Chapter 2

The Role of Market Orientation and Organizational Capabilities of Family Businesses on Competitive Advantage

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ABSTRACT

Family businesses are described as organizations owned by one or more members of the same family. Most of the business organizations in the world consist of family firms. However, although they constitute a larger share in almost all of the economies, in their first 5 years of operation, 90% of the family businesses disappear. Of the remaining 10%, 67% die or change ownership after first generation. Only 12% survive under current ownership past the third generation. Therefore, in order to maintain the continuity of the business, family businesses have to achieve competitive advantage. One way to achieve competitive advantage is through becoming market oriented. In this connection, the purpose of this chapter is to identify the role of market orientation and the four basic organizational capabilities (entrepreneurial ability, management ability, global ability, and building partnerships ability) on gaining competitive advantage by systematically reviewing relevant concepts, thereby contributing to the existing literature.

INTRODUCTION

Family businesses are described as organisations owned by one or more members of the same family (Litz, 1995). Most of the business organisations in the world consist of family firms. 75% of all the companies in OECD countries, 80%- 90% of the companies in U.S.A, 70% of all the firms in UK are family-owned enterprises. However, despite constituting the largest share in almost all economies, in their first five years of operation, 90% of family businesses disappear. Of the remaining 10%, 67% die or change ownership after the first generation and only 12% survive under the same ownership past the
third generation (Poza & Dougherty, 2014). Hence, in order to maintain the continuity of the operation, family businesses have to achieve competitive advantage (Zhou, Li, Zhou, & Su, 2008).

In this context, it is argued that one of the ways to achieve competitive advantage is to maintain market orientation with organisational capabilities. The focus of market orientation should be based on understanding the expectations and needs of customers, satisfying them and creating superior customer value. Becoming market oriented is important, because globalisation together with developing technologies and changing market conditions are pushing all companies into becoming more flexible and taking quick decisions (Ulrich & Smallwood, 2004). Hence, every company needs certain skills to ensure customer satisfaction and thus, acquire competitive advantage. In particular, organisational capabilities, such as the entrepreneurial ability and management ability of family members are crucial for acquiring competitive advantage (Garces-Galdeano, Larraza-Kintana, Garcia-Olaverri, & Makri, 2016). Moreover, in today’s business environment, the ability to support the development of the company’s global capabilities and establish partnerships is also considered as an important organisational capability. In general, it is asserted that management and entrepreneurial abilities are considered as internal capabilities, while dynamic global and partnership abilities are considered as external organisational ones (McKelvie & Davidson, 2009).

The purpose of this chapter is to probe market orientation and the four basic organisational capabilities (entrepreneurial ability, management ability, global ability and building partnerships ability), with the purpose of determining how these four basic organisational capabilities help family businesses to gain competitive advantage, which is lacking in the family businesses literature. By systematically reviewing the relevant concepts, the aim of this present chapter, is to fill this void. The chapter is composed as follows. First, the methodology of the literature review is presented and the characteristics of family businesses are identified. Second, the concepts of market orientation and the four organisational capabilities are explained. Finally, the role of market orientation and these capabilities in attaining competitive advantage will be specified.

**METHODOLOGY OF THE LITERATURE REVIEW**

What follows is an integrative type of literature review to provide a deeper understanding of the role of market orientation and organisational capabilities of family businesses in their attaining competitive advantage than has previously been presented. Accordingly, 84 documents in electronic databases, including JSTOR, EBSCOhost, ScienceDirect, Scopus, ProQuest, Springer and SAGE, which used any design, quantitative or qualitative, are scrutinised. These provide discussions about market orientation and the organisational capabilities of family firms relating to competitive advantage between 2001 and 2019. In identifying the studies, the following key words were utilised: family business, family business life cycle, market orientation, management abilities, entrepreneurial abilities, partnership abilities, dynamic global abilities and competitive advantage.
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