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Is stakeholder orientation relevant for European firms?

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A B S T R A C T

Stakeholder theory suggests firms should be sensitive to a broad group of stakeholders and their needs, with balanced trade-offs that are fundamental to achieving sustainable competitive advantage, and ultimately survival. Market orientation (MO) scholars also consistently call for inclusion of a broader group of stakeholders than the widely studied customer and competitor groups to better understand the impact of multiple stakeholders on firm performance. In response, this study expands the traditional domain of MO and defines overall stakeholder orientation as including customers, competitors, employees and shareholders, designating them as 'core and essential stakeholders.' Scholars have also advocated the inclusion of more forward-looking, proactive considerations in the conceptual framework to complement the usual responsive aspects of MO. Measures for both proactive and responsive orientations for the four core stakeholder groups, representing overall stakeholder orientation, were developed and validated. Findings show that for European firms proactive considerations are potentially more impactful than responsive, and overall stakeholder orientation is a significant predictor of improved financial and non-financial performance.

1. Introduction

In recent years, massive firm failures have occurred, triggering economic shock and a global financial crisis. Major regulatory problems associated with large financial services firms in the US such as Lehman Brothers, Morgan Stanley and Goldman Sachs, have resulted in billions of dollars in fines. More recently, a number of European corporations and banks – HSBC, UBS, Deutsche Bank, Barclay's, and the Volkswagen Group – have either paid or face potential fines – in Volkswagen's case 70 billion euros or more (CNN, 2015). Such cases commonly involve widespread corporate culture failure as well as more serious malfeasance (Financial Times, 2015; Reuters, 2015). The failures, both ethical and strategic, have been at least in part a consequence of undue short term focus on shareholder monetary returns versus the interests of other stakeholders (Demirguc-Kunt & Serven, 2010; Parloff, 2009; Sachs & Ruhli, 2005; Yeoh, 2010). Failures such as this indicate a need for strategic frameworks with a broader focus, such as that implied by stakeholder theory (Ferrell, Gonzalez-Padron, Hult, & Maignan, 2010; Freeman, 1984; Sachs & Ruhli, 2005). Moreover, demands for corporate social responsibility, sustainability, and increasing regulatory requirements dictate that firms consider the needs of multiple stakeholders (Crittenden, Crittenden, Ferrell, Ferrell, & Pinney, 2011; Kumar, Jones, Venkatesan, & Leone, 2011).

Market orientation and stakeholder theory have both proven to be robust conceptual frameworks (Kirca, Jayachandran, & Bearden, 2005; Laplume, Sonpar, & Litz, 2008). Market orientation (MO) is operationalized as intelligence gathering and dissemination related to customers and competitors. MO is a composite organizational culture focused on understanding and serving customer needs in the context of potential and actual competitor actions (Day, 1994; Ferrell et al., 2010; Jaworski & Kohli, 1993; Narver, Slater, & McLachlan, 2004), and is central to building sustainable competitive advantage and delivering superior long-term financial performance (Grinstein, 2008; Kirca et al., 2005; Kumar et al., 2011).

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Finally, scholars have called for a broader focus on stakeholder research by incorporating additional stakeholder groups (Ferrell et al., 2010; Kohli & Jaworski, 1990; Narver & Slater, 1990).

Stakeholder theory posits that organizations are at the nexus of stakeholders who can mutually affect one another (Freeman, 1984). Primary stakeholders are those who have immediate and interdependent ongoing mutual impact on the firm (Freeman, Harrison, Wicks, Parmar, & de Colle, 2010). These primary stakeholders may include customers, competitors, employees, shareholders, suppliers, and regulators (Freeman et al., 2010). Greenley and Foxall (1997) and Greenley, Graham, and John (2005) proposed that the four 'essential' or core stakeholders are customers, competitors, employees, and shareholders. These core stakeholders are considered focal since operationally they are of immediate concern for managers relative to other relationships. For example, competitive price changes may force an immediate and necessary reaction leading to possible mutually debilitating price wars. Yau et al. (2007) integrated the original Narver and Slater (1990) operationalization of MO while also adding employees and shareholders. Their findings revealed a positive relationship between stakeholder orientation and financial performance.

More recently, Maignan, Gonzalez-Padron, Hult, and Ferrell (2011) proposed a conceptualization of stakeholder orientation as including six stakeholder groups — customers, employees, shareholders, suppliers, regulators, and communities. They found a substantial positive correlation with marketing and financial outcome measures based on behavioral dimensions: organizational values, norms, and artifacts. Aside from the Maignan et al. (2011) and Yau et al. (2007) stakeholder orientation studies, no other research empirically examines more than two stakeholder orientations.

While there is considerable research related to stakeholder theory and stakeholder management, it is based primarily on secondary data for U.S. public companies, and focuses on environmental and corporate social responsibility issues. Such research has identified a positive relationship between various measures of corporate social responsibility and financial outcomes (e.g., Doh & Guay, 2006; Laplume et al., 2008). However, there is no empirical work based on European firms that considers stakeholder orientation. Extant literature suggests there are important differences between European and American firms in terms of institutional and governance frameworks and cultural factors (Doh & Guay, 2006; Gaskell, Bauer, Durant, & Allum, 1999; Klijn, 2008). We anticipate, therefore, that a European-based empirical study will deliver meaningful insights. In this study we examine stakeholder and related market orientation concepts in a European context as a response to the limited extant research on this topic.

The purpose of this study is to address the gaps in previous empirical studies and stakeholder measures, including recent suggestions to include proactive considerations. We focus on the four core stakeholders as suggested by Greenley et al. (2005) and Yau et al. (2007): customers, competitors, employees, and shareholders. Research to date has focused on responsive considerations, yet Narver et al. (2004) and other researchers have suggested the need for proactive, anticipatory considerations. We therefore have included proactive measures for the core stakeholder orientations (Atuahene-Gima, Slater, & Olson, 2005; Blocker, Flint, Myers, & Slater, 2011). The inclusion of the four orientations as well as the addition of a proactive perspective creates a conceptual framework not previously considered.

We develop the theoretical foundation and conceptual model as well as scales for each of the core stakeholders. The conceptualization using four primary stakeholders should enhance prediction of performance outcomes compared to the two MO stakeholder components. Moreover, development and validation of proactive components further expands knowledge of stakeholder orientations as they relate to firm performance, particularly within a European context.

2. Conceptual framework and hypotheses development

Freeman (1984) proposed a stakeholder framework for managerial decision making to address the complex dynamics often faced by firms. Similarly, market orientation (MO) was suggested as a practical framework to operationalize the marketing concept (Day, 1994; Jaworski & Kohli, 1993; Narver & Slater, 1990). Since the earliest formulations, the two concepts have generated considerable research. While most of the research follows parallel tracks, calls for integration of the two frameworks have emerged from several meta-analyses (Grinstein, 2008; Kirca et al., 2005; Laplume et al., 2008). Stakeholder- and MO-based literature in a European context is very limited and this study addresses that gap. Our initial discussion of MO is a natural precedent to the broader focus represented by stakeholder theory.

2.1. Market orientation

Market orientation — the focus of a firm on its customers and competitors — is positively related to firm performance. Originally conceptualized by Narver and Slater (1990), market orientation consists of the climate and processes within organizations that lead to the sharing of customer and competitor intelligence while undertaking well-coordinated strategic actions (Ferrell et al., 2010; Jaworski & Kohli, 1993). Market orientation is a robust and empirically-validated framework, applicable across a broad range of industries and cultures affecting various outcomes such as financial performance, new product success, and innovation (Grinstein, 2008; Kirca et al., 2005). Historically, market orientation research has addressed two groups: customers and competitors. Customer orientation refers to a firm's focus on its customers' interests and implies a comprehensive approach to meeting customer needs (Deshpande, Farley, & Webster, 1993). Competitor orientation refers to an understanding of competitors' short-term strengths and weaknesses, as well as long-term capabilities and strategies (Narver & Slater, 1990). Although MO theorizes there are both responsive and proactive requirements, previous studies have generally been limited to responsive aspects only. Responsive measures consider the expressed needs of stakeholders, whereas proactive measures address the hidden needs of stakeholders (Narver et al., 2004).

Deshpande and Farley (1998) examined three types of responsive scales for market orientation: Narver and Slater's (1990) behavioral scale; Kohli, Jaworski, and Kumar's (1993) MARKOR intra-organizational market intelligence gathering, dissemination and action planning scale; and Deshpande, Farley, and Webster's (1993) customer orientation perspective. Adapting items from these three scales, Deshpande and Farley (1998) developed the 10-item MORTN scale, which emphasized understanding customer needs, assessing customer satisfaction, and providing superior product quality and service.

Numerous market orientation scholars have called for broader research and additional stakeholder groups (Ferrell et al., 2010; Hult, 2011; Jaworski & Kohli, 1993; Sheth, Sethia, & Srinivas, 2011). Moreover, there is growing recognition that the creation of a sustainable firm requires more than just the creation of shareholder wealth (Crittenden et al., 2011; Sachs & Ruhli, 2005). This recognition has caused scholars and firms to move toward a broader stakeholder orientation. Hult (2011) addressed this issue when he noted, "An organization achieves market-based sustainability to the extent that it strategically aligns itself with the

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