The Influence of Organizational Legitimacy on Store Loyalty

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Abstract:

Store loyalty (SL) is configured as a key determinant of retailer performance. The studies suggest the model based on the institutional theory that analyses the relationships between store loyalty (SL) and its main determinants: performative actions (PA), symbolic actions (SA), instrumental evaluation (IE), moral evaluation (ME), relational evaluation (RE) and perceived organizational legitimacy (POL). Thus, the aim of this work is to validate a model of the direct and indirect relationships between these variables and store loyalty, analysing the mediating roles IE, ME and RE between PA as well as SA and POL and the mediating roles of POL between IE, ME as well as RE and SL.

The Results show that (a) ME and RE are loaded within one factor, the relational-moral evaluation (RE-ME); (b) PA influences IE and RE-ME directly and POL by IE and RE-ME indirectly; (c) SA influences RE-ME directly and POL by RE-ME indirectly; (d) IE and RE-ME influences POL directly and SL by POL indirectly.

Keywords: Consumer Evaluation, Perceived Organizational Legitimacy, Store Loyalty

Track: Retailing & Omni-Channel Management

1. Introduction

For years store loyalty has been an important research topic (Bloemer & de Ruyter, 1998). To formulate the store loyalty the retailer faces the intensive competition from the counterparts (task environment) and the institutional pressures from the consumer (institutional environment). It is suggested that the retailer can employ the performative actions (store image) and symbolic actions (e.g. donation to the local community, provision of fair salaries to employees) to cater for the challenges of task environment and institutional environment to achieve the perceived organizational legitimacy and then the store loyalty. The perceived organizational legitimacy refers to "the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995: p.574). The formulation of perceived organizational legitimacy can be on the collective level (e.g. the broader community of society) or on the individual level (e.g. individual consumer) (Tost, 2011). The past researches mainly focus on the macro-level. The current research focuses on the formulation of the perceived organizational legitimacy on the individual consumer. The theory suggests that the individual consumer will evaluate performative and symbolic actions from the instrumental, moral and relational facets. Therefore, the aim of the current research is how the evaluations of the individual consumer towards the performative and symbolic actions will influence the formulation of perceived organizational legitimacy and store loyalty for the retailer.

To pursuit the objective, we will conduct a theoretical review of the determinants of store loyalty from the institutional perspective and the relationships between these constructs and the store loyalty. Based on the theoretical review, the research hypotheses are constructed and the conceptual model is developed to describe the aim of the study. Subsequently we present the empirical study in Chinese retailing industry and the developed methodology. Finally, we present a discussion of the results and the main conclusions of our work.

2. Conceptual framework

2.1 Performative actions (PA) & symbolic actions (SA)

To satisfy the requirements of the task environment, the tangible actions are taken and are referred as performative actions (Handelman & Arnold, 1999). In the retailing, components of store image are such kind of tangible actions that can be employed to cater for consumers' needs. Lindquist (1974-1975) provides the relative complete summery about the components

of store image, which includes merchandise, service, clientele, physical facilities, convenience, promotion store atmosphere, institutional factors and post-transaction satisfaction.

To deal with the challenges of the institutional environment which are constructed by the community's social and cultural norms (Handelman & Arnold, 1999: pp.36). The actions taken by the organization to cater for these norms will help the organization achieve the legitimacy, which are referred as the symbolic actions (Handelman & Arnold, 1999: pp.36). For example, the retailer donates to the local community.

2.3 Instrumental evaluation (IE)

Tost (2011) suggests that the stakeholder on the individual level may develop the instrumental, moral and relational evaluations towards the actions taken by the society to decide whether these actions are proper or legitimate. In the current research, performative actions and symbolic actions may be the evaluation targets by the individual consumer. The instrumental evaluation refers to whether "entities promote the material interests of the individual or not" (Tost, 2011: pp.690). Performative actions mainly cater for consumers' economic requirements, which provide physical interests for consumers. Symbolic actions are supposed to cater for the institutional norms. The efficiency is not the focus. Therefore, it is hypothesized (see Fig. 1):

H1: The more effective consumers perceive the performative actions, the more positive consumers' instrumental evaluation about the performative actions.
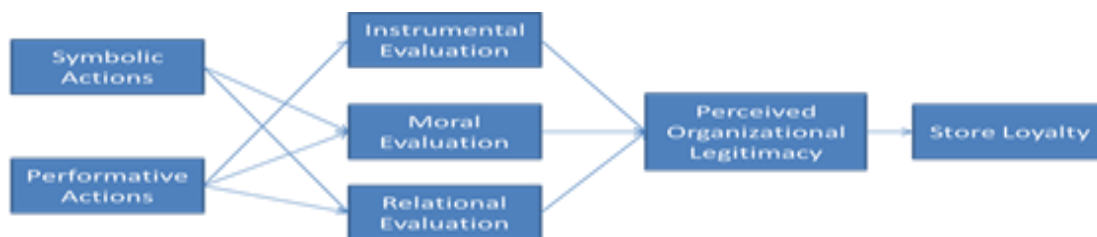

Figure 1 Conceptual Framework

2.4 Relational evaluation (RE)

The relational evaluation is about whether an entity verifies individual's social identities and provides their sense of self-worth (Tost, 2011). The example judgement involves the fairness, benevolence or communality that characterizes the entity. In this case, the consumers may develop relational evaluation about the symbolic and performative actions. As a result, it is hypothesized (see Fig. 1):

H2: The more consumers feel that the performative actions are fair, the more positive consumers' relational evaluation about the performative actions.

H3: The more consumers feel that the symbolic actions are fair, the more positive consumers' relational evaluation about the symbolic actions.

2.5 Moral evaluation (ME)

Moral evaluations involve whether an entity is consistent with the evaluator's moral and ethical values (Tost, 2011). Moral evaluation includes perceptions about the morality, ethicality or integrity of an entity. Therefore, it is hypothesized (see Fig. 1):

H4: The more moral consumers perceive the performative actions, the more positive consumers' moral evaluation about the performative actions.

H5: The more moral consumers perceive the symbolic actions, the more positive consumers' moral evaluation about the symbolic actions.

2.6 Perceived organizational legitimacy (POL)

The legitimacy can be defined from the evaluative (Dowling & Pfeffer, 1975) or cognitive perspective (Meyer & Scott, 1983). Based on the past works, Suchman (1995) provided an inclusive and broad-based definition covering both the evaluative and the cognitive dimensions (Deephouse & Suchman, 2008). "Legitimacy is generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995: p.574). Once the performative and symbolic actions are evaluated positively from instrumental, relational and moral perspectives, they are suggested as desirable within the relevant social context (Tost, 2011). Therefore, the perceived organizational legitimacy is established. Therefore, it is hypothesized (see Fig. 1):

H6: The more positive instrumental evaluations are, the higher the perceived organizational legitimacy is.

H7: The more positive relational evaluations are, the higher the perceived organizational legitimacy is.

H8: The more positive moral evaluations are, the higher the perceived organizational legitimacy is.

H9: The instrumental evaluation fully mediates the relationship between the performative actions and the perceived organizational legitimacy.

H10: The relational evaluation fully mediates the relationship between the performative actions and the perceived organizational legitimacy.

H11: The moral evaluation fully mediates the relationship between the performative actions and the perceived organizational legitimacy.

H12: The relational evaluation fully mediates the relationship between the symbolic actions and the perceived organizational legitimacy.

H13: The moral evaluation fully mediates the relationship between the symbolic actions and the perceived organizational legitimacy.

2.7 Store loyalty (SL)

The store loyalty usually refers to the attitudinal loyalty, behavioural loyalty or both (e.g. Bloemer & de Ruyter, 1998; Chaudhuri & Ligas, 2009). The behavioural loyalty is defined as "a basic level of interest in a store that is limited to intent to re-buy from the particular store at a future date" (Chaudhuri & Ligas, 2009: pp.407). Attitudinal loyalty refers to "a level of attitudinal interest in a store that indicates some level of an existing bond or relationship with the store" (Chaudhuri & Ligas, 2009: pp.407). When the store has achieved the perceived legitimacy by performative and symbolic actions, the consumers will show their loyalty towards the store. The relationships are hypothesized as follows (see Fig. 1)

H14: The higher the level of the perceived organizational legitimacy, the more likely consumers are to be loyal to the store.

H15: The perceived organizational legitimacy fully mediates the relationship between the instrumental evaluation and the store loyalty.

H16: The perceived organizational legitimacy fully mediates the relationship between the relational evaluation and the store loyalty.

H17: The perceived organizational legitimacy fully mediates the relationship between the moral evaluation and the store loyalty.

3. Methodology

3.1 Sample and data collection

The method of survey is employed to collect data and the questionnaires are delivered to respondents from Ningbo (A city located within the eastern part of China) where there are 123 grocery stores. The retail formats cover hypermarkets, convenience stores and supermarkets, which are operated by foreign retailers and domestic retailers such as Wal-Mart, Carrefour, Metro, Sanjiang and Century Mart. The questionnaire is drafted up by English and then is translated into Chinese. The back translation is conducted by a separate professional. The pilot study is conducted. Over 90 MBA students are chosen to fill the questionnaires. The unclear and repeated question items are corrected and abandoned.

The data collection takes the mixed-method including the offline and online survey. 800 questionnaires are delivered by the face to face interview and WeChat (a smartphone app). The convenience sampling method is taken. 607 usable questionnaires are collected. Female respondents (Occupying 61.4%) are more than male ones (Occupying 36.6%), which follow the shopping model in the family. Females take more shopping responsibilities. Furthermore, most ages of consumers are covered, from under 17 to over 69.

3.2 Measurement Instruments

This study uses the scale developed by Pérez and Rodríguez del Bosque (2013) to measure the symbolic actions. The performative actions are measured by Bèzes's work (2014). The works of Handelman and Arnold (1999) and Tyler (1997) are combined to measure the instrumental evaluation. The work of Tyler (1997) is taken to operate the relational evaluation. The scales developed by Leach, Ellemers and Barreto (2007), Handelman and Arnold (1999) and Huang et al (2013) are combined to measure the moral evaluation. The perceived organizational legitimacy is measured by the work of Tyler and Jackson (2014) and Tyler (1997). The work of Chaudhuri and Ligas (2009) is employed to measure store loyalty. All items were rated on seven-point Likert-type scales, ranging from (1) strongly disagree to (7) strongly agree.

3.3 Data analysis

Partial least squares (PLS) is employed testify the conceptual model and the SMART-PLS 3.0 is employed because there are the second-order formative constructs within the conceptual model, performative actions and symbolic actions.

3.3.1 Measurement model Variables within the conceptual model include the reflective (IE, RE, ME, POE and SL) and formative constructs (PA and SA). For the reflective constructs,

the indicator reliability, internal consistency reliability, convergent validity and discriminant validity are assessed (Hair, Sarstedt, Hopkins. and Kuppelwieser, 2014). The composite reliability, loadings and the variance extracted (AVE) of Access, Layout, Offering, Price and Promotion of performative actions, Instrumental Evaluation, Relational-Moral Evaluation, Perceived Organizational legitimacy and store loyalty are assessed. The study employs the cross loadings of the indicators and the comparison of the square root of the AVE values with the latent variable correlations to investigate the discriminant validity. The relational evaluation and the moral evaluation are loaded within one factor, which is allowed by the theory (Tost, 2011). The new factor is referred as the relational-moral evaluation (RE-ME). All results are acceptable according to the guidelines (Hair et al, 2014). The details can be found in Table 1.

The evaluation of formative measurement models involve second-order constructs, which are the performative and symbolic actions. Firstly, the reliability and validity of first order are conducted. All of first-order constructs are reflective ones. Therefore, the internal consistent reliability, convergent validity and discriminant validity are assessed. Secondly, the weights of the first-order on the second-order constructs and their significance and multicollinearity are assessed. All results show the validity according to the commonly accepted guidelines (Hair et al, 2014). The details can be found in Table 1.

3.3.2 Structural model & mediation analysis To assess the structural model, initially the collinearity issue among all of constructs is assessed (Hair et al, 2014). The VIF value for each predictor is lower than 0.5 (Hair et al, 2014). It signifies that there is no collinearity problem in the current structural model. In the current model, performative actions and symbolic actions are second-order constructs. The two stages approach is employed to estimate the structural model (Hair et al, 2014). T value, P value and confidence intervals are calculated to assess the significance of the path coefficients (Hair et al, 2014). The results show the validity according to the commonly accepted guidelines (Hair et al, 2014). The details can be found in Table 2.

Furthermore, the coefficients of determination (R^2 value) are estimated (Hair et al, 2014). The relational-moral evaluation and perceived organizational legitimacy show moderate level of predictive. R^2 values of instrumental evaluation and store loyalty signifies relatively weak of predictive level. The Stone-Geisser's q^2 value is examined. q^2 values calculated with the

blindfolding procedure are all superior to zero. It indicates that all of the endogenous constructs' predictive relevance. The detailed information is presented within Table 2.

CONSTRUCT/dimension/indicator	VIF	Weight	Loading	(CR)	(AVE)
Performative Actions (Formative Construct)				n.a.	n.a.
Access	1.491	0.2116		0.9226	0.749
ACC1: I have no trouble getting to the supermarket.			0.8109		
ACC2: The supermarket is easy to find.			0.8541		
ACC3: The supermarket is easy accessible.			0.909		
ACC4: I find it easy to get to the supermarket.			0.8846		
Layout	2.146	0.3083		0.9053	0.657
LAY1: The supermarket is well organized. I understand immediately where to go.			0.8231		
LAY2: The supermarket looks good.			0.8216		
LAY3: I think the merchandises are very easy to locate.			0.8359		
LAY4: I like the atmosphere of the supermarket.			0.8107		
LAY5: It's easy to walk around the supermarket.			0.7591		
Offering	1.887	0.2831		0.9008	0.645
OFF1: The merchandises seem to be of premium quality.			0.8067		
OFF2: The merchandises seem to have been well selected.			0.806		
OFF3: I can find all the top brands.			0.7949		
OFF4: I can find a wide range of merchandises.			0.8234		
OFF5: I can find the merchandises most suited to my needs.			0.7839		
Price	1.413	0.2642		0.9248	0.7111
PRI1: The prices of the merchandises are lower than those of competitors.			0.8432		
PRI2: A lot of the merchandises sold here are at very low prices.			0.8711		
PRI3: The prices of the merchandises are attractive.			0.8759		
PRI4: I can find low prices for all the merchandises on offer.			0.8063		
PRI5: All the merchandises on offer seem cheaper than elsewhere.			0.8177		
Promotion	1.758	0.2334		0.8995	0.6912
PRO1: The supermarket regularly has deals on merchandises (low prices, discounts, etc.)			0.7868		
PRO2: I can easily find the merchandises related to the advertised discounts.			0.8317		
PRO3: The discounts are prominently displayed.			0.8464		
PRO4: The advertised discounts are easy to track down.			0.859		
Symbolic Actions (Formative Construct)				n.a.	n.a.
Society	1.315	0.737		0.9394	0.721
CSR15: I believe that the supermarket helps solve social problems.			0.7977		
CSR16: I believe that the supermarket uses part of its budget for donations and social projects to advance the situation of the most underprivileged groups of the society.			0.8561		
CSR17: I believe that the supermarket contributes money to cultural and social events (e.g. music, sports).			0.884		
CSR18: I believe that the supermarket plays a role in the society beyond the generation of economic benefits.			0.8643		
CSR19: I believe that the supermarket is concerned with improving the general well-being of society.			0.8654		
CSR20: I believe that the supermarket is concerned with respecting the natural environment.			0.8244		
Shareholder & Supervising Board	1.315	0.4011		0.9097	0.716
CSR6: I believe that the supermarket tries to maximize its profits.			0.8231		
CSR7: I believe that the supermarket keeps a strict control over its costs.			0.8696		
CSR8: I believe that the supermarket tries to ensure its survival and long-term success.			0.8717		
CSR9: I believe that the supermarket honestly informs about its economic situation to its shareholders and/or supervising boards.			0.8188		
Instrumental Evaluation (Reflective Construct)				0.9166	0.6875
IE1: The supermarket is the kind of place that I can get my money's worth.			0.8389		
IE2: The supermarket carries the latest trends in products and services that meet my needs.			0.8347		
IE3: I am satisfied with shopping in the supermarket.			0.8611		
IE4: The supermarket carries products that satisfy my needs.			0.8387		
IE5: The supermarket is committed to meeting the standards that people expect of retailers.			0.7696		
Relational-Moral Evaluation (Reflective Construct)				0.9495	0.631
ME1: The supermarket is honest.			0.8154		
ME2: The supermarket is trustworthiness.			0.7814		
ME3: The supermarket is sincere.			0.7957		
ME5: The supermarket sets an example for how retailers should behave.			0.7868		
RE1: Every consumer's views receive equal consideration.			0.7594		
RE2: The supermarket would be honest.			0.8174		
RE3: The supermarket would try to treat you fairly.			0.8531		
RE4: Your views would be considered.			0.7697		
RE5: The supermarket tries to make decisions good for everyone.			0.7688		
RE6: the supermarket would respect your rights as a consumer.			0.8112		
RE7: The supermarket would treat you politely.			0.7743		
Perceived Organizational Legitimacy (Reflective Construct)				0.9227	0.705
POL3: You trust the supermarket.			0.620		
POL4: The supermarket does its job well.			0.643		
POL5: You like the supermarket.			0.660		
POL6: You are willing to accept the supermarket.			0.684		
POL7: The supermarket's operation is proper.			0.673		
Store Loyalty (Reflective Construct)				0.8941	0.7392
SL3: I am committed to this supermarket.			0.903		
SL4: I have a close relationship with the supermarket.			0.9139		
SL5: I have a connection with this supermarket.			0.7528		

Table 2 Loadings and weights for the measurement model

Then the bootstrapping is conducted to testify the mediation relationships and also is suitable for PLS-SEM method (Hair, 2013). Firstly, the significance of the direct effects without including the mediator variables (instrumental evaluation, relational-moral evaluation and perceived organizational legitimacy) is assessed. The *t* value and the p value signify that all of direct effects without the abovementioned mediators are significant. The detailed information can be found in Table 2. Secondly, Then the significance of indirect effects are testified. The empirical t values of the indirect effect and *p* values show that the indirect effects are significant. Then the Variance Accounted for (VAF) is calculated and the results show that there are partial mediation relationships existing. The detailed information can be found in Table 2.

	Path	t	Confidence Interval
Instrumental Evaluation	$R^2=0.384; Q^2=0.381$		
PA→IE	0.62***	12.5957	[0.524, 25.308]
Relational-Moral Evaluation	$R^2=0.607; Q^2=0.6052$		
PA→RE-ME	0.416***	6.7326	[0.295, 13.612]
SA→RE-ME	0.475***	7.0339	[0.343, 14.261]
Perceived Organizational Legitimacy	$R^2=0.62; Q^2=0.6167$		
IE→POL	0.264***	2.9153	[0.086, 5.978]
RE-ME→POL	0.568***	7.1468	[0.412, 14.576]
Store Loyalty	$R^2=0.251; Q^2=0.2498$		
POL→SL	0.501***	10.6333	[0.408, 21.342]
Indirect Effects		*t*	VAF
PA->IE->POL		2.4988**	26.08
PA->RE-ME->POL		4.1944***	33.74
SA->RE-ME->POL		5.982***	47.68
IE->POL->SL		2.7105***	60.05
RE-ME->POL->SL		5.6512***	35.06

*p<.10. **p<.05. ***p<.01

Table 2 Direct and Indirect Effects. Bias-correct 95% Intervals

4. Discussion and managerial implications

This research extends understanding about how the individual consumer formulates the perceived organizational legitimacy and then the store loyalty. The instrumental evaluation and the relational-moral evaluation from the individual consumer towards the performative

and symbolic actions will influence the formulation of the perceived organizational legitimacy on the individual level. The performative actions and symbolic actions taken by the retailers reach the standards of the relational-moral evaluations and make contributions towards the establishment of store loyalty. The performative actions show the relatively weak connection with instrumental evaluation and the perceived organizational legitimacy in the current research. It signifies that retailers still need to improve their performance in the task environment. For the practitioners, they need to pay attention to how individual consumer evaluates their actions when expanding business in the overseas retailing markets.

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