

# Is Institutional Legitimacy Related to Business Sustainability? Analysis of Cashew Nut Farmers' Perspectives Mediated by Societal Stakeholders' Action in Tanzania

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## **Abstract**

*This paper analysed the effect of institutional legitimacy on cashew nut farming business sustainability in Tanzania through societal stakeholders' action. Specifically, the paper examined the effect of institutional legitimacy on business sustainability, societal stakeholder's action on business sustainability and mediating effect of societal stakeholders' action on the relationship between institutional legitimacy and business sustainability. Explanatory research design was used, and simple random sampling was applied to select 380 cashew nut farmers. A structured questionnaire was used to collect data which later were analysed using structural equation modelling. Results indicated that institutional legitimacy had a positive and significant effect on business sustainability. Societal stakeholders' action was also found to have positive and significant effect on business sustainability. Further, results showed a partial mediation effect of societal stakeholders' action on the relationship between institutional legitimacy and business sustainability. The study concluded that institutional legitimacy and societal stakeholders' actions are predictors of business sustainability, and societal stakeholders' action partially mediates the relationship between institutional legitimacy and business sustainability. Thus, the study recommends that, for cashew nut farming business in Tanzania to be sustainable, it is important for institutions like Cashew Nut Board of Tanzania (CBT) and others to be legitimate to both farmers and societal stakeholders. Further it is recommended to scholars to undertake research on understanding mediation effect of the stakeholder theory on institutional theory exposed by results of this study.*

**Keywords:** Business sustainability, Institutional legitimacy, Societal stakeholders' action

DOI: <https://dx.doi.org/10.4314/ajasss.v5i1.11>

## 1. Introduction

The increasing obligation of institutions in attaining business sustainability (BSS) in developing economies has drawn much research focus in the 21<sup>st</sup> century (Shubham et al., 2018). A truly sustainable business reflects how it uses resources to address the economic, social and environmental challenges that society is facing (Dyllick & Muff, 2016). Most scholars in this area have used institutional and stakeholder theories as lenses in their studies (Fayezi et al., 2018). The institutional theory is traditionally concerned with how groups and entities secure their positions and legitimacy by conforming to the requirements of the institutional business environment (Bruton et al., 2010). According to Freeman and Edward (2010), the stakeholder theory explains how businesses create value based on the effect of societal stakeholders' actions (SSA).

Entities should comply with institutionalised requirements so as to be acceptable to societal stakeholders in the business (Svensson et al., 2018). Acquah et al. (2021) documented the application of institutional and stakeholder theories in the thoughtful outcome of institutional legitimacy (LEG) on reaching BSS. The intertwined nature of these theories provides the platform for studying business sustainability from different angles (Shubham et al., 2018).

To attain sustainability in agriculture, one must take into account economic, social and environmental aspects seriously (Morioka & Carvalho, 2017). The curiosity of analysing the effect of LEG on BSS in cashew nut farming activity in Tanzania over SSA arose from the fact that scholars (Kadigi et al., 2017; Barreiro-Hurle & Nkonya, 2019) testified a number of vague contests fronting the activity since independence to date irrespective of established institutions. Some of them are high price of inputs and handling costs which, to a large degree, affect economic progress of farmers (Lukurugu et al., 2022). Pest sites used to treat cashew nut tree is another contest causing negative environmental effects (Nene et al., 2022).

The Warehouse Receipt System (WRS) used in selling cashew nut produce is also identified as a contest in achieving sustainability of the business (Barreiro-Hurle & Nkonya, 2019). Under this credit system, farmers are paid just the initial amount of money while submitting their cashew nut at the warehouse and wait for the remaining sum to be paid after their produce is sold through auction by cooperatives (Mgonja & Shausi, 2022). The system disheartens farmers because at the end of the day they receive less than what is actually incurred in the farming process, given the time factor (Lukurugu et al., 2022).

Neo-institutionalists suggest the need for institutional legitimacy from entities under their jurisdiction as a way towards sustainability (Scott, 2005). Entities which choose to abide by institutional requirements would be legitimate in front of societal stakeholders (Suchman, 1995). Legitimate entities such as individuals or firms in a society should comply with the institutional requirements in which they are embedded (Kumar et al., 2017). An entity that does not comply with pertinent institutional requirements cannot be said to have achieved legitimacy and, as a result, would not stay long in the business (Suchman, 1995).

The major role of institutions is to enhance value creation in any business and make sure that the created value is enjoyed by stakeholders (Svensson et al., 2018). Societal stakeholders are the focal points as their action is suspected to have a greater effect on most businesses (Baah et al., 2021). That being the case, it is obvious that the survival of any business emanates from societal stakeholders' positive action (Svensson et al. 2016). Accordingly, the persistence of the cashew nut farming business in Tanzania rests on key societal stakeholders who are Government, regulators, activist groups, buyers, consumers, and the general public at large.

In order to be legitimate in front of societal stakeholders, entities take on board all business sustainability aspects established by governing institutions (Glover et al., 2014). Earned legitimacy enhances the survival of the business (Scott, 2005). Consequently, institutional and stakeholder theories were applied in this study to analyse the effect of LEG on BSS through SSA. The study envisioned extending the body of knowledge on institutional legitimacy on the accomplishment of BSS from preceding researchers (Liang et al., 2017). Integrating mediating effect of SSA on the relationship between LEG and BSS was a contribution to the institutional theory made by this study.

Anagnostou et al. (2015) contend that institutional legitimacy is realized by adhering to rules, norms and practices pertaining to institutions. The concept of legitimacy within the context of entity is defined as conformity to the forms, procedures, rules and practices within the widely accepted social norms and legal structures (Schaltegger & Hörisch, 2017). Generally, legitimacy is the perception or assumption that business of an entity or organisation are desirable, proper or appropriate within some socially constructed systems of norms (Snelson-Powell, 2016). The process of rules, standards and regulation development should be known by all societal stakeholders and take into account the norms of the business environment so as to be acceptable and enhance sustainability (Schaltegger & Hörisch, 2017). Therefore, this paper predicted that:

H<sub>1</sub>: Institutional legitimacy has a significant effect on business sustainability.

Actions of societal stakeholders play a vigorous role in entities' existence (Litrico & Lee, 2018). Fobbe and Hilletoft (2021) shed some light on how this can be achieved despite insufficient details. These stakeholders are likely to give feedback on the legitimacy of regulatory institutions and entities' business practices through their actions (Ferro et al., 2019; Litrico and Lee, 2018; Svensson et al., 2018). Positive or negative actions of these stakeholders demonstrate the fate of business (Venkatesh et al., 2020). Therefore, this study hypothesizes that:

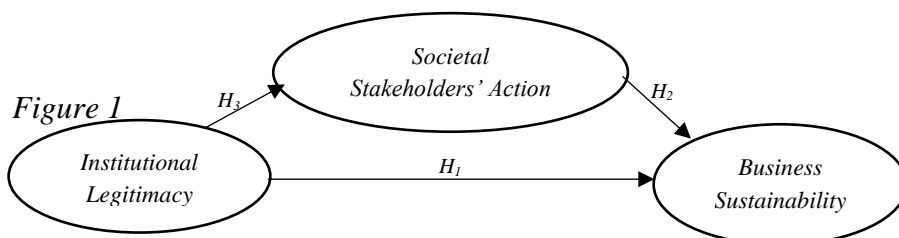
H<sub>2</sub>: Societal stakeholders' action has a significant effect on business sustainability.

Institutional theory attempts to explain rules and rations to which individuals and entities must comply if they are to receive support and legitimacy (Henle, 1989). The strength of this standpoint today follows from the fact that the world is crammed with rules and requirements in every business sector, industry and nation-state. Complying with institutionalized business rules is considered a means of gaining legitimacy (Scott, 2005). The theory emphasizes on how individuals, groups and entities can better secure their positions and legitimacy by conforming to the regulatory structures, governmental agencies, professions, standards and cultural practices (Bruton et al., 2010).

According to Fayezi et al. (2018), societal stakeholders' demands in recent business environments have sustainability at its core and, as such, various entities in one way or another have adopted business sustainability practice in order to gain legitimacy. The best means for an entity to achieve sustainability is to collaborate with all societal stakeholders in the business environment (Varsei et al., 2014). Within the context of institutional theory, entities are motivated by the need to gain legitimacy (Baah et al., 2021). Accordingly, this study hypothesizes that:

H<sub>3</sub>: Societal stakeholder's action has a significant mediating effect on the relationship between institutional legitimacy and business sustainability

### Conceptual framework



The deductive approach, backed by positivism philosophy, was used in this research (Scotland, 2012). On top of that, explanatory design together with survey strategy was applied to support the study (Saunders et al., 2009). The population for the study was 273,663 registered cashew nut farmers in Tanzania from 5 regions of Mtwara, Lindi, Ruvuma, Coast and Tanga as per CBT statistics of 2022. The regions were chosen because they produce more than 97% of cashew nut in Tanzania (Kadigi et al., 2017). A sample of 380 respondents was selected using simple random technique. The N: q rule was applied in selecting the sample size where N stands for number of respondents per parameter and q for the number of parameters used in a study when Structural Equation Modelling (SEM) is used (Jackson, 2003). The author further proposed that an ideal sample size to parameter is 20:1 or at least 10: 1. As the total number of parameters in this study was 19, basing on the 20:1 rule, the sample size was 380 farmers.

Since the study used respondents from 5 different regions, it was important to establish proportionate sub-samples from each region. Proportional allocation allows sample to be kept proportionate to the established area of the research (Kothari & Gard, 2014). The calculations which led to the arrival of proportional allocation in each region were as follows: Mtwara –  $99,672/273,663 \times 380 = 138$ ; Lindi –  $73,206/273,663 \times 380 = 102$ ; Ruvuma –  $39,708/273,663 \times 380 = 55$ , Coast –  $49,847/273,663 \times 380 = 69$ ; Tanga –  $11,230/273,663 \times 380 = 16$ .

BSS was measured using nine items adapted from Laurell et al. (2019). Conversely, LEG was measured using five items adapted from Chaney et al. (2016), Handelman & Arnold (1999), Kim et al. (2014) and SSA using five items (Svensson et al., 2016). A five-point Likert-like scale which comprised statements to each of which the reply was Strongly disagree (1 point), Disagree (2 points), Undecided (3 points), Agree (4 points) or Strongly agree (5 points) was used to analyse data which were collected using a structured questionnaire. The unit of analysis was an individual cashew nut farmer.

Descriptive analysis and evaluation of Exploratory Factor Analysis (EFA) in order to determine validity and reliability of study constructs, together with assumptions of Structural Equation Modelling (SEM), was accomplished using SPSS software version 25. Construction of measurement and structural models under Confirmatory Factor Analysis (CFA) was done by IBM AMOS Software version 23. Association between variables was considered to be significant at the 5% level of significance. Mediation analysis was performed using Sobel test. Goodness of fit indices, with their acceptable threshold levels were CMIN/DF ( $X^2/df \leq 3$ ), RMR  $\leq 0.08$ , GFI  $\geq 0.90$ , CFI  $\geq 0.90$ , NFI  $\geq 0.90$ , TLI  $\geq 0.90$ , RFI  $\geq$

0.90, PCFI  $\geq$  0.50, and RMSEA  $\leq$  0.08 as adapted from Hooper et al. (2008), Gupta (2015), Hair et al. (2006) and Malhotra et al. (2017).

### 3. Findings and Discussion

The fundamental assumptions of SEM were tested. A linear relationship between the dependent variable and independent variables was established. Normality assumption was tested using skewness and kurtosis. The study revealed that the kurtosis was between the specified cut-off points of -2 and 2 while the skewness was between -3 and 3. These findings underscored the requirements of SEM as stipulated by (Cangur & Ercan, 2015).

**Table 1: Multivariate Normality Tests**

Variable	min	max	skew	c.r.	kurtosis	c.r.
SSA1	1.000	5.000	-1.102	-9.326	.408	1.727
SSA2	1.000	5.000	-1.218	-10.310	.598	2.532
SSA3	1.000	5.000	-1.141	-9.656	.491	2.077
SSA4	1.000	5.000	-1.160	-9.823	.450	1.904
SSA5	1.000	5.000	-1.024	-8.668	.501	2.122
LEG5	1.000	5.000	-.258	-2.185	.032	.135
LEG4	1.000	5.000	-.493	-4.170	.250	1.059
LEG3	1.000	5.000	-.293	-2.483	-.084	-.357
LEG2	1.000	5.000	-.296	-2.510	.057	.241
LEG1	1.000	5.000	-.261	-2.211	.078	.330
BS9	1.000	5.000	-.864	-7.315	.748	3.166
BS8	1.000	5.000	-.976	-8.262	1.377	5.829
BS6	1.000	5.000	-.842	-7.131	.270	1.141
BS5	1.000	5.000	-.809	-6.848	.291	1.232
BS4	1.000	5.000	-.626	-5.302	.014	.059
BS3	1.000	5.000	-.901	-7.626	.455	1.926
BS2	1.000	5.000	-.590	-4.991	.041	.176
BS1	1.000	5.000	-.947	-8.017	.470	1.990
Multivariate					33.410	12.910

Cronbach’s Alpha and Average Variance Extracted (AVE) were used to measure reliability and validity of the study constructs. The study revealed that all the constructs were reliable as their Cronbach’s Alpha values were above 0.7 which is the cut-off point (Palos-Sanchez & Saura, 2018; Vaske et al., 2017). Validity was checked through AVE, values with 0.5 being the cut-off point (Fornell & Larcker, 1981). Although the AVE value of BSS was 0.466 which is below the cut-off point, it was approximated to 0.5; despite this fact, we had confidence in internal reliability as its composite reliability (CR) was above the recommended cut-off point of 0.6 (Lam, 2012).

**Table 2: Validity and reliability of study constructs**

Construct	Number of items	Cronbach's alpha	CR	AVE
BSS	8	0.895	0.872	0.466
LEG	5	0.834	0.839	0.512
SSA	5	0.896	0.861	0.554

Exploratory factor analysis was carried out to evaluate if items defining a certain construct were fit for particular constructs, given a set of items. Three latent variables together with their purported measurement items were formulated. This was evidenced by KMO values of above 0.7 for all. Bartlett's test of sphericity was large enough as indicated by the p-value below 0.001 for each construct. That indicates sampling adequacy (Zou et al., 2020).

**Table 3: Construsts' KMO and Batlett's test of sphericity**

Construct	Number of items	KMO	Bartlett's Test
BSS	9	0.863	4460.610 (p<0.001)
LEG	5	0.901	5237.712 (P<0.001)
SSA	5	0.825	6059.416 (P<0.001)

Construct explained variances, number of formulated components and factor loadings were also articulated. Three components with eigenvalues above 1.0 were identified. The per cents of variance due to the rotation sum of squared loadings were 24.570, 19.152, and 17.819 for the first, second and third components respectively (Table 4). For each study component, items forming a particular component had factor loadings above 0.5 (Hair et al., 2014; Yong & Pearce, 2013) as shown in Table 5 except BSS7 which was fairly low; hence it was removed in further analysis.

**Table 4: Total Variance Explained**

Compon ent	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	8.976	47.243	47.243	8.976	47.243	47.243	4.668	24.570	24.570
2	1.485	7.818	55.061	1.485	7.818	55.061	3.639	19.152	43.722
3	1.231	6.480	61.541	1.231	6.480	61.541	3.386	17.819	61.541

**Table 5: Factor Loadings**

	Components		
	1	2	3
BSS6	.807		
BSS1	.773		
BSS4	.735		
BSS5	.697		
BSS3	.684		
BSS2	.649		
BSS8	.544		
BSS9	.517		
BSS7	.458		
SSA3		.804	
SSA1		.755	
SSA4		.732	
SSA5		.730	
SSA2		.695	
LEG1			.802
LEG3			.727
LEG4			.727
LEG5			.695
LEG2			.614

A number of fit indices with their cut-off points;  $CMIN/DF (X^2/df) \leq 3$ ,  $RMR \leq 0.08$ ,  $GFI \geq 0.90$ ,  $CFI \geq 0.90$ ,  $NFI \geq 0.90$ ,  $TLI \geq 0.90$ ,  $RFI \geq 0.90$ ,  $PCFI \geq 0.50$ , and  $RMSEA \leq 0.08$ ; were used to confirm the models. The overall measurement model was constructed, and all fit indices were within the cut-off point, signifying that the model was well fitted (Figure 2). After fitting the measurement model, the structural model was drawn, and its fitness was confirmed through fit indices which were within the cut- offs (Figure 3).



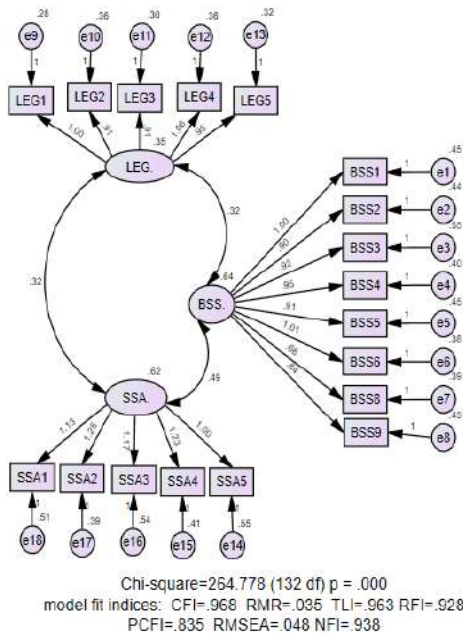


Figure 2

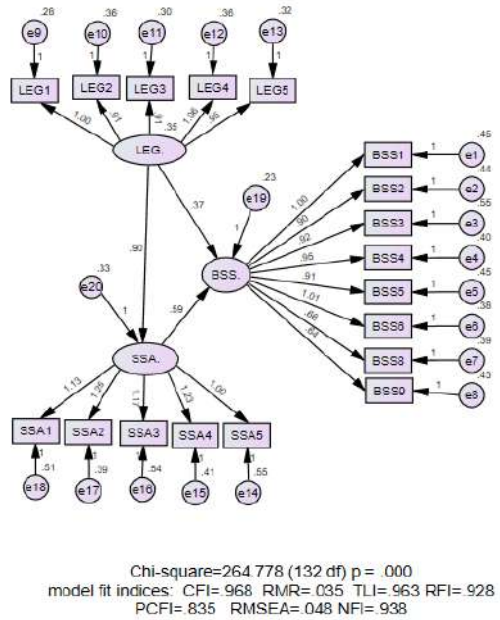


Figure 3

It was also found that, for each score increase in LEG, BSS increased by 0.897, and this increase was statistically significant at 1% level ( $p < 0.001$ ) as indicated in Table 6. Controlling for SSA for each score increase in LEG made BSS to increase by 0.373, and this increase was statistically significant at 1% level ( $p < 0.001$ ) as shown in Table 7. Based on these pieces of evidence, we had statistical confidence to reject the null hypothesis and conclude that SSA had a positive and statistically significant effect on BSS.

**Table 6: Effect of LEG on BSS before including the mediator (SSA)**

	Relationship	Estimate	S.E.	C.R.	P	Label
BSS.	<--- LEG.	.897	.080	11.179	<0.001	par_12

**Table 7: Mediating effect of SSA on the relationship between LEG and BSS**

		Estimate	S.E.	C.R.	P	Label
SSA.	<--- LEG.	.903	.083	10.897	***	par_18
BSS.	<--- LEG.	.373	.080	4.645	***	par_16
BSS.	<--- SSA.	.591	.067	8.833	***	par_17

Conditions of mediation analysis were evaluated as shown in Table 7. The direct effect of LEG on BSS, and effect of SSA on BSS as well as that of LEG on SSA was positive and statistically significant at 1% level ( $p < 0.001$ ). It was found that, controlling for LEG for each score increase in SSA, BSS increased by 0.591, and this increase was statistically significant at 1% level. Moreover, for each score increase in LEG, SSA increased significantly at 1% level by 0.903. Subsequently, controlling for SSA made the direct effect of LEG on BSS to decrease but continued to be significant at 5% level.

Additionally, the research results showed that direct, indirect and total effect of LEG on BSS were 0.373, 0.534 and 0.907 respectively (Table 8). These findings corresponded with the prior hypotheses that SSA mediates the relationship between LEG and BSS. Therefore, the study showed that SSA had a partial mediation effect on the relationship between LEG and BSS as it fulfilled the partial mediation condition.

**Table 8: The direct and indirect effect of LEG on BSS**

			Direct effect	Indirect effect	Total effects
LEG	<---	SSA.	.903	NA	.903
BSS	<---	SSA.	.591	NA	.591
BSS	<---	LEG.	.373	.534	.907

The findings also supported  $H_1$  of the study, whereby LEG was found to have positive and statistically significant effect of 0.897 ( $p < .001$ ) on BSS. This finding is consistent with findings by Schaltegger and Hörisch (2017)), Liang et al. (2017) and Andrades et al. (2021), but they are contrary to findings by Hatanaka and Konefal (2017) and Anagnostou et al. (2015) who found positive but insignificant effect of LEG on BSS. The result signifies that, for cashew nut farming business in Tanzania to be sustainable, institutions dealing with cashew nut farming business such as CBT and AMCOS must enhance their legitimacy in front of cashew nut farmers.

The effect of SSA on BSS was found to be positive and statistically significant at 1% level ( $p < 0.001$ ) as it was hypothesized in  $H_2$  at the beginning. The result is consistent with findings by Deephouse et al. (2016) and Baah et al. (2021) but contrary to findings by Snelson-Powell (2016) who found negative and insignificant effect of SSA on BSS. The results of this study suggest that, in order to achieve sustainability of cashew nut farming in Tanzania, it is important to convince societal stakeholders to act positively toward the business.

It was also found that SSA had a partial mediation effect on the relationship between LEG and BSS. This was due to the fact that, before introducing SSA, the effect of LEG on BSS was positive and significant. Introducing SSA made the effect decrease from 0.897 to 0.373 but was still significant at 5% level. Therefore, this study suggests that, for cashew nut farming business in Tanzania to be sustainable, it is important for institutions dealing with the same to be legitimate to both farmers and societal stakeholders. The findings also proved theoretical hypotheses made earlier that the stakeholder theory construct (societal stakeholder) has a mediating effect on the relationship between institutional theory construct (legitimacy) and business sustainability.

#### **4.0 Conclusions and Recommendations**

This paper analysed the effect of LEG on cashew nut farming BSS in Tanzania with the mediation role of SSA. The findings revealed that both LEG and SSA have positive and significant effect on BSS. Thus, it is concluded that LEG and SSA are predictors of cashew nut farming BSS. The findings also revealed that SSA partially mediated the relationship between LEG and BSS. Hence, it is concluded that, for cashew nut farming business in Tanzania to be sustainable, it is important for institutions like CBT, AMCOS and others to be legitimate to both farmers and societal stakeholders. Further research is recommended to extend understanding of the institutional theory exposed by the results of this research that there is mediation effect of the stakeholder theory on the institutional theory which, to the researchers' best knowledge, has been exposed for the first time.

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