# ORGANIZATIONAL SOCIAL CONSCIOUSNESS, MARKET ORIENTATION, AND INNOVATIVENESS IN FAMILY AND NON-FAMILY BUSINESSES

## *Purpose of the Project*

Although there have been many studies on market orientation (e.g., Narver & Slater, 1990) and the resulting linkages with innovation (e.g., Dibrell et al., 2011) and family firms (e.g., Beck et al., 2011; Tokarczyk et al., 2007; Zachary et al., 2011), there is a paucity of work examining market orientation and corporate social responsibility within a family firm context. Family firm scholars have considered how family firms employ market orientation (i.e., a firm's orientation to its competitors, customers, and interfunctional coordination) to gain a competitive advantage (Tokarczyk et al., 2007; Zachary et al., 2011) through such efforts as firm innovativeness (i.e., the extent of a firm's emphasis on the generation and creation of new products, new services, and/or improved product lines or processes). Likewise, family firms have shown a greater proclivity to engage in corporate social responsibility than non-family firms (e.g., Uhlaner et al., 2004). However, there has been limited understanding of how market orientation, corporate social responsibility, and innovation behaviors are similar or dissimilar across family and non-family firms. From a corporate social responsibility perspective, the perspective of an organization's social consciousness (i.e., a firm which attempts to solve social problems through alignment of the interests of its employees and the firm's interest (Dibrell et al., In Press) may provide greater understanding in how family and non-family firms differ in their approaches to market orientation, corporate social responsibility, and innovativeness. In this current research, we propose that the interaction among market orientation, an organization's social consciousness, and family will positively augment the effect of market orientation on firm innovativeness.

***Theoretical Background and Hypotheses***

Narver and Slater (1990) established a culture-based approach to market-orientation by suggesting market orientation consists of three dimensions: customer focus, competitor focus, and interfunctional coordination. Market orienation is characterized by employees that strive to provide superior value to customers resulting in a competitive advantage through a greater understanding of what customers want, how competitors respond, and the capability of a employees to disseminate and to coordinate this information across and within departments. These same attributes may be seen in the extent that a firm is innovative (Beck et al., 2011; Dibrell et al., 2011). Following this logic, we present our first hypothesis:

**Hypothesis 1:** *Market Orientation is positively related to firm innovativeness.*

Maignan et al. (1999) hypothesized that a firm's market orientation is positively related to corporate citizenship proactivity, as market oriented firms are particularly sensitive to any stakeholder which affects long-term performance. In the Sharma and Vredenburg (1998) study, firms which were characterized to be proactive firms and actively engaged in corporate social responsibilities were discovered to support opportunity seeking and experimentation. Corporate social responsibility behaviors may result in enhanced innovativeness as firms are more proactively open and aware of societal/consumer changing trends. Organizational social consciousness is indicative of the extent that "socially conscious organizations will engage in opportunities to predict and to solve social problems through alignment of the organization's interest with those of the social participants" (Dibrell et al., In Press). Therefore, it can be argued that a firm which has a high social conscoiousness will enlarge the field of information considered relevant by a firm thereby be open to new ideas that may lead to innovations.

Family firmes have unique cultures which are manifestations of the overlap of family, management, and ownership (Tagiuri & Davis, 1996), which has been empirically demonstrated

to positively influence competitive advantages of a firm (e.g., Tokarczyk, et al., 2007; Zahra et al., 2008). Likewise, orientation toward the market (Narver & Slater, 1990) and toward corporate social responsibility (Uhlaner et al., 2004) is a product of an organization's culture. As such, the values of the family are embedded in the culture of the family firm (e.g., Tokarczyk, et al., 2007; Uhlaner et al., 2004; Zachary et al., 2011) and will positively enhance the effects of market orientation and social consciousness in relation to firm innovativeness to a greater extent than in non-family firms. Therefore, we posit our final hypothesis:

**Hypothesis 2:** *Organizational Social Consciousness positively moderates the relationship between market orientation and firm innovativeness whereby the relationship is stronger for family firms than for nonfamily firms.*

***Methodology***

Sampling from the food processing industry, a questionnaire was mailed to the CEO of 2,297 firms located in Western USA. After removing 750 potential respondents from the sample pool due to such issues as incorrect addresses, 239 mostly completed questionnaires were returned, resulting in a final response rate of 15.4%. The food processing industry was selected for a variety of reasons. These firms produce food products for human consumption and must consistently provide safe goods in order to maintain the reputation of the firm. In addition by limiting the sample to one industry, industry effects are controlled through the research design.

We tested for the effects of common method bias and non-response bias in our sample, finding no significant results. For firm size, the sample ranged from one to five employees (n = 67) to larger organizations consisting of 500 to 9,000 employees (n = 15). For firm age, a preponderance of firms were greater than 20 years (n = 101). Following the guidance provided by Zahra et al. (2008), we asked respondents if they considered their firms to be a family firm. If

a respondent perceived their firm to be a family firm, then the firm was classified as a family firm, resulting in family (n = 158) and non-family (n = 53) firm samples.

**Firm Innovativeness.** As indicated in the text, firm innovativeness encompasses all processes within the organization which are related to creating new products or services. Using a four-item Likert-type scale, we drew upon the work of Dibrell et al. (2011). The mean score of items was used for this scale, as well as for the other constructs in this study.

**Market Orientation.** Following the approach employed by Narver and Slater (1990), we utilized a 15-item single market orientation score for hypotheses testing, which contained the customer, competitor, and interfunctional coordination sub-dimensions.

**Organizational Social Consciousness.** We employed the Dibrell et al. (In Press) three-item scale, which focused on how the firm uses its resources to solve social problems. The three-items were: (1) Pursuit of opportunities for social problems; (2) Use of socially innovative business models; and, (3) Creation of innovations to solve social problems.

**Control Variables.** We used six control variables. To control for the potential confounding effects of firm age and size, we collected continuous demographic data on these two measures, with a natural log transformation for each measure. Similarly, we controlled for a firm's costs relative to its competitors, the perceived extent of industry dynamism, the flexibility of the firm to respond to changes in its external environment, and the extent the firm engages in recycling, as a corporate social responsibility behavior.

### *Summary of the Results*

The correlation results suggest that the different constructs were within an acceptable range ($r$ = -.26 to r = .49), and all variance inflation factor scores were under 2.4, indicating few

signs of collinearity. To test for measurement invariance, we conducted confirmatory factory analysis with the results supporting convergent and discriminant construct validities.

For hypothesis testing, we used OLS regression, since we examined interaction terms using cross-sectional data. With inclusion of the different interaction terms, all measurement scores were mean-centered. Hypothesis 1 stated market orientation is positively related to firm innovativeness. Using the entire sample, we found strong support ($b = .35$; $p < .001$; one-tailed) for Hypothesis 1. To test for Hypothesis 2, we first tested for a significant 3-way interaction of market orientation-social consciousness-family drawing from the entire sample and found a significant relationship ($b = -.11$; $p < .10$; one-tailed) indicating that we may we proceed with sub-group analysis to determine the possible differences between family and nonfamily firms.

In our sub-group analysis, we found a significant 2-way interaction term ($b = -.13$; $p < .05$; one-tailed) for family firms between market orientation and social consciousness but not for non-family firms ($b = .19$; $p > .05$; one-tailed), indicating preliminary support for this hypothesis. As seen in Figure 1, the slope for high market orientation and high organizational social consciousness for family firms is positive providing support for Hypothesis 2.

Insert Figure 1 Here

***Implications of the Findings for Research and Practice***

Our results contribute to the family business, market orientation, and corporate responsibility literatures. In family firms, we discovered that the values of the family are manifested in the interaction effect of market orientation and organizational social consciousness. For non-family firms, we did not find this interaction effect. This finding indicates family and non-family firms behave differently in relation to market orientation, organizational social consciousness, and innovativeness.

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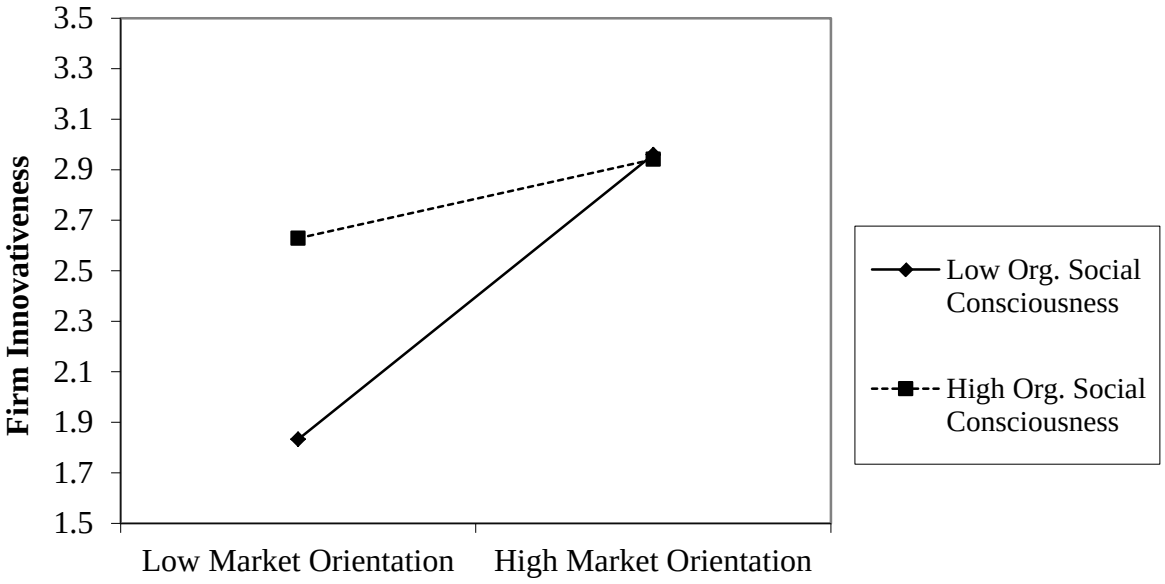
***Figure 1*** – Market Orientation and

Firm Innovativeness Moderated by Social Consciousness in Family Firms