The other five interviews were conducted electronically, and consisted of specific questions about personnel selection for founding teams, recruitment of conventional bankers, personal interactions with conventional bankers, and so forth.

[4] As all-alien founding teams appear to be virtually non-existent, we do not theorize about this case. We do control for this team type in our empirical analyses.

[5] Throughout the history of Islamic banking, several Islamic banks around the world, including one in Turkey, have been forced to shut down by national authorities due to sustained poor performance (after restructuring attempts failed).

[6] We constructed four archetypes, as we wanted to compare the performance of alien- and conformist-led hybrid founding teams with that of all-conformist founding teams, respectively. At first glance, calculating a Blau index of logic plurality in the team and interacting it with a branch leader dummy (e.g., one if the leader is from conventional banking, and zero otherwise) could be an alternative way to test our hypotheses. However, this interaction term would be equal to zero in several qualitatively different cases (e.g., zero logic plurality in the team irrespective of the leader’s logic; a conformist leader irrespective of the level of logic plurality in the team). Thus, this approach would not allow us to study the contrasts of interest in a parsimonious way. Moreover, as one would expect, the overall number of branch managers and deputies with the conventional banking logic in the Turkish Islamic banking industry is still relatively low (despite its growth). For example, our data indicated that only 14 per cent of the founding team members were recruited directly from conventional banking. This precluded using more sophisticated, continuous measures to operationalize the different forms of team composition.

[7] We used this indirect approach to measure demographic stability, because information on immigration and emigration at the town level is not available.

[8] We ran the first stage regressions with bank dummies as well and found that neither the first stage results nor the second stage results differed substantially. We ultimately chose to exclude them due to multicollinearity with firm-level variables.
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