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Evaluating the Effects of Market and Innovation Orientations on Family Owned Firms' Performance: An Empirical Study in Istanbul

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Abstract

Beyond the classic idea of profit maximization and permanent growth aim to raise the firm performance, new generation and well-educated top level managers exactly know the obligation of implication modern theories and practices in organizations. Market and innovation orientations are two of new theories of this thought. This paper will try to evaluate the effects of using various strategic orientations on family-owned firm performance. The other tricky question is why it's chosen family owned-firms; it has a very simple answer: ninety eight percent of firms are family-owned firms in Turkey. That means in every one hundred firms there are only two firms driven by independent stakeholders. Briefly, any kind of evidence that can prove the strategic orientations may improve family-owned performance is the desired output of this empirical research.

JEL classification numbers: M10, M14, M20
Keywords: Family-owned firms, market orientation, innovative orientation, firm performance, empirical study.

1 Introduction

For centuries companies have been imagining how they can be successful in a dynamic market and made plans for that purpose. Some of them have tried to invest on qualified employees; many of them have tried to use their financial strength. In the last century, a lot of new approach has come like Chaos Theory, Total Quality Management, Six Sigma, Blue Ocean and many more… Even there's a certain way to reach the main goal, which may differ on every business; especially every family-owned firm has own characteristics including culture, staff, managers and processes. There are basically three management

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objectives. One objective is ensuring organizational goals and targets are met – with least cost and minimum waste. The second objective is looking after health and welfare, and safety of staff. The third objective is protecting the machinery and resources of the organization, including the human resources. In this decade, new kind of management approaches is taken into consideration by top level managers of the family-owned firms. This paper describes a new management approaches for the business that calls for employing modern, 21st Century concepts for managing family-owned organizations. One of the reasons for management disarray is lack of common understanding of key terms. Strategy researchers and managers become engaged in an interactive, reciprocating research process, the objective of which is building pragmatic strategic management theory. There are many different forms of management theories, and the definition of management has changed over time. Starting in the 1900's management became a key concern for many businesses worldwide. Measuring the performance of the employees and managers is important to provide feedback that will increase one's chance of achieving the goals of the company effectively and efficiently. The new management model that should be implemented across all business organizations begins with the function of new strategic orientations including innovation, market, relationship, customer (Mahoney and Sanchez, 2004, p.34; Olum, 2003, p.1; Hill, 2013). The article will try to fill this gap with clear empirical results about family owned firms' performance that affected by new strategic orientations.

2 Literature Review

2.1 Definition of Family Firms

There is not a single definition of "family business" which is widely and exclusively applied to every conceivable area, such as to public and policy discussions, to legal regulations, as an eligibility criterion for support services, and to the provision of statistical data and academic research. Family-owned businesses are a traditional way of conducting business within the private sector (Mandl, 2008, p.13). A firm is said to be family-owned firm if a person is having or controlling stakeholder; that is a person can garner enough to assure at least twenty percent of the voting rights and the highest percentage of voting rights in comparison to other stakeholders (Chakrabarty, 2009, p.32). Across Europe, about 70 % - 80 % of enterprises are family businesses and they account for about 40 % - 50 % of employment. On the one hand, a large share of European Small and Medium Scaled Enterprises are family businesses, and some of the largest European companies are also family businesses. On the other hand, similar to the European economy in general, the family business sector is dominated by Small and Medium Scaled Enterprises, and particularly by micro enterprises with less than 10 employees (Mandl, 2008, p.2). Family firms share certain characteristics that render them unique in terms of patterns of ownership, governance, and succession (Flemons and Cole, 1992; Gersick et al. 1997; Lansberg, 1997; Chua, Chrisman, & Sharma, 1999; Kırım, 2002; Altindag et.al., 2011, pp.10). These firms are in many ways the epitome of 'patient capital' – these businesses are willing to invest for the long term, and do not suffer from the constraints imposed on their listed competitors by the quarterly reporting cycle and the need for quick returns.72% of respondents believe that family businesses contribute to economic stability, and this belief is stronger in longer-established businesses of three generations or more, and in mature markets like Europe and North America. 53% consider that businesses in this sector are notable for taking a longer term approach to decision-making. Each family business is different, but the ambition and dedication of the family to grow the business is always there (PwC 2012, p:5). Family-owned firms have to strive to be as well-managed as the best of their competitors. The need for a professional business approach is arguably even greater in a family than in a non-family-owned firm so all members of the family should take the trouble to understand the part they should play in the continued success of the firm. Because it is difficult to separate family relationships from business relationships, clarity of role is particularly crucial in family firms (Cadbury, 2000, pp.32; Fındıkçı, 2008, Donckels and Freilich, 1991; Altindag et al., 2011). According to Mandl's study, the following types of specifications can be differentiated in European countries:

• In various definitions, it is just indicated that the business is to be owned by the family.

• The majority of analysed definitions refer to a dominant ownership position, e.g., by requiring a majority of (voting) shares or the ownership of more than 50 % of the shares/capital.

• In some definitions (i.e., in Cyprus, Finland, France, Portugal, Spain or the United Kingdom as well as by the FBN International) a differentiation among enterprise types is conducted. So, while for partnerships or private limited companies a share of at least 50 % of family ownership is required, between 10 % and 25 % are sufficient for public limited companies (or very large enterprises).

• One of the Danish definitions indicates that the family is to be the "largest owner".

• According to Danish and French definitions the family not necessarily needs to hold direct ownership but, for example, the involvement of funds (in which the family is participating) is sufficient to satisfy the indicated ownership criterion.

Hence, family businesses are sometimes referred to as "hidden champions" as they not only show high growth and profitability in the long-run but also greater stability. To conclude, other factors (e.g., size class, sector, national economic situation etc.) more importantly influence the economic performance than the "familiness".

2.2 Market Orientation

As Pulendran and friends' definition (2003, p.476), research into market orientation has been a remarkably fertile area over the past decade. A company philosophy focused on discovering and meeting the needs and desires of its customers through its product mix. Unlike previous marketing strategies that concentrated on establishing selling points for existing products, market orientation works in reverse, attempting to tailor products to meet the demands of customers. A market orientated company is one that organizes its activities and process, products and services around the demands and needs of its customers in the existing market. In essence, market orientation can be thought of as a coordinated marketing campaign between a family-owned company and its customers. The research output has been substantial, and can be conceptually divided into two streams, depending on its analytical focus. The first key research stream examines the market orientation-business performance relationship. Subsequent studies have extended on this work by examining alternative characteristics that may differentiate terms with a high level of market orientation from the average term. Research in this stream has examined the distinctiveness of market oriented terms in terms of their sales force management (Siguaw *et al.,* 1994), new product development practices and innovation

(Han *et al.*, 1998; Lukas and Ferrell, 2000; Pulendran et al., 2003, p.477). According to Milisavljević (2005, p.158-159) a market-oriented company is in a position to achieve competitive advantage thanks to its unique innovative approach to customers. Such a concept of market orientation has been defined as market-driven in recent years. To be market-driven means the capability to understand, attract and keep valuable customers. Over time the term market-driven strategy has started not to include meeting the requirements and needs of customers only, but all stakeholders, such as share-holders, creditors, suppliers and the state. A proactive family-owned business makes efforts to have strategic initiative in order to control place and time of action in the market.

2.3 Innovation Orientation

First of all, the official definition of innovation is “the process of introducing new or significantly improved goods or services and/or implementing new or significantly improved processes. New goods or services or new processes may involve the development of new technology, an adaptation of existing technology to a new use (e.g. electronic commerce), or may be nontechnological in nature—e.g. organizational and managerial change, some changes in marketing” Also innovation is described as “the mechanism by which organizations develop value through new products, processes, and systems that are needed to respond to changing markets, technologies, and modes of competition” (Utterback 1994; Dougherty & Hardy 1996; *ABS, 2005, p5*). According to Unsworth et al., the most commonly cited definition of innovation is provided by Zaltman et al. (1973, p. 10), who wrote, “An innovation is an idea, practice, or material artefact perceived to be new by the relevant adoption unit”. As another definition, innovation is “the management of all the activities involved in the process of idea generation, technology development, manufacturing, and marketing of a new (or improved) product or manufacturing process or equipment” (Trott, 2008, p. 15; Reulink, 2012, p.12). A firm must be innovative to survive in a volatile environment. Innovativeness is conceived by some as the degree to which an individual, compared to others in the social system, is relatively early in adopting something new (Calantone et al., 2002, 516-517). According to Burns and Stalker’s (1961) term, the capacity to innovate is the ability of an organization to adopt or implement new ideas, processes or products perfectly. Family-owned firms that have a greater capacity to innovate are able to develop a competitive advantage and achieve higher levels of financial and growth performance. Innovative orientated family-owned firms may employ new technologies and processes to enhance their marketing effectiveness. There are antecedents to innovation oriented-firms; that is, various characteristics of family-owned firm’s culture like learning and decision making, support and calibration, and power sharing (Hurley and Hult, 1998, p.44-46; Humand and Naude, 2012, p.5). Both innovation and market orientation implementation to the family-owned firms is necessary today’s aggressive market competition and outputs will be examined in the methodology section.

3 Methodology

3.1 Hypothesis

The first research question is this study asks how market orientation strategy affects the firm overall performance. It's argued that the hypothesis which are used in our empirical analyze is improved by previous studies explains the causes of orientations over firm's growth and financial performance. It's expected a strong relationship between strategic orientations and firm's performance; we test only two hypotheses, which are based on two sub- hypotheses through for every claim.

- H1a: There is a positive, significant and direct relationship between market orientation and business financial performance
- H1b: There is a positive, significant and direct relationship between market orientation and business growth performance
- H2a: There is a positive, significant and direct relationship between innovation orientation and business financial performance
- H2b: There is a positive, significant and direct relationship between innovation orientation and business growth performance

We seek the evidence of links between market orientation and business performance follow one of two distinct paths. Research model (Figure-1),is based on the main two hypotheses.

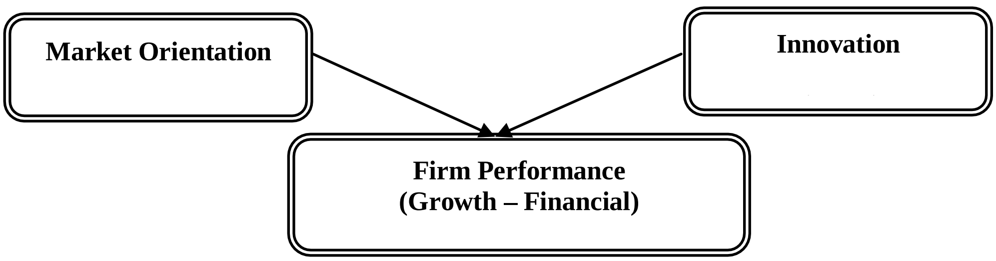

Figure 1: Research Model of The Empirical Study.

3.2 Scales and Descriptive Statistics

The aim of the purpose of the empirical study is to specify the outputs of the family-owned firm performance within two factors that evaluate financial and growth performance of the firms. The questionnaire also contained some demographic questions relating to both respondents and the family-owned firms they represent. Here is the demographic data of the research:

Table 1: Key Descriptive Statistics of the Sample

Gender	**Frequency**	**Percent**
Male	212	64,4
Female	108	35,6
Status	**Frequency**	**Percent**
Top Level Man. / Owner	48	15,0
Middle Level Man.	37	11,6
Bottom Level Manager	234	73,4
Tenure*	**Frequency**	**Percent**
1-5	94	32,3
6-10	88	30,2
11-20	73	25,1
20+	35	12,0

**29 percipients did not answer this question.*

All text of questions are tested for linguistic and meaning errors and it's controlled by Brislin's (1970) back-translate method. Seven point Likert-type scale where 1 shows "strongly disagree" and 7 shows "strongly agree" is used in the research. A Likert scale is a psychometric scale commonly used in questionnaires, and is the most widely used scale in survey research, such that the term is often used interchangeably with rating scale even though the two are not synonymous. These are the sources of our questionnaire:

Table 2: Research Sources

Innovation Orientation	Hult *et al.* (2004)
Market Orientation	Kohli *et al*. (1993)
Firm Performance	Antoncic & Hisrich (2001), Zahra *et al.*(2002), Chang *et al.* (2003), King & Zeithaml, (2001), Lynch *et al.* (2000), Rozenzweig *et al.* (2003), Venkatraman & Ramanujan (1986), Baker & Sinkula (1999), Vorhies *et al.* (1999), Vorhies & Morgan (2005)

3.3 Scale Validity and Reliability

Scaling is a process of measuring or ordering entities with respect to quantitative attributes or traits in the social sciences. In this empirical study, the relationships between the all variables are tested using factor, reliability, correlation and regression analyses.In the Alpha reliability test (Croanbach); all the scale reliability coefficient has been determined a satisfactory and successful level between ,706 and ,772 ; this value space is over the recommended 0.70 threshold value. (Nunnally 1978; Nunnally, and Bernstein 1994; Altindag et.al.,2011). Cronbach's alpha will generally increase as the intercorrelations among test items increase, and is thus known as an internal consistency estimate of reliability of test scores. After this process, it's examined the "corrected inter-item correlations" and "squared multiple correlations" in the item analysis process.

Factor analysis searches for such joint variations in response to unobserved latent variables. Factor analysis with Varimax rotation was implemented to identify component factors having eigenvalues greater than one. Both objective and subjective attributes can be used provided the subjective attributes can be converted into scores in factor analyses. This analysis can identify latent dimensions or constructs that direct analysis may not identify clearly. During data reduction process, which variables having a factor load of 0.500 and above calculated and implemented into research model.

Table 3: Factor Analyses

Variables	Number of components	α
Market Orientation	**3**	
Creating Information		,738
Sharing Information		,714
Refractory		,772
Innovation Orientation	**1**	,706
Business Performance	**2**	
Growth Performance		,740
Financial Performance		,732

3.4 Findings

Despite innovation orientation had mutually positive relationship (ρ<0.001) with business performance components, there is no significant relationship between market orientation and financial or growth performance. At next stage, correlation refers to any of a broad class of statistical relationships involving dependence. Outputs of correlation analysis reveals that all constructs which differed from each other as a factor are also correlated each other positively and significantly. In general statistical usage, correlation or co-relation can refer to any departure of two or more random variables from independence, but most commonly refers to a more specialized type of relationship between mean values.

Table 4: Correlation Matrix

Factors	1	2	3	4	5	6
CI	1,000					
SI	,611**	1,000				
Refractory	,263**	,468**	1,000			
Innovation	,342**	,505**	348**	1,000		
Financial P.	,267**	,249	,056	,440	1,000	
Growth P.	,273**	,232	,108	,437	,716	1,000

p*< 0,05; p**<0,01

Afterwards, regression analysis will be conducted. Regression analysis is a statistical technique for estimating the relationships among variables. It includes many techniques for modeling and analyzing several variables, when the focus is on the relationship between a dependent variable and one or more independent variables. Innovation and market orientations are analyzed with performance sub factors together to define the relationship between them.

Table 5: The Effects of Market Orientation's Factors and Innovation Orientation on Business Performance

	Dependent variable: Financial performance		
	β	***t***	***p***
Creating Information	,181	2,662	,008
Sharing Information	,172	2,323	,021
Refractory	-,072	-1,186	,236
Innovation	,440	8,750	,000
	Dependent variable: Growth performance		
	β	***t***	***p***
Creating Information	,210	3,078	,002
Sharing Information	,101	1,358	,175
Refractory	,006	,095	,925
Innovation	-,437	8,662	,000

These are the key outputs and comments of our research:

- This study found that there is a positive, significant and direct relationship between innovation orientation and business growth performance in line with our expectations. Therefore H2a and H2b hypothesis are strongly supported. Unfortunately, against long odds any market orientation sub factors seem to link to firm performance nor financial or growth.
- Family firm owners or top managers must be clearly committed to and consistently emphasize the importance of innovation orientation on firm performance in both ways. The β value detected ,440 as financial performance and ,437 as growth performance with R^2 value is ,191 and ,194 in order. In other words, the increase of tendency to innovation orientation provides about twenty percent increment on family-owned firm's financial and growth performance. Actually it had expected before the analysis began; but the outputs show clear findings about the effect of innovation orientation.
- The outputs of the research prove that innovation strategy is a significant driver of family-owned firm performance and must be *d*eveloped and implemented as an integral part of the family-owned firm's market strategy.
- Small family-owned firms must consider the key factors for success; including entrepreneurial spirit and innovation. In dynamic markets, it is so important to tend the Research and Development activities quickly and conveniently and with advanced technical know-how. Presumably, family-owned firms' managers are noticed about the radical changes in global markets, so they try to adapt their management styles into new techniques including R&D and innovation.
- Market orientation and its sub factors have no significant effect on firm performance with disillusion. A number of caveats must be considered; when it's eliminated the

factor of incorrectly filled the questionnaire, family-owned firms managers may lack the importance of creating and sharing information about existing and future markets.

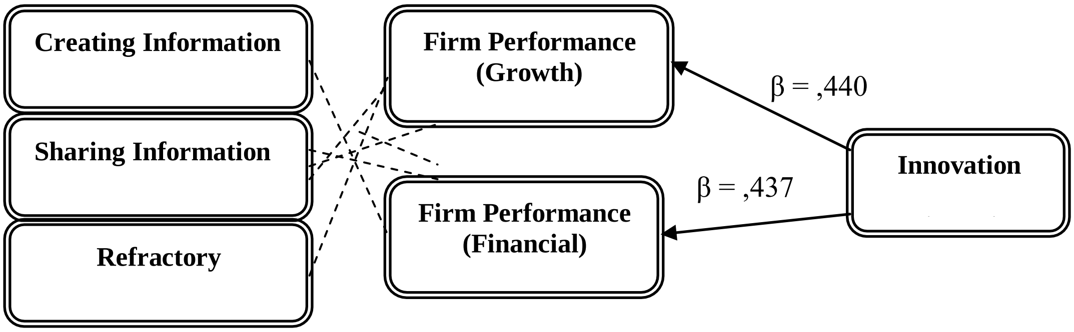

Figure 2: Research Model

4 Conclusion

This study set out to determine the evaluation the effects of market and innovation orientations on family owned firms' performance. These findings suggest that in general family-owned firms accept the innovation orientation and tendency to R&D activities to establish a stronger and competitive organizational structure in dynamic and complex markets. In some research, unexpected outputs may be more valuable for academicians and managers, this paper can be one of them. Market orientation has no positive effect on firm performance; the explanation of this finding can be predictable, nevertheless there may be no perception on market orientation by managers and the management board of the family-owned firms. It's expected the market orientation must influence the performance in many ways, but there is no empirical evidence about this foresight. Innovation option is more precious for managers; organizations that have been successful at innovation in the past are more likely to innovate in the future. Innovation and R&D provides family-owned firms with a means of creating a competitive advantage in the dynamic marketplace that in turn may provide superior financial performance. The decision to innovate is an important decision for top level managers in family-owned firms, after the decision of accepting to apple innovative techniques and to invest R&D department will ensure a unique competitive advantage to the firm. There is a few research conducted in Turkey, but especially focused on only family owned firms by Altindag et al. and Zehir et.al., which were published in 2010 and 2011 have empirical outputs. It's hoped next researches will fill this gap at the earliest. The most important limitation lies in the there is only a few researches conducted about these two orientations of Turkish family-owned firms, so it's hard to compare the empirical results of the relationship between strategic orientations and firm overall performance. More research is needed to better understand the importance of new generation management theories. The other weakness of this study was the paucity of the experiment area is limited with only one city. Additionally, conducting multiple questionnaires at every layer of an organization and among multiple respondents would the only option to increase the reliability of the results. This would be, however, very time consuming and complex for large sample studies. Additional research can provide insights why this is the case.

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