Consumer Trust Erosion During an Industry-Wide Crisis: the Central Role of Legitimacy Judgment

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The aim of this paper is to deepen understanding of consumer legitimacy judgment and investigate its relationships with industry trust and consumers’ perceptions of institutional environments in an industry-wide crisis context. The paper contains four studies and offers theoretical implications for industry trust from an institutional perspective.

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EXTENDED ABSTRACT

Industry-wide product-harm crises (hereafter called “industry-wide crises”) are well-publicized instances of corporate misconduct permeating an industry and causing potential or real product harm. Severe industry-wide crises can exert a catastrophic impact on the affected industry by eroding consumer trust (Cleeren, Dekimpe, & Helsen, 2008; Feng, Keller, Wu, & Xu, 2014; Knight, Gao, Garrett, & Deans, 2008). We have studied the 2008 Chinese milk melamine contamination in which 22 dairy firms were reportedly involved. In this crisis, consumers’ confidence and trust in the Chinese dairy industry was shaken to its core (Qiao, Guo, & Klein, 2012). Most recently, another major industry-wide crisis occurred in Brazil: more than 30 Brazilian meat manufacturers were reported to indulge in unhygienic and illegal practices, causing concerns in export markets and a loss of trust in the safety of meat exported from Brazil. Previous research on product-harm crises mostly focuses on trust erosion in individual firms rather than in entire industries (Coombs & Holladay, 1996; Klein & Dawar, 2004). Industry-wide crises differ from individual firm crises because they are attributable to institutional factors such as deficient regulation, weak quality control, and poorly defined industry norms (Gao & Knight, 2007; Gao, Knight, Zhang, Mather, & Tan, 2012). The present paper contributes to the product-harm crisis literature by investigating the nature of these institutional factors in connection with consumers’ perceptions, judgment, and trust erosion. We seek insights from institutional theory to better understand this connection.

Institutional theory emphasizes the importance of legitimacy in understanding individuals’ responses toward an institutional system and the entities within it (Finch, Deephouse, & Varella, 2015; Suchman, 1995; Tost, 2011). The concept of legitimacy has not gained sufficient attention in the product-harm crisis literature. Two significant remaining gaps still are presented here: (1) Very few studies investigate consumer legitimacy judgment regarding an industry. It is still unclear how consumers judge an industry as legitimate or non-legitimate based on its institutional frameworks. (2) There is a lack of any theoretical explanation with associated empirical support for the role of legitimacy judgment in consumers’ psychological reactions during an industry-wide crisis. It is unclear whether consumer legitimacy judgment of the affected industry can influence consumer trust in the industry. Against this background, this study investigates how consumers make legitimacy judgment of an industry and whether consumer legitimacy judgment plays a critical role in the erosion of industry trust occurring during an industry-wide crisis.

We define consumer legitimacy judgment (CLJ) as consumers’ judgment of an industry’s actions based on the desirability, properness, and appropriateness in the institutional environment. We hypothesize that CLJ plays a central role in the erosion of consumer broad-scope trust during an industry-wide crisis.

We conducted four studies to understand the mechanism of legitimacy judgment. The first three studies used the Chinese dairy industry as the research context because it is perceived as having institutional deficiencies by Chinese consumers (Gao & Knight, 2007; Knight et al., 2008). We used parents of school children as our sample frame because they are frequent decision-makers and purchasers of food for households and share concerns about food safety (Qiao et al., 2012). Study 1 constructs and validates the CLJ scales by referring to literature, experts, consumer interviews, and a sample of 311 participants. Study 2 examines the mediation effect of CLJ on the relationship between perception of normalization of misconduct and industry trust with a sample of 284 participants. The results indicate that, once consumers perceive stimuli signifying an industry-wide crisis, they tend to engage in legitimacy judgment and this judgment has a significant impact on their trust in the industry. Study 3 validates the CLJ mediation model by assessing whether the information signaling that a crisis is industry-wide serves as the boundary condition for the full mediation effect. We obtained usable responses from 323 participants from the sample frame. The results indicate that consumers rely on an effortful and systematic approach during an industry-wide crisis and rather engage in a conservative and automatic approach during a non-industry-wide crisis. Study 4 (n=132) replicates the CLJ mediation model in the setting of the soymilk industry in China which has a low base-rate of crises, in order to investigate the role of base-rate on the CLJ effect. The results indicate that a high base rate of crises strengthens the tendency of engaging in legitimacy judgment and weakens the reliance on pre-existing perceptions.

This paper contributes to the consumer research literature by combining institutional and psychological perspectives to evaluate legitimacy judgment process and the erosion of industry trust. The paper suggests that monitoring consumers’ perceptions of the industry with regard to the focal scandals and base rates and taking appropriate measures to influence consumer legitimacy judgment process are prescriptions for reducing the erosion of industry trust during a crisis.

REFERENCES


