Profit and the legitimacy of the Canadian banking industry

Gaétan Breton
Département des sciences comptables, École des sciences de la gestion,
Université du Québec à Montréal, Montréal, Canada, and
Louise Côté
Service de l’enseignement des sciences comptables, HEC Montréal,
Montréal, Canada

Abstract
Purpose – Legitimacy is defined as the ability to exercise authority without resorting to open coercion. It is an essential asset for firms seeking to reach and maintain profitability. In this context, the purpose of this paper is to present the case of the Canadian banking industry, which has been highly criticized during the last decade for its record profits, low level of risk taking, high fees and buoyant CEO compensation packages. More specifically, this research aims to analyze the general public’s perceptions of the industry during a 50-month period, starting with the first strong reaction to recurrent announcements of record profits. It also seeks to look at industry reactions as a response to bank bashing.

Design/methodology/approach – The case study in this paper was conducted in two steps. It first analyzed public perceptions by studying the content of a sample of newspaper articles on the Canadian banking industry from 1996-2000. It then examined the industry’s reactions by reviewing the documents found on the web site of the Canadian Bankers Association.

Findings – The study shows that the crisis faced by the banking industry was of limited but sustained intensity. The industry used a mixed strategy, justifying itself through its public discourse and mounting a program to inform and educate the Canadian public on the effects of economic factors in their lives. The banking industry limited its reactions to Sethi’s first-level strategy found in the literature.

Originality/value – The paper highlights how the general public perceive profit levels in the Canadian banking industry and how legitimacy is clearly an issue in this context.

Keywords Banking, Public opinion, Public relations, Profit, Canada

Paper type Case study

Introduction
Fundamentally, legitimacy is the ability to exercise authority. On a continuum, where legitimacy is nil, authority relies on coercion. At the other end of the continuum, where legitimacy is at its peak, authority is exercised through ideological systems requiring...
no coercion. Examples of both extremes are difficult to find. Furthermore, time is a
great generator of legitimacy. Legitimacy gained over time can be assimilated into
Weber (1971) traditional legitimacy or Suchman (1995) cognitive legitimacy. The
existence per se of an institution or organization provides de facto legitimacy, i.e.
people will perceive something as normal, even natural, just because they have always
seen it around.

Our societies are divided into spheres or fields, as Bourdieu (1979, 2001) would
say. These fields are intertwined, but for political authority to be exercised, the
loyalty of the masses is necessary (Habermas, 1978). The economic sector is
legitimized through a series of specific channels, and primarily through political
authority itself: firms, banks or kholkozes are social institutions with a mandate from
the State to fulfill needs in the economic life of a nation. In our capitalist-democratic
societies, economic institutions are also legitimized by the property rights system. In
a society, legitimacy can be viewed as a pyramid into which firms find their place as
economic institutions subordinated to the political system. In democratic societies,
people are the ultimate locus of power. However, specific groups can gain control
over the political process and people can be dependent on some economic institutions.
In this context, the existence of the firm as an institution is conditioned by the role it
plays in the economic and social system. If this role is not fulfilled properly, the firm,
or an industry, may lose its legitimacy (Sethi, 1978). Firms are social institutions
(Brummer, 1991), whose function in society is to generate and disseminate wealth
(Wood, 1990). In a capitalist economy, the private enterprise is considered to be the
best apparatus to reach these goals.

Previous empirical research on the firm’s legitimacy revolved around social and
environmental disclosure (O’Donovan, 2002; Deegan et al., 2002; Milne and Patten,
2002; Buhr, 1998, Tilt, 1994). In this paper, we take a different perspective. In our view,
the notion of profit is fundamental to society’s perception of the firm. Firms are
considered efficient if they are profitable (Perks, 1993), and are defined basically as
“for-profit” organizations. Therefore, profit is a fundamental element of the
legitimizing process, particularly when firms are protected by the State. Consequently,
their profit is not perceived to result from their efficiency.

An entire industry can be disparaged because of legitimacy problems. The tobacco
industry is a well-known case; time will tell if it will survive in its present form.
Canadian banks have been criticized harshly for their profit levels and the commercial
practices they use to maintain this upward trend. Such criticisms have forced the
government to respond and the Canadian Bankers Association to take action to protect
its members from State interference and change public perception. Based on the
definitions available, we believe that the Canadian banking industry does not have the
overwhelming problems of the tobacco industry, but that its future may be jeopardized
if it fails to manage its problems, as will be discussed later. Canadian banks truly are
facing a legitimacy problem.

The rest of this paper is organized as follows: the second section explores the
relationship between profit and legitimacy. The third section presents the case of the
Canadian banking industry, and the fourth section describes our research method. In
the fifth section, we analyze and discuss the results. Finally, we present our
conclusions in the sixth section.
The legitimacy of the firm

In the literature that focuses specifically on organizations, we find various definitions of the concept of legitimacy. It is defined as “the extent to which a firm or an industry conforms to the general expectations of the society in which it operates” (Davidson, 1996, p. 13). Every industry fights for such recognition by presenting its actions in favourable ways and concealing or justifying information that is less than glorious, where necessary (McGuire, 1997). The prevailing climate of accountability is increasing a firm’s need to enhance the legitimacy of its actions (Kernisky, 1997). Generally, firms tend to legitimize their actions, at least to select audiences (Ashforth and Gibbs, 1990; Ginzel et al., 1993) perceived to have a determinant influence on the general public or the government. They manage their corporate reputation in order to maintain or regain their legitimacy.

Finet (1993) specifies that legitimacy involves “the perceptions of important societal interests.” He adds that “organizational practices are socially and politically appropriate” and, consequently, the reports produced by firms are socio-political as well as economic documents (Guthrie and Parker, 1989). Herein we find the origins of the ambivalent relationship between firms and the public. Firms are appreciated because they are perceived to bring wealth to society, but at the same time are rejected for keeping too much of this wealth, having too much power over the political system, for keeping the population in a state of dependency, and so forth. However, it is important to acknowledge that the firm is granted de facto legitimacy at birth because of its legal status, and then it can become a tradition in the sense of Weber’s traditional legitimacy. This legitimacy can grow, and then be called into question; later, it can be lost and then recovered. More specifically, legitimacy comes from two main sources: government regulators and public opinion (Deephouse, 1996).

Firms need legitimacy to maintain viable relationships with the communities they do business with (O’Donovan, 2002; Nasi et al., 1997). Legitimacy, however, is a social construct (Nasi et al., 1997) based on cultural ways of viewing the world. Legitimacy can be problematic because values and expectations are very often contradictory, and they evolve and are difficult to operationalize (Shocker and Sethi, 1974). The process is mitigated, by movements gaining popularity, very slowly, giving firms time to adjust. For Nasi et al. (1997) a legitimacy gap can occur when societal expectations differ from societal perceptions (Sethi, 1978) or when new information about the firm varies dramatically from the firm’s image. Sethi (1978) and Suchman (1995) offer recommendations to gain, repair or regenerate legitimacy after damaging actions have occurred.

Legitimacy resides in the public opinion (“in the eyes of the beholder,” McGuire, 1997). One way it can be managed is by applying the same techniques politicians use to influence public opinion. However, it is difficult to completely restore the legitimacy of an industry after a major crisis. Usually it is only partially regained, and the whole industry comes under suspicion of misconduct. Davidson (1996) cites the cases of Exxon after the Valdez disaster and of Dow Chemical and the production of napalm during the Vietnam War. Their reputations were severely tarnished and the legitimacy of their industries attacked. Even though these firms survived the crises and remained prosperous players in the economy, they succeeded in restoring their legitimacy only to some extent. Nowadays, public opinion is still ambivalent. Thus there are two sides to legitimacy in their cases: first, the aspect of conducting a desirable activity (providing energy), and second, the aspect of carrying out the activity in a specific way (using
fragile tankers). For the oil industry, the activity in question is considered vital, but the way it was carried out is suspected of damaging the environment.

It must also be said that the importance of an industry in day-to-day life is an essential factor. If there is no escalation of environmental accidents, Exxon Valdez will lose its importance and the industry will basically return to normal. People want a clean environment, but they also want fuel, therefore they are ready to forget a great deal to get it. So if environmental accidents can lead to a lower level of legitimacy, the situation can be reversed, even easily, through a good public relations campaign and, above all, with time. Legitimating is a process that involves many factors, including profit.

Profit in the legitimation process
Profit is currently at the heart of legitimacy controversies. When the reputation of a for profit organization becomes sullied by its business practices, the organization is perceived to be excessively greedy in its quest for profit, as was just shown in the case of the oil industry. Friedman (1983) expressed this controversy when he said that the firm's only social responsibility is to make a profit. A movement toward ethical investment has developed since then, which can be considered an ethical version of the stakeholder theory that assumes that the firm provides more than value for shareholders and must answer to them, a practice that can have a negative impact on profit but a positive effect on society (Skinner, 2001). The firm, as a social institution, is supposed to organize the "production and distribution of goods and services (Wood, 1990, p. 12). These organizations are “afforded special legal and operational privileges [...] they make use of community owned assets” (Accounting Standards Steering Committee, 1975, p. 25).

For each competitive environment, there is an acceptable profit range (which, in theory, is supposed to be very low). When a firm goes beyond the upper limit, it is suspected of manipulating markets to increase its profits unduly, which opens the door to anti-trust regulation (Watts and Zimmerman, 1986) or to a breach of the social contract that is at the basis of any legitimacy (Patten, 1991). When markets are really competitive, profits are supposed to remain low, as explained by Smith (1991) and (Frederick, 1995). However, paradoxical discourses reversing fundamental concepts have given the general public very confused notions of how the economy functions. For instance, the widespread agreement that firms must maximize profits is a good example of this reversal:

In fact, neoclassical economic theory holds that profits are zero in perfectly competitive markets, a condition, which that same theory sacralizes. Profit may arise from monopoly, from innovations, from entrepreneurial efforts, from market imperfections such as barriers to entry into a market, or from information asymmetries – but all these are considered to be either undesirable or temporary (Frederick, 1995, p. 52).

Collison (2003) shows how seminal works can be diverted from their original meaning. Profit is perceived as being necessary for firms to continue to provide goods and services, although profit may be considered excessive when it reaches a certain level. Further research could focus on the general public’s perception of profit. The main goal of the firm (O'Donovan, 2002) is to succeed in having profit seen as resulting from a firm’s comprehensive strategy. Profit is among the most widespread and discussed notions about firms, and, therefore, a major component of the legitimating system.
The definition of profit has evolved through time but people tend to believe that a profitable firm is inherently efficient and effective (Perks, 1993, p. 107). In agency terms, profit is the compensation of an entrepreneur who assumes the function of producing and disseminating wealth in a given society. As such, profit is a social cost and is far from being optimal at its highest level. Profit is the goal of the entrepreneur, but not the goal of the society that gives the firm the right to use public goods or resources to be in business.

As they have a direct impact on a bank’s profit, fees, customer service and CEO compensation are important components to include in our study. CEO compensation levels have been presented as a critical issue that influences a firm’s legitimacy (McGuire, 1997). High-level compensation has been discussed widely. Every year, layman magazines contrast CEO compensations with corporate profits. Nichols and Subramaniam (2001) seem to believe everyone finds CEO compensation levels excessive. Joyce (2001) found little relationship between the compensation of bank CEOs and profit levels, while Sigler and Porterfield (2001) found a strong relationship in a different sample of banks. In Canada, the issue has been discussed in newspapers and magazines, which present the case of bank CEOs as an example of excess. Customer satisfaction is also important, as it is mentioned very often in conjunction with a bank’s profits. For instance, we found the following in our corpus:

Swift, like many critics of Canada’s banking system, believes federal laws have allowed a handful of banks to create an oligopoly which put $9.6 billion into their pockets this year but leaves consumers with poorer service now than ever before. She says ultimately greater competition is the best solution.

In substance, economic powers use two channels for legitimating purposes. First, they use the political system, because the economy taken as a whole is the social organization that produces the essential tools for the nation’s survival and ultimate well-being. Second, they use the direct relationship between economic institutions (e.g. firms) and people (e.g. employees, customers, etc.). As legitimacy is related mainly to the industry, it must be studied from this perspective, which explains why we chose an entire industry – banking. The crisis we identified was not as severe as the crisis in the tobacco and fur industries, but reaction was deep. We believe the case of the banking industry is an accurate portrayal of the aftermath of a crisis that is not extreme and does not overly jeopardize a sector’s existence.

Legitimacy is a general impression disseminated among members of the public. We believe that this impression may be captured by the media, and more particularly in newspapers (Deegan et al., 2002; Brown and Deegan, 1998). Our case study on public perceptions is based on a content analysis of a sample of newspapers articles on the Canadian banking industry for the period 1996-1998. As we discuss the reactions of the Canadian banking industry, we also provide a review of the documents that describe the views of the industry.

The case of the Canadian banking industry
In Canada, the banking industry is a regulated and well-protected sector. The government insures cash deposits with the six chartered banks for up to $60,000, which eliminates most of the risk for small investors if banks engage in risky transactions. For these reasons, Canadians are inclined to believe that a bank cannot fail.
Lately, Canadian banks have faced many challenges regarding their legitimacy and the perceptions of the general public on this subject. A few years ago, announcements of recurrent record profits had raised strong public reaction. In more recent years, the two announced mergers of the four largest banks have also added to the debate. The industry reacted by attempting to manage the impressions of the public.

Bank bashing is not a new phenomenon. In the years following the Great Depression, banks were the object of the same type of criticisms we hear today: “excessive profits, paltry tax contributions, inflated service charges, an uncaring attitude towards consumers, communities and small businesses . . .” (Green, 1998, p. 2). This phenomenon occurs internationally, or at least we see it happening, in the US and the UK. Culberson (1995, p. 15), in the Journal of the American Bankers Association, was looking for somebody to blame for the “[...] industry’s less than stellar image [...]” and Lindsey (1995), p. 17) found the same problem in the UK. He noted that:

Despite spending very large amounts of money on advertising, the image of British banking has never been worse.

Just after the crisis began, the March 1997 issue of Gestion, a Canadian academic-professional journal, featured articles on the pros and cons of the six largest banks in Canada declaring their profit levels. Bourgeois and Séguin (1997) argued that bank profits were excessive, while Panet-Raymond (1997) took a different stance to defend them. Many comments in the media at that time indicated legitimacy problems for the Canadian banking industry.

In this paper we do not test legitimacy theory, but we use a case to illustrate its meaning. We begin by reporting on articles that printed complaints about profit levels of the Canadian chartered banks. The criticisms were so virulent that in 1997, the Canadian government discussed the possibility of enacting a law to cap interest rates banks were charging on their credit cards. We believe that this reaction alone is a good indication of the existence of a legitimacy problem. From this point on, seeing that banks were announcing record profits quarter after quarter, we decided to look at public reaction in the media.

As the basis for the legitimacy threat to the banks, public reaction was the target of the banks’ counter-initiatives. For this reason, we decided to research the Canadian Bankers Association’s web site to find evidence of the type of actions the industry took to restore its legitimacy.

Research method
Legitimacy, like a firm’s reputation, resides in people’s minds. A firm’s reputation is presented as a “network of meaning chunked in the memory of stakeholders” (Van Reel et al., 1998, p. 313). A firm’s legitimacy may then be assessed when public opinion is formed or expressed through vehicles like the mass media (Deegan et al., 2002). Lobbies and groups also play an active role in forming public opinion (Tilt, 1994) because their comments and attacks are usually reported by the mass media, especially newspapers and TV (Deephouse, 1996; Dowling and Pfeffer, 1975; Pfeffer and Salancik, 1978). Chomsky (1991) describes how new ideas or views are imposed on the community through the media system. He calls them “necessary illusions” for social management. Social analysts know the mass media’s importance in constructing the image of self and the surrounding world (Chen and Meindl, 1991). Newspapers in particular have been
used to evaluate the degree of legitimacy of firms through an assessment of the amount of favourable or unfavourable articles (Deegan et al., 2002; Ruef and Scott, 1998).

Legitimacy is also a question of level. People can be somewhat discontent with a situation, but there would be no crisis because the level of dissatisfaction is still bearable. In Mitchell et al. (1997), society is a “latent stakeholder” with the potential to become an “expectant stakeholder” given the opportunity, i.e. if the straw breaks the camel’s back. Then when the newspapers relentlessly harp on an issue, it can be assumed that the general public has reached a certain consensus. And if that consensus does not exist, frequent newspaper references will help create it (Deegan et al., 2002; Brown and Deegan, 1998). As Deephouse (1996), p. 3) suggests, “Media influence and reflect the values of a culture” (Chen and Meindl, 1991; Dowling and Pfeffer, 1975; Pfeffer and Salancik, 1978). Therefore, we believe that newspapers can be a good source from which public opinion on a firm or an industry can be judged at a given time (Elsbach, 1994), and that content analysis is a good tool to measure public perception (Deegan et al., 2002; Elsbach, 1994; Deephouse, 1996).

At the peak of the banking industry crisis, the problem loomed very large in Canada. Numerous newspaper articles published opinions on a series of lobbies, and the Canadian government even had to smooth over the situation by promising (although doing nothing in the end) to limit interest rates on bank credit cards and block the projected merger between two of the six largest banks in Canada. We performed a content analysis to analyze the structure of public opposition to the banks. A cursory analysis of the newspapers revealed that the profit issue sparked the public’s opposition. We then centered our content analysis on the concept of profit and the main issues associated with it. In so doing, we built a system of ideas around the profit concept, and then followed the amplitude of the movement in order to establish which concept dominated each period. The analysis of the response of the Canadian Bankers Association provided the other side of the case. Part of this response was already included in the newspapers, as shown in the analysis.

Our content analysis of newspapers and other articles covered the period of November 1996 to December 2000. The sample was taken mainly from the CBCA database, which contains newspaper articles, magazines and monthly Canadian publications. We scanned the newspapers from 1995 on, but found nothing before November 1996.

The fourth-quarter results that Canada’s Big Six domestic banks are to start unveiling tomorrow will likely drive their 1996 profit well over $6 billion and give the industry its best real return on equity yet (Canadian Press Newswire, November, 1996) (from our corpus).

Although record profits had been reported before, reactions were not noted until November, and they reached a peak in December 1996. This two-month period represents a critical moment in which bank profits became a public concern. The databases contain thousands of articles on banks; we have kept the categories and sub-categories as shown below:

1) Bank
   - Bashers.
   - Bashing.
   - Profit.
   - Friendly.
All the descriptors associated with banks, bank, bank and banking, banking, etc., were reviewed to make the above list. From this list, we obtained hundreds of articles. After eliminating the redundant entries, 398 articles were kept as our final sample. Table I provides a list of the publications in our sample[1].

The content analysis procedure
The public opinion analysis was conducted through a content analysis of newspapers. As content analysis procedure is used relatively often both in accounting and finance research (Jones and Shoemaker, 1994), we will be limiting our discussion to a brief description of the method. Content analysis can be used to study the manifest content of a text (Berelson, 1952). Frequency is an indication of the importance of a given element. Content analysis relies essentially on word frequencies (Krippendorf, 1980) and collocate frequencies.

In our study, we looked at public perceptions of the profits of Canadian banks. This first analysis led us to examine related topics of concern over the period studied. The steps followed for content analysis are summarized below.

Identifying the relevant concepts related to profit:
(1) Identifying the words related to the concept studied. This choice is made by the researcher from his experience, and interpretation (Deephouse, 1996; Krippendorf, 1980).
(2) Analyzing these words in context.
(3) Analyzing the collocates.
(4) Developing a configuration of the meanings surrounding these words and their relationships to the legitimacy of firms.

We used a computer program[2], mainly for the analysis of the collocates and the KWIC (keyword in context) procedures. The program is quite sophisticated and offers many possibilities for textual analysis. Our content analysis focused on a limited number of key words expressing the same basic themes. Three themes were considered: profit, CEO compensation and customer service. We selected the last two terms because they related to the concept of profit. The context in which these themes appeared and the words associated with them became the input for the general meaning structure of the texts. The themes were selected after a lexical analysis.
The documentary analysis
The second part of our study focused on the reactions of the Canadian banking industry and was based on a study of documents found on the web site of the Canadian Bankers Association (www.cba.ca). We reviewed the speeches given by the presidents of the Association as well as press releases and articles published in the Canadian Banker from 1995 to 2000. These documents provided us with the industry’s views on the themes we had selected. In order to ensure the reliability and internal validity of the data, we provide extensive identification of our sources (Yin, 1989).

Results, analysis and discussion
As mentioned previously, the results of the content analysis are grouped around three themes: profit, CEO compensation and customer satisfaction. Changes in public
opinion with regard to each theme are analyzed for the period selected, as are the Canadian Bankers Association’s publications of the banking industry’s reactions with regard to the three themes.

Public opinion
Profit
In order to capture the public’s perception of profits made by the Canadian banking industry, the first theme considered was profit. We analyzed the occurrences for this particular theme (Table II) and found a total of 749 occurrences in the complete text (all articles together).

For analysis purposes, the sample was divided into 50 one-month periods. After the effervescence of late 1996, there was a quiet period with very few references to bank profits as a main theme. The frequencies vary very much from one period to another, suggesting that interest in bank profits was not constant. We can thus assume that new profit announcements provoke a series of comments that eventually decrease. The end of 1996 was a period of controversy. One year later, the number of mentions increased when the following year’s profits were announced, but paused short of the levels of 1996 before decreasing.

Figure 1 shows that profit was mentioned very frequently at the beginning of the period. We have further high frequencies when new announcements were made, but not of comparable amplitude. The grumbling about high profit levels remained the most important topic across the periods, while counterarguments were less frequent.

<table>
<thead>
<tr>
<th>Basic words</th>
<th>Variations</th>
<th>Frequencies</th>
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</thead>
<tbody>
<tr>
<td>Benefit</td>
<td>Benefit</td>
<td>60</td>
</tr>
<tr>
<td></td>
<td>Benefits</td>
<td>62</td>
</tr>
<tr>
<td>Earnings</td>
<td>Earn</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>Earned</td>
<td>31</td>
</tr>
<tr>
<td></td>
<td>Earnings</td>
<td>75</td>
</tr>
<tr>
<td>Income</td>
<td>Income</td>
<td>77</td>
</tr>
<tr>
<td></td>
<td>Incomes</td>
<td>8</td>
</tr>
<tr>
<td>Profit</td>
<td>Profit</td>
<td>202</td>
</tr>
<tr>
<td></td>
<td>Profitability</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>Profitable</td>
<td>28</td>
</tr>
<tr>
<td></td>
<td>Profits</td>
<td>161</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>749</td>
</tr>
</tbody>
</table>

Table II. Basic words representing the theme of profit, corresponding keywords, and their frequencies

Figure 1. Occurrences of the profit theme during the 50 one-month periods beginning in November 1996
Using the KWIC (key word in context) analysis, we were able to classify the arguments into three categories: attacks against bank profit levels, defense arguments from the banks, and descriptive statements. Table III shows the various ideas included in the theme PROFIT and their overall frequencies.

An analysis of the words most often associated with the terms expressing the notion of profit (the collocates) gives an idea of the importance of the main associations made in the discourse. The TACT program calculates the probability that a word will collocate with another. Table IV shows the analysis of the collocate results for significant words with a Z-score over ten. Generally, words associated with the theme PROFIT can be classified into three categories: attacks, defense and description.

The attacks revolved mainly around profit levels, and who or what was contributing most to profit – for example, the treatment of low-income individuals, the salaries paid to employees as compared with CEO compensation levels (profits on employees’ backs), the withdrawal of services and the closing of branches. Profit level itself remained the target of most attacks.

The defense arguments revolved around the idea that banks were paying too many taxes, other industries, including the cable industry and telecommunications, had better rates of return, the market was imposing its logic and profits were necessary for

<table>
<thead>
<tr>
<th>Sub-themes</th>
<th>Frequencies</th>
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</thead>
<tbody>
<tr>
<td>0 Irrelevanta</td>
<td>89</td>
</tr>
<tr>
<td>1 Profit is too high</td>
<td>364</td>
</tr>
<tr>
<td>2 There are benefits for customers and employees</td>
<td>50</td>
</tr>
<tr>
<td>3 Profits are made by taking advantage of customers and employees</td>
<td>98</td>
</tr>
<tr>
<td>4 Profits are not much higher than necessary</td>
<td>59</td>
</tr>
<tr>
<td>5 Profits comes from high interest rates on credit cards</td>
<td>18</td>
</tr>
<tr>
<td>6 Profits are all for the benefit of shareholders and investors</td>
<td>19</td>
</tr>
<tr>
<td>7 Profits come from good management</td>
<td>7</td>
</tr>
<tr>
<td>8 The disclosure is insufficient (manipulation of facts, etc.)</td>
<td>18</td>
</tr>
<tr>
<td>9 Profit generates taxes</td>
<td>27</td>
</tr>
<tr>
<td>Total</td>
<td>749</td>
</tr>
</tbody>
</table>

Table III.
Sub-themes associated with the profit theme

Notes: “Sometimes the mention of a key word has nothing to do with bank profit. Example: “The market will benefit from . . .”

<table>
<thead>
<tr>
<th>Categories</th>
<th>Words</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attacks</td>
<td>Upset, howling, argue, cries, greed, detrimental, enormous, backlash, problems, concerning, levels, low-income, critic, rise, subsidizing, complain, surge, jumped, controversial, closures, expenses, salaries, fat, lavish, CEO, booming, huge, record-high, reaped, attack, pension</td>
</tr>
<tr>
<td>Description</td>
<td>Record, return, announcements, increasing, margin, above-average, issues, progress</td>
</tr>
<tr>
<td>Defenses</td>
<td>Taxes, fiscal, markets, market-driven, provisions, fact, cable, networks, retained, Canadians, competitive, conditions, economic, dividends, fastest-growing, low, opportunities, loss, deregulated, lean, string, global, technology, nation banks, healthy, shareholders, unfairly, communicating</td>
</tr>
</tbody>
</table>
banks to remain competitive on foreign markets, where they were small players. It was also argued that Canadians must support their national banks as they compete internationally, and that the people were benefiting from a strong banking sector, especially at a time when the government was exploring deregulation to open this historically protected and profitable sector to other players. The banks gingerly replied with the positive but unconvincing argument that their profits benefited everyone, a rebuttal that should be understood in the context of their strategy of denial and justification. Although justifications and excuses are part of impression management technique (Elsbach and Sutton, 1992), the bank’s use of this method still seems weak. On the surface, as they pushed bank mergers, they were saying:

- We (the banks) want to merge to be competitive with the largest banks in the world.
- We need profits for that (to attract new investors), although profit means a lack of competition in an industry.
- Mergers will benefit everyone (because it is said to be in the interest of Canadians to have Canadian banks as major players in the world even if the people must pay more for it).
- So, profits are good for everyone.

The foregoing argument is a negation that takes the debate into a different area. As McGuire (1997) notes, obfuscation prevails when legitimacy is threatened. The bank reacted by using a form of indirect denial that refocuses the discussion. Denial consists in attempts to create a distance between the firm or the industry and the alleged criticism (Kernisky, 1997).

There was little discussion of how profits would be used or would fluctuate. In the written press, all the discussion revolved around the idea that profit, whatever its level, was the purpose of the firm and that if removed, the very basis of the firm’s existence would be destroyed. This argument reveals some interesting underlying issues. It implies that:

- Without the firm, there would be no wealth creation in society.
- Profit is no longer the entrepreneur’s compensation for fulfilling his part of the contract.
- But profit is the price society has to pay for needed products or services that nobody else would be interested in making or providing.
- Excessive profit is then better than no profit at all, as it becomes some kind of guarantee that a product will be made or a service rendered.

This argument was kept in the background, while the previous argument was discussed openly. However, the latter argument is what people might have really understood.

**CEO compensation**

This first analysis led us to look at other words linked to the notion of profit that portrayed other major grievances against the banks. The variable component of CEO’s compensation is often directly linked to profits: every time profits reach new heights, CEO compensation follows. The keywords used are listed in Table V.
Table VI lists the associated sub-themes, while Figure 2 shows the distribution. Here again, we see unequal distribution of the keywords over the periods.

The most important themes are high CEO compensation levels and the requirement to disclose this information. We know that Canadian legislation is less stringent than US laws on disclosing CEO compensation\(^4\). When salaries rocket upwards, the question of requiring legal disclosure is brought to the forefront. The analysis of the collocates is presented in Table VII and is organized into the same categories as the analysis on profit.

<table>
<thead>
<tr>
<th>Words</th>
<th>Frequencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation</td>
<td>48</td>
</tr>
<tr>
<td>Salaries</td>
<td>19</td>
</tr>
<tr>
<td>Bonus</td>
<td>39</td>
</tr>
<tr>
<td>Bonuses</td>
<td>9</td>
</tr>
<tr>
<td>Remuneration</td>
<td>1</td>
</tr>
<tr>
<td>Options</td>
<td>80</td>
</tr>
<tr>
<td>Total</td>
<td>196</td>
</tr>
</tbody>
</table>

Table V. Keywords for the CEO compensation theme and their frequencies

<table>
<thead>
<tr>
<th>Sub-themes</th>
<th>Frequencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 Irrelevant</td>
<td>57</td>
</tr>
<tr>
<td>1 The compensation is too high</td>
<td>122</td>
</tr>
<tr>
<td>2 The disclosure is not sufficient</td>
<td>4</td>
</tr>
<tr>
<td>3 Good results make good compensations</td>
<td>6</td>
</tr>
<tr>
<td>4 What with the pay of others in the bank</td>
<td>5</td>
</tr>
<tr>
<td>5 High salaries are obtained by taking advantage of customers</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>196</td>
</tr>
</tbody>
</table>

Table VI. Sub-themes associated with the CEO compensation theme and their frequencies

Figure 2. Occurrences of the CEO compensation theme during the 50 one-month periods beginning in November 1996
The words we labeled as attacks were stronger than the words used to defend the banks. They focused on the idea that a bank’s performance does not justify high compensation levels. Here again, the attacks were quite simple and direct. CEO compensation levels were seen as too high and perceived to be related to other factors like profit. If bank profits were perceived to be the spin off of exorbitant service fees and not enough risk taking, then profits and the resulting compensation were considered to be extracted unfairly from captive customers instead of resulting from good management. Furthermore, high CEO salaries were also seen as awarded at the expense of employees, who were not considered to be receiving their fair share of the wealth created. The increase in total CEO compensation should logically be related to employee compensation, which is not the case. Employees had had no real salary increases for years, although they may have contributed to profits. Interestingly, some shareholders, furious with record CEO compensations, proposed that every employee receives an equivalent bonus. A movement had begun in Canada, supported by a group of ordinary shareholders, to limit the compensation level of bank CEOs.

The bank’s side fought back, arguing that the Board of Directors votes for the compensation by taking into consideration the performance of the firm. Therefore, compensation levels must be in line with performance levels because the recipients create value for the firm and generate dividends for shareholders. However, on the attackers’ side, the argument was that top management in every company in the country performed this kind of work for far less money. In summary, we find that the defenders acknowledged the high level of CEO compensation, although rejecting responsibility for it on two grounds:

1. The boards vote on the salaries.
2. Compensation is an outcome of the banks’ positive performance.

During this period, Canadian newspapers emphasized that seven of the eight most highly paid Canadian CEOs were bankers. Research in the USA[5] shows that the general public is likely to be negative about high compensation levels, which is potentially threatening to a firm’s image (McGuire, 1997, p. 119). In the case of the banking industry, there is a connection between high compensation levels and other grievances against banks, including the accusation that their lending policies for small- and medium-sized businesses are excessively conservative.

In summary, high profits coupled with generous CEO compensations gave the impression that banks were getting richer on people’s backs. This image was probably reinforced by the fact that the government was protecting the banking industry, leaving people with the view that CEOs were outrageously overpaid civil servants. The more the public believed that banks were profiting from lowering the quality of their services, the more it resented higher salaries and bonuses for CEOs. Furthermore, our
study shows that management competencies and abilities were probably not perceived to be associated with record profits, and, by extension, lavish CEO compensations. This observation seems to contradict the view that the business press usually attributes organizational outcomes to the personal qualities of managers, as argued by Chen and Meindl (1991).

Customer satisfaction
We also analyzed customer satisfaction levels, another theme related to the concept of profit. Sentences in the style of “Many Canadians hold a grudge against their banks,” abound in the corpus, as do comments about high profits being derived from lower expenses or higher fees (“With Canada’s big banks reporting record annual profits again, customers are fuming over few services”). Table VIII shows the key words searched.

The words fee and fees occurred frequently. They are probably the easiest elements to point out, and they affect the most people. Complaints against lending policies were also a frequent subject. As for risk taking, it was an issue linked to lending policies, but at a more abstract level. These words and expressions are not equally distributed across the periods, as shown in Figure 3. The sub-themes are presented in Table IX. Although the customer satisfaction theme is more pervasive than in the preceding table, there are peaks indicating that the question was not consistently debated throughout the periods under study. In fact, the timing for this issue seems different from the timing for the first two themes, which recurred along the same pattern although the

<table>
<thead>
<tr>
<th>Words</th>
<th>Frequencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fee and fees</td>
<td>392</td>
</tr>
<tr>
<td>Lending</td>
<td>153</td>
</tr>
<tr>
<td>Risk and risks</td>
<td>99</td>
</tr>
<tr>
<td>Total</td>
<td>644</td>
</tr>
</tbody>
</table>

Table VIII. Keywords for the customer service theme and their frequencies

Figure 3. Occurrences of the customer satisfaction theme during the 50 one-month periods beginning in November 1996
The first theme drove the second and was even more recurrent. The issue of fees was the main driver behind the customer service issue, and resentment seemed to develop over time, peaking more than two years after the spotlight was first placed on bank profits. The issue was probably sparked by other events. Once the first arguments had been answered, the attackers counter-argued that the banks were exploiting consumers and society and therefore not fulfilling their part of the social contract.

Table X shows an analysis of the collocates, pointing to a strong interest in the question of service fees.

Attackers said that banks were making money by charging exorbitant fees, notably on private pension plan (RRSP) management and credit cards. They also complained that the automated teller machines (ATMs) were very expensive to use. In reality, service fees have indeed increased considerably since the advent of ATMs. Lending policies, especially for small businesses, were another problem issue. During difficult economic times, banks do not support small businesses and are perceived to impede job creation and contribute to economic difficulties in the communities. As small businesses become increasingly important players in job creation and in the economic development of the country, refusing to support them can be perceived as antisocial and as a breach of the social contract (Donaldson and Dunfee, 1994). Therefore, the number of complaints about high fees may be more of an indication of the ease of identifying the problem than of its real importance. Two surveys in our corpus asking

<table>
<thead>
<tr>
<th>Periods</th>
<th>Frequencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 Irrelevant</td>
<td>51</td>
</tr>
<tr>
<td>1 Fees are too high</td>
<td>265</td>
</tr>
<tr>
<td>2 Interest on credit cards is too high</td>
<td>11</td>
</tr>
<tr>
<td>3 Banks are not taking risks</td>
<td>46</td>
</tr>
<tr>
<td>4 Banks are taking risks</td>
<td>22</td>
</tr>
<tr>
<td>5 Banks are lending enough money to small firms</td>
<td>42</td>
</tr>
<tr>
<td>6 Banks are not supporting small firms with loans</td>
<td>86</td>
</tr>
<tr>
<td>7 Loan rates are too high</td>
<td>5</td>
</tr>
<tr>
<td>8 Fees are not that high considering the value received</td>
<td>116</td>
</tr>
<tr>
<td>Total</td>
<td>644</td>
</tr>
</tbody>
</table>

Table X shows the customer service theme and their frequencies

<table>
<thead>
<tr>
<th>Categories</th>
<th>Words</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attacks</td>
<td>RRSP, reduce, charges, premiums, pays, small monthly, bounced, conversion, variables, heavy, risk, activist, digging, earnings, disclosure, entrepreneurs, toughened, higher, bigger, predetermined, interact, discontent, negotiable, raise, small business, bank-imposed, card, extravagant, negative, plaintiffs</td>
</tr>
<tr>
<td>Description</td>
<td>Policies, assessed, structure, service, administrative, rates, transaction</td>
</tr>
<tr>
<td>Defenses</td>
<td>Eliminated, cut, all-in-one, zero, flat, monthly, repayment, competitor, complex, fear, lowest, flexibility, strategy, prudent, reduced, reserve, loss, low, attractive, small-business</td>
</tr>
</tbody>
</table>

Table X. Words associated with the customer service theme
bankers and customers what services they preferred show the disconnected attitude of bankers:

Two solitudes: bankers and customers:

Service:

Bank executives said . . .*: 24-hour access and convenience key.

Consumers want . . .*: Responsive service and personal attention, which are more important than convenience.

Internet/online services:

Bank executives said . . .*: Quickly becoming a basic requirement.

Consumers want . . .*: Not yet important to most consumers.

Branches, offices:

Bank executives said . . .*: Declining in importance.

Consumers want . . .*: Remain highly important for banking consumers.

*A total of 133 banking executives surveyed in 1998, 2,000 consumers surveyed in 2000 (our corpus).

Agreeing with some critics, some banks had already reduced interest rates and partially reimbursed customers’ for them. They had also started programs that pay greater attention to the needs of small businesses, as will be discussed in the next section. However, persistent criticisms over time indicate that the public did not perceive the actions undertaken as totally satisfactory, and a negative perception is as difficult to reverse as it is to generate. Either way, legitimacy is a long-term process.

Now that we have presented the legitimacy problem as perceived through public opinion, we next look at how the industry reacted.

Reactions of the banking industry

For many years, the banking industry has recognized itself as being the target of many criticisms. In the Canadian Banker, Green (1995, p. 13) acknowledged that Canadian banks are “under siege as never before”, “newspapers and other media are on the offensive”. She cited bank officers who would not deny that the bad press aimed at banks was justified even though much of the bank bashing was unwarranted. As some said: “It’s often exacerbated by the banks’ inability or unwillingness to tell their side of the story”, or, “the banks are bashing themselves by not answering criticism.” A year later, Hally (1996) revisited bank bashing and noted that the charges against banks were not all groundless.

Few bankers would deny, for instance, that their treatment of small businesses during the past recession was far from ideal (although it’s frustrating that the genuine improvements made since then have gone largely unrecognized) (Hally, 1996, p. 5).

The author also said that “attacks on banks arise from conflicting beliefs or opinions” on what should be driving the banks – profit or social objectives – but these attacks also stem from criticisms based on inaccurate information or assumptions. This
comment captured and influenced the views of the banking industry. There are multiple references to the importance for the banking industry to tell its story, identify myths and reality (Canadian Bankers Association, 1997d, 1996) and provide the public with explanations and information (Protti, 1998a, b, c)[6]. O’Donovan, 2002, reported a similar attitude from the oil and gas industry: “... we can educate the public about what we do ... and do this from our point of view.”

Many of the media’s arguments defending the industry were also found in the documents that presented the industry’s views. This is not surprising because we expect the media to cover events such as speeches by the presidents of the CBA, and/or, at the very least, to cover both sides of an issue or even take a position in favour of one group. We now take a more specific look at the views of the banking industry on the topics of profits, CEO compensation and customer service, which we identified earlier in this article.

**Profit**

Protti (1998c, p. 2) summarized the industry’s views on the subject. “A bank is obligated to be profitable for the sake of depositors, borrowers and shareholders; if profits disappear, so do they.” He recognized that “bank profits are large numbers ... If you eliminate all the zeros, the profit performance of our big six banks is exactly a 71 cent return on $100 in assets[7].” The main arguments were that the ROA (return on assets) is lower than in other sectors, including the chemical industry, telecommunications and textiles. What happens to the profits is another consideration. Bankers also pointed out the issue of bank ownership, i.e. that “one in two adult Canadians” is a shareholder who directly or indirectly through RRSPs (Registered Retirement Savings Plans), pension plans and mutual funds, “own and control the banks” (Protti, 1998c; Canadian Bankers Association, 1999). Although the industry very often repeats this message, Canadians probably perceive themselves more as customers than shareholders.

A component of this debate, but not always recognized as such, is the view that banks operate in an oligopoly, which may explain their high profits. The industry rejects this explanation. In a document presented to the Task Force of the federal government, the Canadian Bankers Association (CBA) (1997c, p. 29) quoted the Conference Board:

> The emergence of a relatively small number of large financial institutions ... does not necessarily imply that they are able to maintain uncompetitive prices and thus realize higher profits. One explanation is the “efficient structure hypothesis.” This theory argues that high levels of concentration arise naturally over time, because the firms with the most efficient structure will dominate the market ... Thus, in the case of financial services consumers would benefit from an industry dominated by a few large institutions, because they would actually provide the lowest cost products and services.

Protti (1998c, p. 1) also rejected the argument that Canadian banks are monopolies or near monopolies. However, his argument is not very convincing: “With more than 3,000 organizations in Canada providing financial services, banks do not have a monopoly in even one service, let alone all of them.” Protti did not provide further explanations or specify what these organizations are exactly, what services they provide or which aspect of the market they control.
The banking industry has in fact been partially deregulated for a decade, and many institutions are starting to provide services that the six, chartered banks more and less monopolized at one time. However, the six still control most of the market. The fact that they were able to raise their fees continuously during the past years clearly shows the absence of competition.

**CEO compensation**

In the previous section, CEO compensation was a topic that seemed to attract some attention in the newspapers but not as much as the other topics. This might partially explain why we did not find any comment on the subject in speeches and articles expressing the views of the industry. It may also be a topic that is politically difficult to defend at the industry level.

**Customer satisfaction**

Customer satisfaction was discussed as part of two other topics: fees, and small and medium enterprises. The perception was that fees were “among the most contentious of all banking activities in Canada” (Canadian Bankers Association, 1998a, p. 46). Even the Mackay Task Force on the Future of the Canadian Financial Services Sector found that there is “a serious concern about the level of service charges among bank customers” (Wright, 1999, p. 12). But as with any other matter, for the industry there is myth and reality. Bankers argued that customers had a choice of methods for their transactions and that each method had its charges. They also pointed out that fees in Canada were 50 percent lower than fees in the USA. After all, in 1996 service fees to retail customers accounted for only 4.4 percent of bank earnings (Canadian Bankers Association, 1998a). In an earlier speech, Protti (1997) linked high fees and interest rates to the high taxes paid by the industry.

In general, the industry did not seem to recognize the separate problem of high fees but interpreted it as a failure to communicate properly with customers. However, we found a less stringent view in recent comments by Courville (1999, p. 2):[8]

> They do not care that the Americans are paying $5.50 more a month for the same services. They want to know why they are paying $10 for services previously provided for free or at little cost. Well, it is because new competition meant the old cross-subsidization could not continue.

The presumption that competition is driving prices is another example of economic revisionism. As for small and medium-sized enterprises (SMEs), the industry saw a myth in the public’s belief that Canadian banks do not do enough to support the growth of small and medium-sized enterprises. And on the subject of fees, the banks merely provided statistics on loan agreements and on the number of SMEs they had as customers (Canadian Bankers Association, 1996a, 1997a, 1999; Margolis, 1997) to show that banks serve Canadians well.

**Social responsibility and contract**

The banks are convinced that they are responsible citizens and that “their social practices reflect this understanding” (Canadian Bankers Association, 1993). Schacter (1996) cites Taylor, a former chairman of Royal Bank of Canada and the 1994 recipient of the Canadian Foundation of Humanities Award, who stated:
The business enterprise is no more expected today to limit its affairs to economic matters than the modern clergyman is expected to speak only of religion. It has become a full-fledged citizen of the society where it operates and grows. Accordingly, it must accept community responsibilities as well as private obligations, and play a role in insuring and strengthening the society, which gives it existence (Schacter, 1996, p. 24).

Many would argue, as Schacter (1996) does, that a bank’s primary community responsibility is to pay its taxes and make contributions to worthy causes and charitable organizations. Usually the industry points out such achievements when required to present its views on social responsibility. It emphasizes the high taxes it pays and stresses that banks and their employees rank first for charitable donations, according to the Conference Board (Canadian Bankers Association, 1999). This may be construed as a very narrow view of the industry’s responsibilities. It never really acknowledges the fact that it supports and finances polluting firms, as though this practice was not a social choice with potentially dramatic social effects. Furthermore, little or nothing is said about drug money laundering or other illicit activities, which are issues that banks must deal with in concert with the various levels of government, and thus should not be blamed for alone.

From 1996 on, there was a clear consensus in the industry that its problems resulted from poor communication with the Canadian public. One way the industry, avoided reality was by asserting that bank bashing was merely the result of wrong perceptions, and that most of the complaints were not founded on facts or events. There were myths to be fought and a need for the industry to tell its story. It was perceiving and formulating its problems just as its counterparts in the USA and the UK were.

*The industry’s solutions*

The industry has used different ways to manage and enhance legitimacy. Speeches from CBA presidents acknowledged bank bashing, but since 1998, the industry has primarily worked to change the perceptions of the Canadian public through information and education (Canadian Bankers Association, 1998c, d, e). In January 1998, the industry launched a comprehensive information program called Building a Better Understanding. The CBA, along similar lines, started a wide-ranging public relations program, “for the CBA and its member banks, effective communication will come in the form of a multi-faceted, staged package...” (Green, 1998, p. 1). Consequently, bankers would have to start “explaining and educating customers about banking” (p. 2).

Aimed at individual Canadians, this information program was based on intensive consumer research. Canadians told the banking industry that they wanted more information from their banks, and were quite specific about what kind. One of the key components of the communications program was a TV advertising campaign launched in January and February 1998. This was “the opening salvo of a long-range communications program” to improve the public’s perception of banks and banking (Hally, 1998, p. 5).

In the first quarter of 1998, the CBA also set up a National Advisory Council of 12 respected educators and other professionals to help the banking industry “to meet Canadians’ needs for information about the economy and today’s changing financial world” (Canadian Bankers Association, 1998b). In focusing on personal finance planning, they chose to ignore a large portion of the criticism. Their other initiatives included distributing a publication entitled “Preparing for the Year 2000”, and targeting small businesses by hosting seminars on this topic across Canada in
cooperation with Members of Parliament and organizations such as local chambers of commerce and Institutes of Chartered Accountants (Thompson, 1998; Canadian Bankers Association, 1999).

In the 1999 edition of Canadian Bank Facts (Canadian Bankers Association, 1999), there is a list of 15 publications on personal money management and investment, starting a small business, demystifying banking transactions, getting value from service fees, and so on. The banks were therefore dealing with matters like service fees and the concerns of small businesses, and also with issues brought up in the survey. The Canadian public has ordered more than two million booklets, and the CBA web site has had more than three million hits since May 1999 (Canadian Bankers Association, 1999, p. 5). It is probable that the internet was used to manage the industry’s reputation.

Annual surveys of SMEs have been conducted since 1996 to examine their “access to financing and explore various aspects of their service relationships” (Canadian Bankers Association, 1997a, p. 26). The industry has tried various ways to improve communications with SMEs, including developing a Code of Conduct, training staff to implement it, developing “audit procedures to monitor adherence to the Code”, developing “reference guides on alternative sources of financing for SMEs”, and making special bank funds available for this market (Canadian Bankers Association, 1997a, p. 26). The industry also gathered quarterly statistics about the availability of credit to SMEs (Margolis, 1997). Among the 15 publications mentioned above, two were aimed at SMEs.

In 1997, the industry commissioned KPMG to conduct a study to highlight how Canadian banks were taxed more heavily than Canadian credit unions and manufacturers and banks in the UK and the USA (Canadian Bankers Association, 1997b). The idea that banks were on the right track, a concept sufficient in and of itself for the banks’ version of the events, was so prevalent that in a recent 126-question survey sponsored by the CBA as part of the campaign to revamp the banks’ public image, “it neglected to ask respondents what they liked or disliked about their banks, nor did it ask how the banks might improve their services” (Canadian Business, 1998, p. 17).

Managing image “ranks among the most critical and complex tasks facing senior executives” (Roberts, 1998, p. 386). Some steps or actions have been proposed to solve legitimacy problems. As cited in Nasi et al. (1997), Sethi (1978) suggests four strategies to manage this process:

1. Do not change the performance of the firm, but work on the public perceptions of performance through education and information.
2. If it is not possible to change public perception, adapt the symbols used to describe the performance and make them congruent with public perceptions.
3. Try to change society’s expectations of the firm through education and information.
4. If all the foregoing strategies fail, change the performance of the firm to match it with society’s expectations.

To this list, O’Donovan (2002) adds an item that should be placed first – “avoid[ance]”. A simple response that means saying and doing nothing is in fact very efficient because time so often replaces one source of discontent with another, as the media, the primary vehicle of public opinion, will corroborate. Our analysis of the community’s reaction to bank profits shows that now that the initial crisis has passed, the reaction to
record profits is becoming weaker and weaker. However, because of their particular relationship with the government, banks had to do something. So when they used O'Donovan's second-level strategy – to educate the public – which corresponds to Sethi's first-level strategy, they were probably targeting politicians more than the general public.

The Canadian banking industry's incentives to “keep up the good work” are not to be ignored, especially when they produce recurrent record profits. Banks have thus chosen the first-level strategy, which is to focus on the least damaging factors and “educate” the public.

Suchman (1995) also suggests different strategies for gaining, maintaining and repairing legitimacy. The strategies for repairing legitimacy are similar to those Sethi advanced:

In particular, organizations must construct a sort of “firewall” between audience assessments of specific past actions and audience assessments of general ongoing essences. The limited literature on this topic suggests three broad prescriptions: a) offer normalizing accounts, b) restructure, and c) don’t panic (Suchman, 1995, p. 597).

In addition to excuses, negations and explanations, Suchman also proposes restructuration (Pfeffer, 1981) as a way to regain lost legitimacy. One efficient type of restructuration is the creation of monitors and watchdogs. Various industry members have used these strategies. The six large banks appointed an ombudsman in November 1995 to solve the problems reported by small- and medium-sized businesses. In addition, the industry created the office of the Canadian Banking Ombudsman, which deals with appeals from decisions of individual bank ombudsmen (Canadian Bankers Association, 1999, p. 21). These are some of the initiatives that were taken to improve relationships with SMEs.

So far, the Canadian banking industry has used a mixed strategy to deal with its image problem. It has continued to justify its own views and, except for the SME issue, has never really accepted any responsibility for wrongdoing. As mentioned earlier, it would have been difficult, even hazardous, to change the actions and performance of individual firms when such high profits were being made. As for the SME issue, concrete actions by the industry and individual banks could probably be found. We believe that the attention the industry has paid to this issue was the result of the need to respond to an annoyed government. If small business was the original focus of the creation of an ombudsman in the industry, “government pressure was its original inspiration” (Wright, 1997). We can only speculate that the SME issue was particularly important at a time when major changes in regulating the industry were being discussed (Canadian Bankers Association, 1997c).

In recent years, the thrust of the industry’s strategy has been public information and education. Time will tell if this strategy will be successful. As far as the various strategies discussed in the literature, we can see that the reactions of the Canadian banking industry will depend on the issue at hand and how the industry views bank bashing.

**Conclusion**

In the accounting literature, profit levels are seen as an indication of a situation's conformance or non-conformance to the principles of the economic system, and also as
harbingers of a potential political cost (Watts and Zimmerman, 1986). For there to be a political cost, there must be a reaction from the general public. In this paper, we were interested in how the general public perceived profit levels in the Canadian banking industry. We argued that the notion of profit is also linked to other issues such as CEO compensation and customer satisfaction. In view of the definition of legitimacy provided at the beginning of this paper, legitimacy is clearly an issue in this study because:

1. The whole sector is involved.
2. All firms are blamed for the same behaviors.
3. These behaviors are seen as breaches of the social contract: a protected sector has incurred too much profit without sustaining economic development and gained huge profits and paid out large CEO compensations by taking advantage of employees and customers.

Essentially, the response should be:
1. The contract has evolved.
2. Banks have to play an international role.
3. To do so, they need profits.
4. They also need to reduce local competition through mergers.
5. They need to manage risk and eliminate costs.

Banks under attack have reacted with a mixed strategy that strongly emphasizes public information and education on economic matters that have an impact on people’s lives. Even if legitimacy management relies heavily on communication (Suchman, 1995), it is too early to assess the success or failure of the Canadian banking industry’s program.

The Canadian banking sector used Sethi’s first-level strategy to respond. Presumably, it considered that the problem was limited in scope and was unlikely to stifle the industry for too long, because bank legitimacy is a complex concept. People cannot imagine living without banks, and banks have managed to become increasingly ubiquitous through credit cards, debit cards, direct deposit payroll services, automatic bill payments, direct deposit of government transfers, and so on. With transactions going on-line in increasing numbers each day, banks have become an unavoidable fact of life.

Therefore, traditional (Weber) or cognitive (Suchman) legitimacy may be the most important type of legitimacy for Canadian banks, and the strongest type of legitimacy they can have. The fact that banks are national but operate through local branches may lead the public to dissociate these two characteristics. People have their mortgages in a local branch where they know the manager and come to know the tellers. To some extent, they may perceive the local branch favourably but have doubts about the whole banking system. As long as complaints focus on the banking system, there is a legitimacy challenge. Nonetheless, the legitimacy problem is limited, as is the general public’s understanding. Their criticisms are only of a general nature, and are of little consequence as long as the banks all react the same way and use the same indistinguishable strategies (which implies that the oligopoly system is in full force).
We need further applied research on the general public’s perception of different categories of firms and organizations to provide evidence on the general relationship between firms and society, and how the question of the legitimacy is treated at the micro and the macro levels. We also need more theoretical work about legitimacy itself and how it relates to a specific firm, an industry or a whole national economy. Such studies would clarify the distinction among legitimacy, reputation, image and other related concepts.

Notes
1. Most of our sample comes from three main sources: The Canadian Press Newswire, the Financial Post, and the Globe and Mail (278/398 = 70 percent). The Canadian Press Newswire supplies information to newspapers and electronic media, so it issues a large amount of press releases each day. The Financial Post and the Globe and Mail are published daily, contrary to many of the other publications, and have extensive business coverage. So, not surprisingly, these three are the most important sources in our sample.
2. The TACT program (Text-Analysis Computing Tools) was developed for computer-aided text analysis (Lancashire et al., 1996).
3. The following four comments are from the authors. They are free interpretations of what is behind the general opinions the press publishes about profit.
4. At the time of our study.
5. In the USA, the SEC requires the disclosure of CEO compensations in the annual proxy statements sent to shareholders. Every year, magazines like Fortune and Business Week publish and discuss CEO compensation levels (McGuire, 1997).
6. R. Protti was President of the Canadian Bankers Association during the first part of the period studied.
7. The ROA is probably not the best measure if the banking industry is to be compared with industries like chemical producers, manufacturers, and so forth.
8. L. Courville was elected President of the Canadian Bankers Association after R. Protti.

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**Further reading**


**Corresponding author**

Gaëtan Breton can be contacted at: Breton.Gaetan@uqam.ca