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Relationship between Market Orientation and Firm Performance: The Mediating Role of Organizational Capabilities in Family Business

*Aile İşletmelerinde Pazar Odaklılık ve Firma Performansı İlişkisi:
Örgütsel Yeteneklerin Aracı Rolü*

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ABSTRACT: This paper aimed to understand how market orientation affects family business performance that can build organizational capabilities in changing and emerging market. This research is based on a survey of 840 participants from family businesses in Turkey. The findings revealed that market orientation positively contributed to organizational capabilities. Another purpose of the study is the mediating effects of organizational capabilities on the association between market orientation and firm performance. So, findings showed that entrepreneurial capability is significantly mediated. As a result, all hypotheses revealed in the research are supported.

Keywords: Market Orientation, Organizational Capabilities, and Firm Performance

JEL Classifications: M10, M31

ÖZ: Bu araştırma değişen ve gelişen pazar koşullarında pazar odaklılığın aile işletmelerinin örgütsel yetenekler geliştirebilmesini ve firmanın performansını nasıl etkilediğini anlamayı amaçlamıştır. Çalışma anket yöntemiyle Türkiye’de aile işletmelerinde çalışan 840 kişi ile yapılmıştır. Sonuçlar pazar odaklılığın örgütsel yeteneklerin gelişimine pozitif katkı sağladığını ortaya koymaktadır. Çalışmanın diğer bir amacı örgütsel yeteneklerin pazar odaklılık ve firma performansı ilişkisi üzerinde aracı etkisini araştırmaktır. Girişimcilik yeteneğinin etkin bir şekilde aracı değişken olduğu görülmektedir. Sonuç olarak araştırmada ortaya konulan bütün hipotezler desteklenmiştir.

Anahtar Kelimeler: Pazar Odaklılık, Örgütsel Yetenekler, ve Firma Performansı

1. Introduction

Firms should be adapting and correspond rapidly changing and developing environment. Within conditions like globalization, developing technology, and changing markets, firms should be more effective and make decision quickly to provide superior customer value along with sustaining competitive advantage. In this case some researchers have been interested in markets, market information, and market orientation besides to what extend should firms be market oriented. So market orientation refers to “collection, dissemination, and utilization of market information” (Kohli & Jaworski, 1990); which is affected by characteristics of organization (Jaworski& Kohli, 1993) and as becoming a business culture (Narver et al., 1998:241). Interestingly, in the literature few researches examined the role of market orientation in family business success (Zachary et al., 2011; Beck et al., 2011). At first we may define family businesses as called with different names such as ‘family firms’, ‘family companies’, and ‘family-owned companies’ in the literature. In this study we prefer ‘family business’, and family businesses is explained as ‘business is founded by an entrepreneur family member who holds

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ownership, and management positions that are inherited from generation to generation, managed, directed and controlled by family members.’ (Koçel, 2012). After all, the reason why we choose to study in family businesses, almost 95% of all business is family businesses in Turkey.

There is no much research about the effect of market orientation on organizational performance so far in family business literature. For example, Beck, Janssens, Debruyne, and Lommelen (2011:253), has focused how heterogeneity within the group affects market orientation especially in the case of the management of family business (be in control), while Zachary et al. (2011:234) discussed the antecedents of market orientation and how family businesses characteristics affect organizational performance. Since there is still a gap remains to be explored, we discuss how market orientation affects family businesses’ performance. In this case we interested in organizational capabilities that each business’ has its own and unique capabilities (Song et al.2007:19), which provide gaining sustainable competitive advantage and improving organizational performance (Barney, 1991; Teece et al., 1997). We believe that family business differ from non-family business in terms of ownership, governance, resources. Because of its desired success and survival, they are more protective, less risk taker and carefully taking decisions. Under these circumstances it is important to being market orientated in line with developing capabilities for success.

The purpose of this research is to explain the association of market orientation, organizational capabilities and firm performance in the context of family businesses. In case of organizational capabilities namely managerial and entrepreneurial capabilities have examined in our study as internal capabilities. Similarly, Lee et al. (2001:617) emphasized those entrepreneurial capabilities as an internal capability had a significant positive change in firm performance. Moreover, we also discussed mediating effect of organizational capabilities on the relationship between market orientation and organizational performance. After all, this paper is organized as follows: in the first section we present literature review and discuss the aim of the study. In the second section we develop hypotheses including methodology, the data collection, and the data analysis. Lastly we discuss our results.

2. Literature Review

2.1. Family Business

Research in the area of family business revealed that approximately 95% of companies in Turkey are family owned businesses (Fındıkçı, 2014:22). Family business can be explained basically one or more family members have roles on the management positions or be a stakeholder of organizations. In other words family business is an organization, which controlled and managed by family members from generation to generation (Altındağ et al., 2011:19).

Fındıkçı (2014:36) has focused on the concepts of family, ownership (property), management, and culture that meet on a common ground of definition of the family businesses. A family is the smallest social structure, which is consisted of a mother, a father and children. Every family has its own culture, custom, and tradition. The head of a family get a job or set up a business to support to the family needs. Therefore, family business will be established, and the definitions of a family business will include the term of ‘family’ inside. Family should present its property to make an attempt on a new business, so the term of ‘ownership’ will become

important for the family business. Another important term is 'management' because bringing a group of people together around the same purposes is played a fundamental role in a family business. Lastly, every business has its own culture in case of a family business it will be affected by the family culture naturally.

2.2. Market Orientation

In literature there are questions about market orientation like; '*What is market orientation?*', '*What are the components of market orientation?*', '*How possible to satisfy the customer?*', and '*How market orientation influences on organizational performance?*' First of all, the term 'market orientation' has been used as 'marketing orientation' early on studies. There are 3 reasons why the term 'market orientation' considered being more convenient. Firstly, as Shapiro (1988) suggests it is not the only function that marketing department being responsible for, the other departments are obliged to collect, disseminate and respond to market intelligence. Second, the term 'marketing orientation' gives much responsibility more than adequate to marketing departments, so it could be said that all departments should be responsible. Lastly, market orientation focuses on markets that include customers and the forces that influence them, and this view is in line with the management of markets' proposed by Park & Zaltman (1987:7) to show limitations of paradigms (Kohli & Jaworski, 1990:3-4). So the term 'market orientation' has more than one meaning.

Studies about market orientation has aroused in 1990s. Especially the scales by Kohli & Jaworski (1990, 1993) named as MARKOR and by Narver & Slater (1990) named as MKTOR have become more of an issue, and these are the mostly used scales. Kohli and Jaworski (1990) introduced a three-component model of market orientation as customer focus, coordinated marketing, and profitability. Customer focus entails not only customer needs, also required changing market intelligence to create superior customer value, while coordinated marketing means that all responsibility of market intelligence is not just for a marketing department rather should be sense to other departments of an organization. In case of profitability reveals that actually it is a result of market orientation. Moreover, Kohli and Jaworski (1990:3) defined market orientation as "the organization wide generation, dissemination, and responsiveness to market intelligence".

On the other hand, Narver and Slater (1990:21) proposed three integral constituents for market orientation namely; customer orientation, competitor orientation, and interfunctional coordination. Further they emphasized two selection principles which are long-term focus and profitability. Customer and competitor orientations contain potential target customers, their needs, market information in competitive environments, how to create superior customer value under these conditions. Interfunctional coordination is the coordination of all the departments of a business for gathering market information as stated before by Kohli and Jaworski (1990). Long-term focus is related profits as means that a business survival in the long run brings more profit together. It is suggested that market orientation beneficially effective and efficient for organization activities which imply superior performance (Kohli & Jaworski, 1990; Narver & Slater, 1990). Therefore, market orientation is defined by Narver and Slater (1990:21) as "that most effectively and efficiently creates the necessary behavior for the creation of superior customer value for buyers, and thus, continuous superior performance for the businesses". Keskin (2006:398) emphasized that market orientation is a marketing approach that focuses on customers is a cognitive, cultural and behavioral aspects of firms.

Moreover, previous studies about market orientation show that there are two streams in the literature. First stream is about on market orientation's antecedents (Beck et al., 2011:254) which include three important categories, such as top management factors (Felton,1959), interdepartmental factors, and organizational structures and related systems like formalization, centralization, and reward systems (Matsuno et al.,2002:25). Besides that, second stream is about the consequences of market orientation (Narver& Slater, 1990), which are classified as organizational performance, customer consequences, innovation consequences, and employee outcome (Kirca et al., 2005: 25). Thus, we studied both antecedents and consequences in case of managerial capabilities and organizational performance in our research.

2.3. Family Business and Market Orientation

Although market orientation has researched in small and large sized companies, there is not much study about the market orientation of family businesses. Family businesses differ from other firms via stakeholders, management, and decision-making process. Zachary, McKenny, Short, and Payne (2011: 244) studied about the market orientation of family businesses and have developed a tool for measuring market orientation at the organizational level, alternative to classic survey method. Moreover, they also found that family and nonfamily businesses differ in their level of market orientation.

First generation of family business has managed by the founder of business but then second and latter generation will join the business and the management (Bammens et al., 2008; Cruz& Nodqvist, 2010). Beck, Janssens, Debruyne, and Lommelen (2011:253) especially have studied about the generations. Because of the family business management and structure have affected by the generation in control (Lansberg, 1999). Characteristics differentiation from later generation of family business shows that the decision making becomes less centralized due to the strong influence of the founder (Beck et al. 2011:256). Kellermanns et al. (2008:5) pointed out that later generations show more effective performance to provide firm's continuity and in company with business growth. These traits may influence market orientation differently, so in our study we focused on market orientation of family business.

2.4. Organizational Capabilities

Organizational resources and capabilities are key factors for sustainable competitive advantages (Barney, 1991:106). Day (1994: 38) defines as "*capabilities are complex bundles of skills and collective learning, exercised through organizational processes that ensure superior coordination of functional activities*". Then, some researchers enhance that organizational capabilities depend on valuable resources, which are valuable, rare, inimitable, and nonsubstitutable (VRIN) (Barney, 1991). It is also said that each business establishes its own combinations of capabilities resulting from the realities of its competitive market, past commitments and anticipated requirements (Day, 1994: 40). Moreover, Song, Benedetto, and Nason (2007: 20) stated that the business has the abilities and resources to turn into capabilities, which provide competitive advantage in company with business success. Similarly, Keelson and Polytechnic (2014:3) presented that organizations' resources only get efficient if they turn into capabilities, which is required efforts and powerful management. What it means that changing the resources into capabilities determines the business performance which stated that organizational capabilities are unique that providing

organizational success followed by the competitive advantage both in the short and long period of time (Keelson et al., 2014:3).

In this context, the resource-based view (RBV) put emphasis on the business' characteristics, resources and capabilities; reveal heterogeneous outcome of firm's competitive advantage (Barney, 1991:101). Then, Teece, Pisano and Shuen (1997: 510) refer the 'dynamic capabilities' approach in order to highlight on existing firm specific competences in rapidly changing environments and to find the newer sources of competitive advantage for each business respectively. Martelo, Barroso, and Cepeda (2013:2043) state those firms' competencies require to understanding of the markets and customer needs, to create new clusters of capabilities, and to keep them coordinated for superior customer value. In our study, we highlight on internal capabilities as entrepreneurial and managerial capabilities, which based on the resource-based view and the dynamic capabilities view.

Within the scope of resource-based view, firms consider managerial capabilities as an essential role to achieve to competences, employee skills, motivation turn into capabilities at the organizational level (Thomson & Heron, 2005:1029). In some studies managerial capability seen as a dynamic capability while the present view of dynamic capabilities view is an extension of the resource based view (Akgün, Keskin, & Byrne, 2012). Dynamic managerial capabilities are driven by managerial cognition and it is important for managers' beliefs and assumption in a particular firm like family business in context of our study (Kor & Mesko, 2013:234). Moreover, it is also important how and why relationships developed between manager and subordinate. Because managers should motivate employees to show high performance, to persuade them that they have the ability to solve problems, knowledge sharing and innovation, in the meantime employees' levels of organizational commitment formed. Thompson and Heron (2005:1029-1030) looked into managerial capability effects on the development of other capabilities and resources in high performance work organization. In this context we investigate the effects of managerial capabilities on firm performance in the family businesses.

Returning to family business, it is important how family involvement effects on entrepreneurship and so organizational performance or reverse as how entrepreneurial behavior effects on family businesses. Some researchers offer that entrepreneurial behavior is essential for creating and developing family businesses' success (Aldrich, & Cliff, 2003; cf. Kellermanns et al., 2008:2). We also believe that entrepreneurial capability is necessary component for establishing and growing a family business in changing environment. Owner-families have the willingness and devotion to have charge of the ownership of the firm and long for the persistence of family engagement in the various management functions and mechanisms of the firm (Naldi et al., 2007:35). Moreover, Zahra et al. (1999:169) offer that entrepreneurial activities ensure "foundation for building new competencies or revitalizing existing ones", while Teece et al. (1997:516) stated that entrepreneurship is dynamic capability to ensure the organizations "reconfigure internal and external competencies to address rapidly changing environments". Later on Zahra et al. (2011:2) defined entrepreneurial capability as "the ability to sense, select, shape and synchronize internal and external conditions for the exploration (recognition, discovery and creation) and exploitation of opportunities", and they added three characteristics, which make entrepreneurial capability different from than other dynamic capabilities. First characteristic is the interaction on envisioning and triggering action of entrepreneurial managers'. Second, entrepreneurial

capability is attached to the overlap of cognition and action. Third, entrepreneurial capability is aware of recognition, discovery, and creation that utilize the opportunities. Therefore, we also investigate the effects of entrepreneurial capabilities on firm performance in the family businesses.

3. Hypothesis Development

3.1. Market Orientation and Organizational Capabilities

In related literature improving capabilities requires the understanding of changing and developing markets, and market intelligence in the business network (Narver & Slater, 1990). Martelo et al. (2013:2043) refer market orientation as an organizational capability that allows generating market information depending on customer needs, then disseminating it across departments and coordinating firm's response to market opportunities. Studies on market orientation suggest that it is important to adopt market orientation perspectives to line management. Thus, the market orientation idea will disseminate among level of managers (Yaprak et al., 2014:1). So, we examine managerial capabilities of family business to implementation of market orientation throughout the organization. Managerial capabilities inspire for other new developing and existing capabilities in the firm (Branzei & Vertinsky, 2006:77). Later on Helfat and Peteraf (2015:831) study about managerial cognitive capabilities, they especially focus on why some managers are more efficient than others in changing environments and impact of sensing, seizing and reconfiguring on strategic change of organizations. Top managers are usually known to be main strategists of a firm, focusing on its performance (Reisinger, Lehner, 2015: 412). With regard to family businesses we can say managers play a critical role for creating customer value in highly competitive markets conditions. Kirca, Jayachandran, and Bearden (2005:25) also stated that top management as an antecedent of market orientation has a positive effect on the level of an organization's market orientation (Day, 1994; Narver& Slater, 1990). At the same time, some studies considered entrepreneurship as an antecedent to market orientation (Bhuian, Menguc, & Bell, 2005:9). Zahra (2011:3) make mention of why some companies leading to others. The reason is about sensing, shaping, and using opportunities and resources in competitive markets by developing entrepreneurial capabilities of firms. Consistent with the resource-based view, Bhuian et al. (2005:11) adopt entrepreneurship as an organizational capability and they focus on the curvilinear effects of entrepreneurship on market orientation- business performance relationship particularly. In our study, there will be positive effects on the relationship with high level of entrepreneurship, while low level entrepreneurship has not a noticeable effect on the relationship between market orientation and firm performance. Therefore, we propose the present hypotheses:

H1: There is a positive relationship between market orientation and managerial capability of family business.

H2: There is a positive relationship between market orientation and entrepreneurial capability of family business.

3.2. Organizational Capabilities and Performance

Family business is a business that a single family has the charge of and leads the firms through a management group of family (Naldi et al., 2009:35). Moreover, Castanias and Helfat (2001:661) proposed that the managerial rent model, which is about management capability's importance on firm performance and managers are effective in finding new resources. Thompson and Heron (2005:1001) put

emphasizes on the firms that tend to improve managerial capability and those practices will in turn higher levels of performance. Our study researched managerial capabilities of family members in the context of family businesses. Since family owners and members play a controlling role in both the top management and business performance together in the family businesses.

Studies of literature on management and marketing researchers have been interested in the association between market orientation and entrepreneurship and its effects on business performance. Hult and Ketchen (2001:899) refer that market orientation and entrepreneurship are organizational capabilities that effect performance positively. Zahra (2011:15) also study about entrepreneurial capability enact an opportunity realization process that in turn improving firm performance. Besides family business are recognized as cases for enterprising organizations (Litz, 1995), and they enter in risky projects and initiatives (Naldi et al. 2007:35) for business success. Matsuno, Mentzer and Özsoy (2002:18) investigate how entrepreneurial tendency effect on business performance. Ouakouak et al. (2014: 312) found that organizational capabilities and organizational performance related positively. Therefore we suggested the hypothesis below:

H3: There is a positive relationship between managerial capability and performance in family business.

H4: There is a positive relationship between entrepreneurial capability and performance in family business.

3.3 Market Orientation, Organizational Capabilities and Firm Performance

The role of market orientation has emphasized in improving business performance (Jaworski& Kohli, 1993:57). The reason is that market oriented organizations meet the customer needs and preferences to satisfy customers that provide higher level of performance. Moreover, organizational performance is a consequence of market orientation and as market orientation enhances the satisfaction and loyalty of its customer, it can improve organization's performance (Kirca et al., 2005:30). In the literature it can be seen that there is a positive association between market orientation and firm performance (Kumar et al., 2011:46; Yaprak et al.2014:2) and also in family businesses (Zachary et al. 2011:246). In addition to this relationship, we do also believe that some organizational capabilities trigger firm performance within market orientation. For example, Kellermanns et al. (2008:5) studied about generations in family firms and new generations may expose entrepreneurial behavior to ensure and sustain business growth. On the other hand management teams especially middle managers significantly effects on firm performance (Ouakouak et al., 2014: 312).

Lam, Kraus and Ahearne (2010) highlighted the market orientation concept should be adapted to managerial levels in the organizations. Because top managers adopt and implement market orientation across managerial levels, so market orientation possibly diffuse to the organization. We believe that it is only possible that if market information obtained by market orientation turns into organizational capabilities, firm performance will increase. Market actors (customers, partners, suppliers, competitors) reveal the depth and breadth market knowledge, which may create new products, provide new markets, or target different groups along with organizations' entrepreneurial capabilities, will affect firm performance positively. Furthermore when this market knowledge integrated with managerial capabilities, it becomes organizational knowledge and firm performance may increase by intellectual capital

through vision. So, we look for the mediating role of entrepreneurial and managerial capabilities. Hence:

H5a: Managerial capabilities partially mediate the relationship between market orientation and firm performance.

H5b: Entrepreneurial capabilities partially mediate the relationship between market orientation and firm performance.

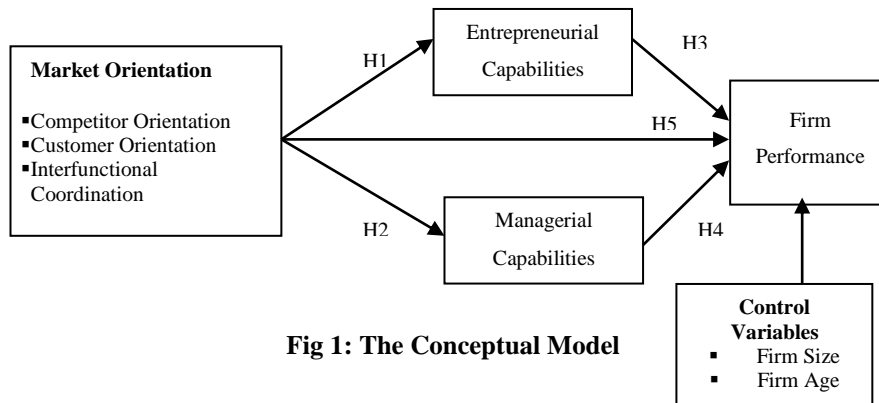


Fig 1: The Conceptual Model

4. Methodology

4.1. Measures

In order to check for the reliability and the validity of the measurement scales we have conducted exploratory factor analysis and correlation analysis. Additionally the Cronbach alpha reliability values are estimated and found to be above the threshold value. We have also determined the means and standard deviations of the variables within our conceptual model prior to the testing of hypotheses through regression analyses. SPSS 16 and AMOS 23 are used to explore for our collected data. Participants' demographic variables were analyzed by frequencies, followed with standard deviations were estimated.

All questionnaires are subject to "translate, reverse translate" procedure by the authors who are fluent in both languages. All measurement scales used in this research are taken from previous studies develops the constructs in our study which measured by using 5-Likert type scales. The customer and competitor orientation, and interfunctional coordination were evaluated by using the scale adapted from Narver and Slater (1990). Organizational capabilities scales were adapted from distinct studies. Entrepreneurial capability's scale was measured with the 5-item of the scale that was adapted from Li et al. (2007). Managerial capability's scale was adapted from Celuch et al.'s (2002) and Thomson and Heron's (2005) studies. Further, performance items were adapted from different measures. The scale developed by Antoncic ve Hisrich (2001), Lynch et al. (2000) and Baker & Sinkula (1999) and were measured with 12-item. Moreover, firm size and firm age were included as control variables they may have effects on firm performance in family businesses.

4.2. Data Gathering

The research is consisted of family businesses in Turkey, especially of the Marmara region. As indicated before the great majority of firms in Turkish economy are family business with 95%. The data collected from a diverse cross-section of sectors from family businesses of all sizes –small, medium, large- that represent national (19.1%), international (21.1%) and multinational (59.8%)family businesses. This study involves a sample of 840 respondents, which come from 292 companies and data were collected by face to face interview or by e-mail. After gathering the data, first we described the descriptive statistics of participants, are shown in Table 1.

Table 1. Profile of survey participants

| Features | Range of Responses |
|-----------------------------------|--|
| Gender | Male: 40.9%; Female: 59.1% |
| Sectoral distribution | Manufacturing: 87.2%, Service: 12.8% |
| Departments | Producing: 20.3%, Accounting: 16.6%, HR: 12.1%, Sales Marketing: 25%, Others: 26% |
| Highest level of education | Secondary Degree: 4.1% Post-Secondary degree: 14.4% Undergraduate degree: 8.9% Graduate degree: 59.8% Postgraduate degree: 12.8% |
| Employment status | Owner:9.6%; SM:13.5%; MM:32.3%; LM:22.1%; White-Collar: 22.5% |

Note: SM: Senior Manager, MM: Mid-level Manager, LM: Low-level Manger

4.3. Measurement of validity and reliability

Since the data was collected, the reliability and the validity of measurement scales were assessed (Anderson and Gerbing, 1984; Fornell and Larcker, 1981). Based on the exploratory factor analysis the data consisted of six constructs with 34 measured items by choosing the varimax rotation method. The Kaiser-Meyer- Olkin measure of sampling adequacy was .947, and all levels of significance for the Barlett's test for sphericity were less than .01 ($\chi^2/df = 16872,84/561$). The results of KMO and Barlett's test indicate that the data is suitable for factor analysis. Items loaded satisfactorily and appropriately into their related factors more than .5 and excluding cross-loading, hence referring convergent validity. The total variance explained with 64.48%.

After the exploratory factor analysis performed the measurement scales the statistical software program AMOS 20 was used to employ confirmatory factor analysis (CFA). CFA results included all factors; excepting firm size and firm age. As seen in Table 2, the results showed the measurement model suit the data fairly well: $\chi^2_{(572)} = 1824.12$, comparative fit index (CFI) = .92, incremental fit index (IFI) = .92, Tucker-Lewis Index (TLI) = .91, $\chi^2/df = 3.18$, and root mean square error of approximation (RMSEA) = .051. Moreover, all items had significant loadings on their related constructs (with the lowest t-value being 2.50), supporting convergent validity.

Table 2. Fit Index

| χ^2 | χ^2/df | CFI | IFI | TLI | RMSEA | GFI | PNFI |
|----------|-------------|------|------|------|-------|------|------|
| 1824.12 | 3.18 | 0.92 | 0.92 | 0.91 | 0.051 | 0.89 | 0.81 |

Table 3 shows the reliabilities of the variable, the correlations of coefficients and descriptive statistics for the measures used in the research. Table 3 also displays coefficient alphas, AVE, and CR. As proposed by Fornell and Larcker (1981) and Nunnally (1978) each value is near to the threshold levels. For the control of discriminant validity as offered by Fornell and Larcker (1981), the square root of AVE for each of the variable is higher than the latent factor correlations between variables pairs which supporting discriminant validity. Finally, the result strongly suggests that the measurement scales show the reliability and discriminant validity.

Table 3. Correlations and Descriptive Statistics

| Variables | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|---------------------|---|--------------|--------------|--------------|--------------|--------------|--------------|-------|------|
| Competitor Orien. | 1 | (.70) | | | | | | | |
| Customer Orien. | 2 | .57** | (.77) | | | | | | |
| Interfunct. Coordi. | 3 | .58** | .67** | (.78) | | | | | |
| Managerial Cap. | 4 | .46** | .53** | .53** | (.76) | | | | |
| Entrepren. Cap. | 5 | .51** | .44** | .47** | .49** | (.71) | | | |
| Performance | 6 | .46** | .41** | .47** | .39** | .52** | (.72) | | |
| (Log) Firm Age | 7 | .16** | .14** | .12** | .12** | .13** | .15** | -- | |
| (Log) Firm Size | 8 | .11** | .11** | .028 | .09** | .18** | .21** | .50** | -- |
| Mean | | 3.73 | 3.99 | 3.84 | 3.97 | 3.67 | 3.75 | 1.36 | 2.26 |
| S. dev. | | .69 | .68 | .76 | .64 | .68 | .65 | .29 | .93 |
| Var. ext. (AVE) | | .50 | .59 | .60 | .58 | .50 | .53 | NA | NA |
| Comp.Reliability | | .80 | .89 | .88 | .89 | .83 | .90 | NA | NA |
| Cronbach's α | | .79 | .89 | .88 | .89 | .82 | .90 | NA | NA |

* $p < .1$, ** $p < .05$, *** $p < .01$.

Diagonals show the square root of AVEs. NA, not applicable.

4.4. Hypothesis Testing

In order to test the hypotheses structural equation modeling (SEM) was used and Table 4 shows the association among market orientation, managerial capabilities, entrepreneurial capabilities, and firm performance. Furthermore, it demonstrates that the conceptual model is in agreement with the data. The goodness of fit indices, explicitly the incremental fit index (IFI) and comparative fit index (CFI) were found to be over .9, which is the respective threshold value as proposed by Hatcher (1994). The ratio (χ^2/df), the chi-square and degree of freedom is 3.18, which is less than 5 as suggested. The RMSEA value is acceptable with 0.051, since it is just above to threshold level of .05.

First we tested the linkages between market orientation and organizational capabilities. As Table 4 shows competitor orientation ($\beta = .169$ $p < .01$), customer orientation ($\beta = .276$ $p < .01$), and interfunctional coordination ($\beta = .291$ $p < .01$) have a positive significant relationship with managerial capabilities, while competitor orientation ($\beta = .339$ $p < .01$), customer orientation ($\beta = .157$ $p < .01$), and interfunctional coordination ($\beta = .225$ $p < .01$) have a positive significant

relationship with entrepreneurial capabilities. Therefore, H1 and H2 supported. The results also show that managerial capabilities ($\beta = .186$ $p < .01$) has positive effects on firm performance, as entrepreneurial capabilities ($\beta = .469$ $p < .01$) is positively related to firm performance too. So, H3 and H4 supported. Additionally in case of control variables; there is a positive relationship between firm size and performance ($\beta = .128$, $p < .01$), while there is not a significant association with firm age ($\beta = .013$ $p > .1$).

Table 4. Path Model

| Hypotesis | Relationship | β | Result |
|-----------|---|---------|-----------|
| H1a | Competitor Orien.→Managerial Cap. | .169*** | Supported |
| H1b | Customer Orien.→ Managerial Cap. | .276*** | Supported |
| H1c | Interfunctional coord.→ Managerial Cap. | .291*** | Supported |
| H2a | Competitor Orien.→Entrepreneur. Cap. | .339*** | Supported |
| H2b | Customer Orien.→ Entrepreneur. Cap. | .157*** | Supported |
| H2c | Interfunctional coord.→ Entrepr. Cap. | .225*** | Supported |
| H3 | Managerial Cap.→ Firm Performance. | .186*** | Supported |
| H4 | Entrepreneur. Cap.→ Firm Performance | .469*** | Supported |
| Control | Firm Age → Firm Performance | .013 | |
| Variables | Firm Size → Firm Performance | .128*** | |

$\chi^2_{(572)} = 1824.12$, CFI = .926, IFI = .926, $\chi^2/df = 3.18$, RMSEA=0.051 (df=572)
 *** $p < .01$, ** $p < .05$

According to H5, we believe that organizational capabilities mediating the relationship between market orientation and firm performance. To test H5, we used Baron and Kenny (1986) procedure and performed three distinct SEM models, as demonstrated in Table 5.

- Model A contains all the market orientation components and performance variables. There is no relationship in case of customer orientation ($\beta = .03$ $p > .01$). On the other hand competitor orientation ($\beta = .24$ $p < .01$), and interfunctional coordination ($\beta = .29$ $p < .01$) have positive significant effects on performance. ($R^2_{per}=.31$.)
- Model B, including market orientation variables, entrepreneurial capabilities, and managerial capabilities. As can be seen that competitor orientation ($\beta = .16$ $p < .01$), customer orientation ($\beta = .27$ $p < .01$), and interfunctional coordination ($\beta = .29$ $p < .01$) associated with managerial capabilities, while with regard to entrepreneurial capabilities, positive significant relationships were found as competitor orientation ($\beta = .31$ $p < .01$), customer orientation ($\beta = .15$ $p < .01$), and interfunctional coordination ($\beta = .22$ $p < .01$). ($R^2_{man.cap.}=.43$. and $R^2_{ent.cap.}=.39$.)
- Finally, Model C shows that market orientation variables are controlled, entrepreneurial capabilities have positive and significant relationship with firm performance ($\beta = .30$ $p < .01$). However, there is no association between managerial capabilities and firm performance. ($\beta = .05$ $p > .01$).

Moreover, entrepreneurial capabilities reduce the effects of market orientation in terms of all variables and the inclusion of the entrepreneurial capabilities increased sensibly the R^2 of performance ($R^2_{per.} = .37$).

Table 5. Mediating hypothesis results

| Relationship | Model A | Model B | Model C |
|--|---|-----------------------|--|
| Competitor Orien. → Performance | .24*** | | .15** |
| Customer Orien. → Performance | .03 | | -.02 |
| Interfunctional Coord. → Performance | .29*** | | .15** |
| Competitor Orien. → Managerial Cap. | | .16*** | .22*** |
| Customer Orien. → Managerial Cap. | | .27*** | .25*** |
| Interfunctional Coord. → Managerial Cap. | | .29*** | .25*** |
| Competitor Orien. → Entrep. Cap. | | .31*** | .38*** |
| Customer Orien. → Entrep. Cap. | | .15** | .14** |
| Interfunctional Coord. → Entrep. Cap. | | .22*** | .18** |
| Managerial Cap. → Firm Perf. | | | .05 |
| Entrepreneurial Cap. → Firm Perf. | | | .30*** |
| | $\chi^2_{(259)}=10$ 12.02 CFI=.93, IFI=.93, $\chi^2/df=$ 3.90, RMSEA =.059 | <i>Full Model</i> | $\chi^2_{(572)}=19$ 70.20 CF=.91, IFI=.91, $\chi^2/df=$ 3.44, RMSEA =.054 |
| *** $p < .01$, ** $p < .05$ | | | |

Depending on the results appears in Table 5, it can be said that entrepreneurial capabilities mediates the relationship between market orientation variables and firm performance, which means H5 partially supported.

5. Discussion and Conclusion

Over the last decades, firms have focused on how to satisfy customers. In this case organizational capabilities has become valuable attributes in firms, has yet not known to which ones to select, develop, and deploy among in the organizations (Martelo et al., 2013: 2048). Moreover, Narver and Slater (1990:21) have offered three behavioral components of market orientation. One of them is customer orientation is about potential customers, their needs, market information in changing marketplace, which is similar tendency with organizational capabilities. The purpose of this study was to explain the interactions of market orientation, managerial and entrepreneurial capabilities, and firm performance in the context of family businesses. Bulut, Yılmaz and Alpan (2009:529) found that market orientation directly effect on firms' innovativeness and financial performance which is consistent with our result as market orientation has positive effects on firm performance. Yaprak et al. (2014: 3) emphasized that managers affects to decision making mechanism as well as improving to understand customers' needs and distinct markets context. Thus, this organizational culture requires more effective responses to customers who demand the wide range of products and services. Moreover, firms should turn into more entrepreneurial in case of markets change.

The idea indicates that these internal capabilities – managerial, entrepreneurial – should develop on behalf of family business' success and survival supporting with the results as entrepreneurial and managerial capability is positively related to performance. So, this study makes contributions to business and marketing literature as the development of internal capabilities increasing family businesses' performance. In addition, in order to exclusively strengthen the insight on the market orientation particularly in family firms, we explore that every components of market orientation related to family firms' managerial and entrepreneurial capabilities significantly, which means that market orientated family businesses tend to improve some capabilities. Internal capabilities ensure them to have distinct market perspectives, a wide range of market knowledge and strategic thinking as another contribution to business and marketing literature.

Knight and Cavusgil (2004) especially put emphasis on entrepreneurial capabilities of firms as they note that “begin with a global view of their markets, and develop capabilities needed to achieve their international goals at or near the firm's founding”. In the meantime entrepreneurial capabilities also provide developing the bundles of resources for the sustainable competitive advantage of firms (Karra et al., 2008:443). Then Morgan et al. (2009: 917) emphasized the importance of complementary capabilities in case of market orientation in firm performance within any resource-based understanding. While this study looks for the mediation effects of organizational capabilities, the results showed that entrepreneurial capabilities fully mediates on the relationship between market orientation and family businesses' performance. Due to the results, we may express that entrepreneurial capability is a complementary capability in understanding the role of market orientation in firm performance corroborating Morgan et al.'s study with the difference of family business context. Further, contrary to our expectation, our findings indicate that managerial capabilities do not have a significant effect as a mediator between market orientation and firm performance. This can be explained by the levels of managers and managers' perception of market orientation. Bodlaj (2012) and Yaprak et al. (2014) has studied about level of managers, and their responses to market orientation. For example, general managers require the desired levels of firms' market orientation levels, while senior managers may require the real levels of market orientation in their firms. Our study did not take in consideration in case of managers' levels as control variable, so we could not get the distinction among them. Our findings suggest that market orientation in company with entrepreneurial capabilities may increase firm performance sensibly in the context of family businesses.

As a conclusion family business should enhance the entrepreneurial capability for growth and development, while another task may be to manage and integrate growth by the managerial capability in the context of market orientation. Family business owners and managers should be aware of new strategies; approaches which allow them respond the dynamic, global and highly competitive environment, also keeping the unique culture, traits, and attributes so far.

6. Limitations and Future Direction

This study has some limitations. Firstly, internal capabilities considered as mediator variables in the study are only a few of the organizational capabilities. Future studies can also search other capabilities such as external capabilities as partnership capabilities, global capabilities etc. Expanding the scope of capabilities will

influence firm performance and the empirical results may become closer to reality which represents the whole. The proposed model in our research can be regarded as a reduced model. For instance, 840 participants have responded in our study, each of them from different sector which mean there are some difficulties, and sanction. Therefore, the future studies can focus on a specific sector among Turkish Family Businesses. Future studies may also examine the generation of businesses, and may want to examine a case study of a family business by longitudinal study over a period of time. This study relies on measures that adapted from previous studies. It is also better to develop and validate a new scale for measuring market orientations and organizational capabilities in family businesses in Turkey.

7. References

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