

II CONGRESO CIENTÍFICO-PROFESIONAL EN INNOVACIÓN FINANCIERA

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Raising equity by managing legitimacy

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Background

Legitimacy is “a condition reflecting cultural alignment, normative support and consonance with relevant rules or laws”.

(Scott, 1995)

It also represents a **key factor** in understanding organizational **growth and survival**.

(Meyer and Rowan, 1977; Zucker, 1987).

“Legitimate status is a sine qua non for **easy access to resources**, unrestricted access to markets, and long term survival.”

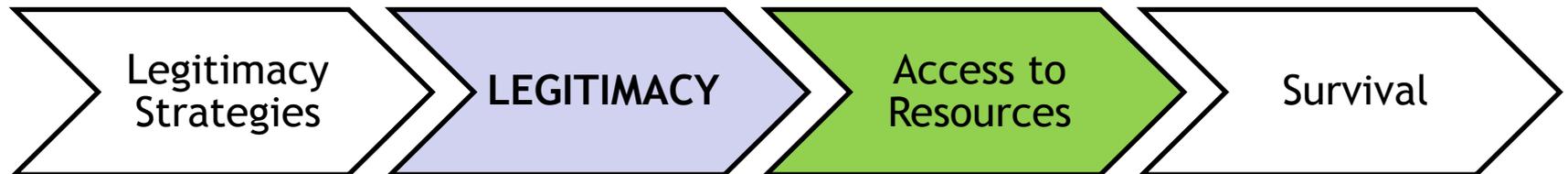
(Brown 1998, p. 35)

Background

By building their legitimacy, organizations have easier access to the strategic resources that are critical for their growth and survival.

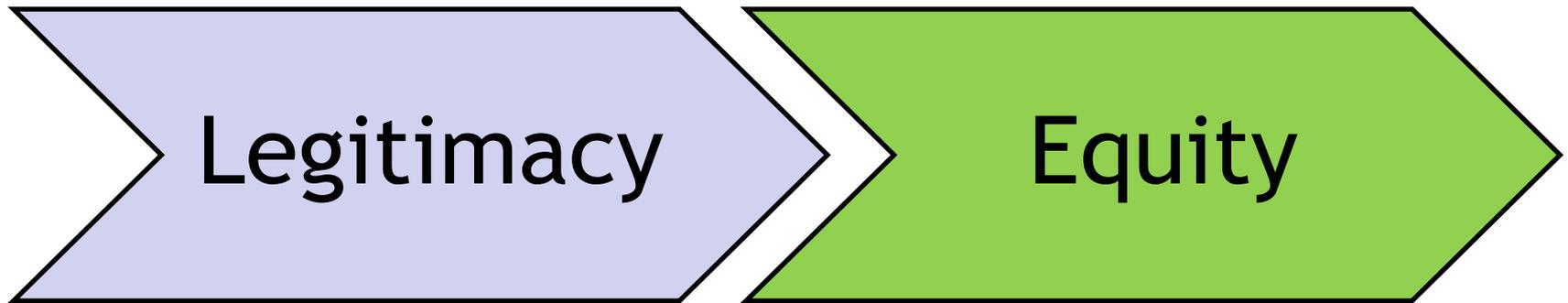
(Zimmerman and Zeitz, 2002).

Legitimacy process



Purpose of this study

▶ Do organizations with greater legitimacy obtain better access to equity?



We empirically analyze this relationship by examining Mutual Guarantee Societies industry in Spain.

Research Methodology

Sample

- ▶ The study is based on a sample of 22 Spanish Mutual Guarantee Societies (MGS)

Variables

Legitimacy

“whether an organization is legitimate, or more or less so, is determined by those observers of the organization who assess its conformity to a specific standard or model” *(Ruef and Scott, 1998, p. 880)*

“sources of legitimacy are the internal and external audiences who observe organizations and make legitimacy assessments”. *(Deephouse and Suchman, 2008)*

- ▶ To measure MGS legitimacy, survey questionnaires were sent by e-mail.
- ▶ 17 questionnaires were turned in, a 72.72% reply rate and
- ▶ In terms of turnover, represent 88.7% of the sector

Research Methodology

Variables

Equity

Equity for MGS comes from two sources:

1. participating members –SMBs that benefit from loan guarantees– and
2. institutional or patron members

▶Information on the equity levels of MGSs was obtained from the Annual Financial Reports.

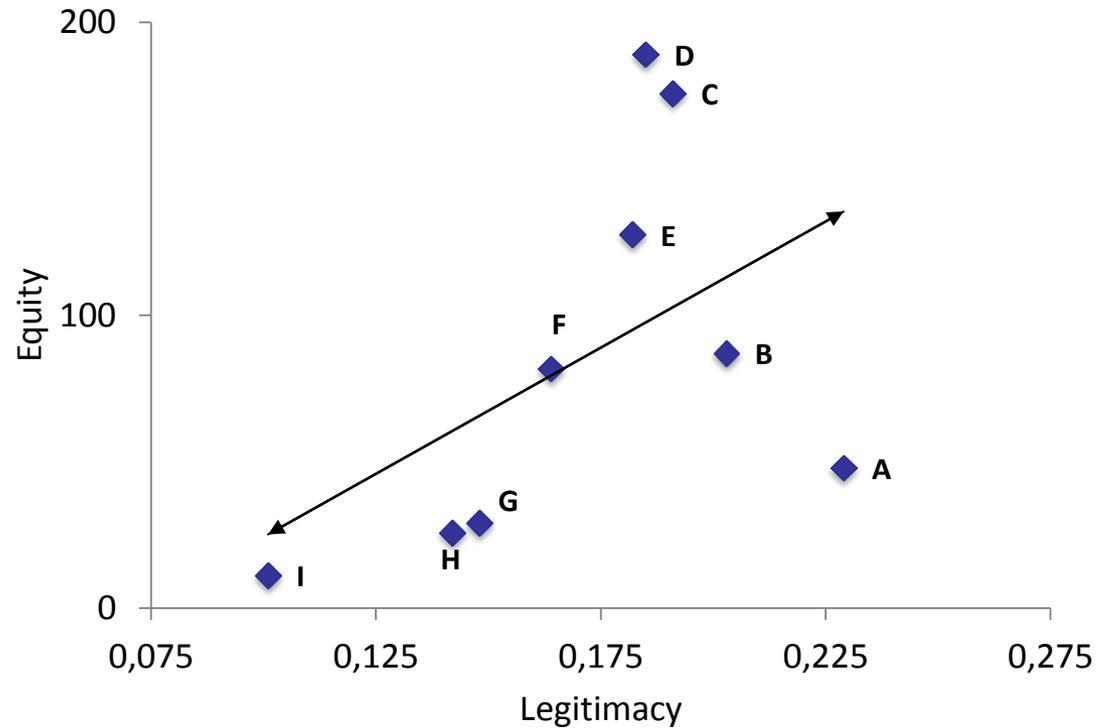
▶Of the 17 responding MGSs, only 9 had published their equity information

Research Methodology

- ▶ We used the Analytic Hierarchy Process (AHP), developed by Saaty (1977, 1980), to estimate legitimacy levels in MGS.
- ▶ AHP is a multi-criteria analysis technique
- ▶ This allows us to set a MGS's legitimacy ranking
- ▶ Being a non-parametric methodology, it is adequate for use in small population sizes.

Results

Company	Legitimacy	Equity
A	0,229	47,91
B	0,203	86,89
C	0,191	175,67
D	0,185	188,94
E	0,182	127,46
F	0,164	81,63
G	0,148	28,99
H	0,142	25,77
I	0,101	11,2



Companies with greater legitimacy issue a greater equity

Conclusions and implications

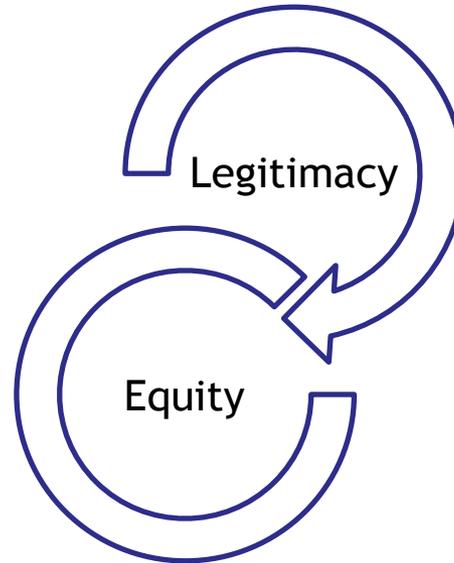
Results support the existence of a link between company legitimacy and the amount of equity



Recommendation for managers:

- ▶ Legitimacy can be actively sought and developed.
- ▶ Managing legitimacy it is useful to raise equity
- ▶ Managers could actively develop strategies to achieve legitimacy

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Thank you for your attention!