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Familiness and market orientation: A stakeholder approach

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ABSTRACT

The basic premise of this article is that the social capital elements of familiness give family firms greater potential for developing a market orientation through three basic elements: the adoption of a stewardship orientation, the development of specific capacities for knowledge management, and the development of a family based brand identity. The literature on market orientation, resource-based view, stakeholder theory and family firms is used to develop a model of market orientation in family firms. The model incorporates the specific features of familiness that influence the cultural and behavioral foundations of market orientation and mediate the relationship between these foundations and the results for the organization.

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1. Introduction

As a theory of the firm, stakeholder theory helps to establish a relational model of organizations (Pesqueux & Damak-Ayadi, 2005). It views a firm as an organizational entity through which a number of participants with diverse interests (stakeholders) achieve their goals (Yau, Chow, Sin, Tse, Luk, & Lee, 2007). A corporation can therefore be perceived as a nexus of relationships with its various stakeholders with a goal of mutual gain (Bhattacharya, Korschun, & Sen, 2009). According to Freeman (1984), the primary objective of a firm is to create superior value for relevant stakeholders in the long term. Thus, stakeholder theory claims that managers must consider the legitimate interests of groups and individuals who can affect or be affected by the activities of the firm. Stakeholder management is a question of balancing stakeholder interests and creating added value through trust, commitment and social norms (García de Madariaga & Valor, 2007; Omran, Atrill, & Point, 2002; Sirgy, 2002).

Each stakeholder community provides material or immaterial resources that are, to a greater or lesser extent, critical to the long-term success of the firm. The ability of stakeholder communities to withdraw much-needed organizational resources gives them power over the organization. Businesses can therefore be expected to show diligence in matters of concern to powerful stakeholder communities in order to ensure their continued cooperation (Maignan & Ferrell, 2004). One of the managerial practices required to fulfill this objective is marketing, which is concerned with managing the exchange relationships that tie organizations to their environment (Zeithaml & Zeithaml, 1984). The discipline of marketing therefore involves organizational processes that are useful for keeping abreast of and managing stakeholder relationships (Kimery & Rinehart, 1998). So, the development of relationships with customers requires a firm to adopt the concept of marketing as a management philosophy. This involves identifying customer needs and satisfying them in the long term more effectively and more efficiently than the competition. This philosophy is linked to the concept of market orientation, which is central to marketing and has become increasingly important in the study and practice of management (Gebhardt, Carpenter, & Sherry, 2006). Market orientation is broadly defined as a set of superior capabilities of understanding and satisfying a firm's customers (Day, 1994). However, a strong market orientation will be a recognizable characteristic in successful firms only if they broaden their focus to include other stakeholders (e.g., employees, strategic partners and suppliers) through corporate relationships. In this sense, García de Madariaga and Valor (2007) established that the higher the degree of market orientation is, the higher the probability of implementing true dialog with stakeholders will be. On these bases, this work adopts an approach to the concept of market orientation based on stakeholder theory in a way that considers it as a source of competitive advantage supported by the social capital of the firm.

In the case of family businesses, the literature includes references to family firms being inclined to behave according to a market orientation, which in turn is considered a basis of competitive advantage (e.g., Cooper, Upton, & Seaman, 2005; Orth & Green, 2009). Poza, Hanlon, and Kishida (2004) state that a resource unique to some family firms is the capacity to create value

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for customers through an organizational culture that values close interpersonal relationships and fosters strategies based on high quality and high customer service. Tokarczyk, Hansen, Green, and Down (2007) suggested that the intangible resources related to the familiness of a firm may contribute to its ability to deploy a market orientation. The authors emphasized the cultural roots of market orientation, stating that this orientation could mirror the familiness qualities identified in earlier studies.

The concept of familiness was first defined by Habbershon and Williams (1999) as the bundle of idiosyncratic internal resources and capabilities resulting from the involvement of the family in the firm. They were the first to apply the principles of the resource-based view to explain the competitive advantage (or disadvantage) of family firms by identifying resources specific to these firms and matching them with the firms' strategic capabilities. Other authors have contributed to this discussion, constantly mentioning the involvement of family members with the firm and their interactions within it as the source of certain family-based attributes of family firms that create familiness (e.g. Chrisman, Chua, & Litz, 2003; Pearson, Carr, & Shaw, 2008; Sharma, 2008; Sirmon & Hitt, 2003; Zellweger, Eddleston, & Kellermanns, 2010).

One of the most recent theoretical developments in relation to the familiness construct is the theory of social capital (Arregle, Hitt, Sirmon, & Very, 2007; Hoffman, Hoelscher, & Sorenson, 2006; Pearson et al., 2008; Sharma, 2008). On the basis of earlier literature, Arregle et al. (2007) defined social capital as the goodwill and resources made available to an actor via reciprocal, trusting relationships that can be both intra- and inter-organizational. From a stakeholder approach, social capital, in terms of trust and reciprocity norms, relation networks and relational competences, relates to various aspects of the normative vision of stakeholder management such as transparency, goodwill, and good citizenship (Ortiz-Avram & Kühne, 2008; Putnam, 2000). Following Murillo and Lozano (2006), family firms may be especially interested in investing in social capital due to their particular dependency on the network of interpersonal relationships that determine how they function. As a result, relations with relevant stakeholders[1] through specific managerial procedures may allow companies to exploit their social capital (Russo & Perrini, 2010).

Arregle et al. (2007) argued that family firms are unique in this respect because they include two types of social capital: the family's and the firm's. This is because family social capital influences the creation of the firm's social capital. These authors stated that family firm members often have strong interactions with clients and other stakeholders that help to develop organizational social capital. In line with this, Sharma (2008) highlighted the importance of this type of social capital ("bridging" social capital), given the impact of family connections with critical external constituents, such as clients, on family firm performance. Family leaders are therefore considered to be specially concerned about creating customer loyalty and lasting networks with clients through a more personal approach to marketing and in-depth knowledge of customers (Miller, Le-Breton-Miller, & Scholnick, 2008).

On these bases, our aim is to explain why and how some family firms are able to develop a market orientation that provides them with a competitive advantage. Thus, the basic premise of this article is that those family firms that are able to develop the attributes of distinctive familiness (Sharma, 2008) are more capable of developing a market orientation. More specifically, the objective is to discuss how elements of social capital associated with the concept of familiness affect the development and maintenance of market orientation. The discussion is based on the idea that a family firm is a business in which ownership and management are combined within a family unit and its members strive to achieve and/or maintain intra-organizational family-based relationships (Litz, 1995). This means that the family nature of a business is determined by the cultural and behavioral aspects introduced by long-term family-oriented relationships. We have therefore adopted the essence approach to the concept of family firm (Chrisman, Chua, & Sharma, 2005; Chua, Chrisman, & Sharma, 1999; Zellweger et al., 2010). Our line of argument is based on a starting point of the family firm that involves transgenerational orientation and the intention to keep the company in the family and the family in the company. These characteristics constitute the driving forces behind long-term investments to develop capacities, human resources and lasting relations with stakeholders (Le Breton-Miller & Miller, 2006). This way, one of the assumptions in our discussion is that family firms have the potential to develop certain advantages capital that could support the development of a market orientation.

In the following sections, we use the literature on market orientation, resource-based view, stakeholder theory and family firms to develop a market orientation model that incorporates the specific features of the family nature of a firm, i.e. familiness. At the same time, we suggest three research propositions that can be derived from the literature discussion. The final model is presented in the last section with the main conclusions of the study and implications for further research.

2. Market orientation as a source of competitive advantage

It is not surprising that the market orientation construct which has received so much attention in the marketing literature, has also inspired multiple definitions (Carr & Lopez, 2007). Two definitions of market orientation dominate the literature, those of Narver and Slater (1990) as well as Kohli and Jaworski (1990). Narver and Slater (1990) define market orientation as the organizational culture that creates the necessary behaviors for the developing of superior value for buyers and thus continuous superior performance. Kohli and Jaworski (1990) define market orientation as a set of behaviors to generate, disseminate and use superior information about customers and competition. In short, the first definition portrays market orientation as a culture, whereas the second presents market orientation as a set of organizational behaviors.

Several studies have debated integrating both the cultural and behavioral conceptualizations of market orientation. In this line, Homburg and Pflesser (2000) as well as Carr and Lopez (2007) propose a market orientation model in which a market-oriented culture provides the foundation for market-oriented behaviors. In this line, Day (1994) considers that many firms have aspired to become market driven but have failed to install and sustain this orientation because it requires a wide-ranging cultural shift in the organization. Also, Narver and Slater (1998) consider that if a market orientation were simply a set of activities completely disassociated from the underlying belief system of an organization, i.e., the organization's culture, a market orientation could easily be implanted by the organization, which is generally not true. Moreover, the cultural values of a market orientation are necessary, but not sufficient, for the creation of a learning organization (Slater & Narver, 1995). Therefore, it is not possible to substitute either of these aspects for the other, and neither are they independent of each other (Fiol, 1991), which means that an adjustment between cultural and behavioral aspects is necessary (Avlonitis & Gounaris, 1997).

[1] Stakeholder relevance is determined by a series of criteria such as their level of power and legitimacy, the urgency of their demands and their level of interdependence with the company (Mitchell et al., 1997).

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