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Is stakeholder orientation relevant for European firms?

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ABSTRACT

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.

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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

market-oriented product needs and wants of customers, and the interests of multiple stakeholders concerned about social responsibility issues involving economic, environmental, and social dimensions” (p. 5). Similarly, Ferrell et al. (2010) suggested that stakeholder orientation and market orientation are not mutually exclusive. They indicate that the stakeholder concept defines organizations as a unique grouping of stakeholders, while market orientation emphasizes that many stakeholders are important in the context of a consumer perspective (Jyoti & Sharma, 2012; Narver & Slater, 1990), thus providing support for the core stakeholder group posited in this research.

2.2. Responsive and proactive MO

Market orientation research has focused on the firm's responsiveness to customers and competitors in general (Kirca et al., 2005). In the original conceptualization of market orientation, Narver and Slater (1990) noted that competitor orientation refers to a firm's current competitors as well as its future competitors. It would seem implicit, therefore, that a firm should adopt a proactive market orientation. This has not emerged, however, as Narver et al. (2004) noted: “To date, the measurement of market orientation has emphasized only responsive market orientation” (p. 336).

Scholars now recognize the limitations of responsive market orientation. If firms concentrate solely on responsiveness, the end result could be firms becoming just followers, risking delayed response to competitors and markets (Christensen & Bower, 1996; Narver et al., 2004), as was the case with Blackberry and Nokia. Narver et al. (2004) make a critical distinction: “A responsive market orientation is a business's attempt to understand and satisfy customers' expressed needs, whereas a proactive market orientation is the attempt to understand and satisfy customers' latent needs” (p. 336). The implication, therefore, is that a firm should actively research and integrate future-oriented trends, technologies, and economic developments in its strategy. Apple is often considered a prototypical proactive firm, with its “disruptive orientation” and “propensity to satisfy future customer needs” (Ketchen, Hult, & Slater, 2007, p. 963). As proactiveness incorporates a forward-looking climate and processes, it also implies that the firm should behave preemptively and be committed to action. But the addition of proactive assessment does not reduce the importance of responsiveness. Rather, responsive and proactive orientations are complementary, leading to innovation and better overall firm performance (Atuahene-Gima et al., 2005; DeFoggi & Buck, 2009).

Narver et al. (2004) believe market-oriented firms must examine a customer's latent undiscovered needs. A proactive approach to market orientation enables firms to gain tacit knowledge of consumers' hidden needs (Day, 1994; Kumar et al., 2011; Slater & Narver, 1998). Moreover, a proactive orientation enhances new product success since the ability to uncover latent needs leads to added value, which in turn fosters higher customer loyalty. Other studies also support both a responsive and proactive market orientation. For example, Lamore, Berkowitz, and Farrington (2013) show that responsive and proactive orientations increase collaboration and integration between the marketing, research and product development functions. Similarly, Atuahene-Gima et al. (2005) note that new product program success increases when based on both types of market orientation. Program performance typically is curvilinear, however, with diminishing returns when the two types of orientation differ in their emphasis, depending on product life-cycle stage. Thus, evidence indicates that both proactive and responsive dimensions are essential to successful stakeholder orientation (SO) approaches.

2.3. Stakeholder theory

Freeman (1984) originally envisioned stakeholder theory as an organizing framework, with businesses at the nexus of a network of interdependent groups and organizations. While organizations are often primarily interested in the creation of shareholder value, sustainable value creation and firm success are dependent on long-term relationships with stakeholders. As relationships develop over time firms exchange goods and services, and sustainable competitive advantages and improved performance frequently emerge (Freeman et al., 2010; Harrison, Bosse, & Phillips, 2010). Conversely, inadequate attention to or mismanagement of stakeholder relationships potentially leads to firm failure (Clarkson, 1995; Post, Preston, & Sachs, 2002).

Most stakeholder orientation research has been limited in scope since it considers only a single stakeholder perspective (Hult, 2011; Hult, Mena, Ferrell, & Ferrell, 2011). Moreover, previous research has been hindered by inadequate measures of stakeholder orientation (Ferrell et al., 2010; Maignan et al., 2011). Scholars recommend managing firms in a manner that satisfies the interests of a broader group of stakeholders (Clarkson, 1995; Freeman, Wicks, & Parmar, 2004; Harrison et al., 2010; Post et al., 2002). These stakeholder groups include, therefore, a diverse network of primary and secondary stakeholders: primary stakeholders such as customers, competitors, suppliers, employees, and shareholders, as well as secondary stakeholders such as governmental or regulatory agencies, communities, and environmental or social activist groups (Freeman et al., 2010).

Competitors are designated primary stakeholders, although this may not be obvious initially (Freeman et al., 2010; Lado, Boyd, & Hanlon, 1997). They are relevant stakeholders because they not only compete for resources and customers, but also stimulate improvements in products and services through their innovation and strategic focus (Christensen & Bower, 1996). For example, consider the demise of companies such as Nokia and Blackberry that failed to pay attention to competitors like Apple and Samsung. Apple's success in the smartphone market is an example of proactively meeting latent customer needs and developing an almost unassailable competitive profile (Ketchen et al., 2007).

The Yau et al. (2007) conceptualization of primary stakeholders, based in part on Greenley et al. (2005), includes customers, employees, competitors and shareholders. Researchers have long recognized the need to operationalize measures of an organization's orientations toward its stakeholders to better empirically support and validate the stakeholder orientation conceptual framework (Berman, Wicks, Kotha, & Jones, 1999; Clarkson, 1995; Freeman et al., 2010; Harrison et al., 2010).

Numerous studies using secondary data have shown that stakeholder management is positively correlated with financial performance. For example, Laplume et al.'s (2008) meta-analysis examined theoretical, ethical, and managerial issues associated with publicly traded firms listed in the S&P 500 or Fortune 1000 companies. Proxy data, such as that found in the Kinder, Lydenberg and Domini database, was used to indirectly operationalize stakeholder management as including community relations, workplace diversity, labor relations, environmental impact, and product safety (e.g., Laplume et al., 2008; Ruf, Muralidhar, Brown, Janney, & Paul, 2001; Waddock & Graves, 1997). Despite the evidence found in such secondary research, few studies have utilized primary research to examine the relationship between SO and firm performance.

With the importance of stakeholder management increasingly recognized, scholarly publications have proposed various operationalizations of stakeholder orientation. Several studies that include components for each of four core primary stakeholder

groups – customers, competitors, shareholders, and employees (Greenley et al., 2005; Patel, 2012; Yau et al., 2007) – have found a positive relationship with firm performance. Another study using a broader set of primary stakeholders including customers, employees, regulators, shareholders, communities, and suppliers reported a positive relationship between overall stakeholder orientation and market performance, financial performance, reputation, and employee commitment (Maignan et al., 2011).

Stakeholder theory is a very relevant research topic because management of stakeholders is important to competitive advantage and firm survival (Grinstein, 2008; Laplume et al., 2008). The four stakeholder groups examined in this study align well with market orientation (customers and competitors) and address calls by Narver and Slater (1990) and Jaworski and Kohli (1993) to broaden market orientation.

2.4. Hypotheses

Market orientation is empirically supported based on extant validated scales such as the MORTN scale (Deshpande & Farley, 1998). Therefore, MO and its components provide a basis for exploring additional core stakeholders. Moreover, MO studies have shown that both responsive and proactive components are relevant (Atuahene-Gima et al., 2005; Narver et al., 2004). The convergence of MO and SO suggests that all core stakeholders should have responsive and proactive components. Therefore, we propose that:

Hypothesis 1a. *Customer orientation consists of distinct responsive and proactive components;*

Hypothesis 1b. *Competitor orientation consists of distinct responsive and proactive components;*

Hypothesis 1c. *Employee orientation consists of distinct responsive and proactive components; and*

Hypothesis 1d. *Shareholder orientation consists of distinct responsive and proactive components.*

Stakeholder orientation is “the organizational culture and behaviors that induce organizational members to continuously and proactively act on a variety of stakeholder issues” (Maignan et al., 2011). Research also suggests the core stakeholder orientations comprise a composite stakeholder orientation (Yau et al., 2007). Therefore, we propose that:

Hypothesis 2a. *Customer orientation is positively related to overall stakeholder orientation;*

Hypothesis 2b. *Competitor orientation is positively related to overall stakeholder orientation;*

Hypothesis 2c. *Employee orientation is positively related to overall stakeholder orientation; and*

Hypothesis 2d. *Shareholder orientation is positively related to overall stakeholder orientation.*

Stakeholder orientation can be depicted as a set of organizational behaviors that are aimed at fulfilling the demands of various stakeholder groups (Maignan et al., 2011) and thereby logically should enhance firm performance. MO and SO research has shown that core stakeholder orientations are positively related to firm performance (Kirca et al., 2005; Laplume et al., 2008; Maignan et al., 2011). Scholars have also demonstrated that market orientation is positively related to competitive advantage and sustainability, ethics, employee relations, and innovation (e.g., Grinstein, 2008; Kirca et al., 2005). Finally, research has indicated that a firm's orientation toward its stakeholders is positively correlated

with firm performance (Maignan et al., 2011; Yau et al., 2007). The four stakeholder components proposed in this study are consistent with past research and together represent overall stakeholder orientation. Therefore, we propose that:

Hypothesis 3. *Overall stakeholder orientation is a composite construct that is positively related to firm performance.*

3. Research methodology and sample

Measures of stakeholder orientation with responsive and proactive components were developed following recommended scale development guidelines (Churchill, 1979; DeVellis, 2012; Hair, Black, Babin, & Anderson, 2010; Hinkin, 1995; 1998).

3.1. Endogenous construct

Overall firm performance was chosen as the endogenous (outcome) variable for this study. As in previous studies (Brouthers, Gelderman, and Arens (2007); Naman and Slevin (1993); Tan and Litschert (1994); Yau et al. (2007)), we measured performance by using a multi-item perceptual measure. A perceptual, self-report measure of financial performance was considered acceptable because more objective assessments were not readily available, or impossible to obtain (Dess & Robinson, 1984; Venkatraman & Ramanujam, 1986). Based on a 0–100 point Likert-type scale, we asked respondents to evaluate their firm's performance as compared with other firms in their industry in six areas, representing both financial and non-financial indicators (see Appendix 1). We then developed a composite index for performance ($\alpha = 0.93$).

3.2. Exogenous constructs

Stakeholder orientation is a composite of behaviors, attitudes, culture, policies, and processes within the firm (e.g., Deshpande et al., 1993; Ferrell et al., 2010; Jaworski & Kohli, 1993). Scale items were developed for four primary stakeholder orientations and included both responsive and proactive components. As recommended by Hinkin (1995, 1998), input was obtained from expert panels and combined with relevant extant scales.

Responsive scale items for market orientation were adapted from the MORTN scale (Deshpande & Farley, 1998). Narver et al. (2004) developed a scale to measure proactive market orientation relationships by adding preemptive, forward looking dimensions to the MORTN scale (Deshpande & Farley, 1998; Narver et al., 2004). These two studies provided the basis for operationalizing responsive and proactive scales for the four core stakeholder orientations. In addition, social media items for all stakeholder orientations were developed based on qualitative interviews with industry and academic experts.

Scale items for customer orientation were developed primarily based on the MORTN scale (Deshpande & Farley, 1998), supplemented by items from the Narver and Slater (1990) and Jaworski and Kohli (1993) studies. Established items were adapted and modified based on interviews with subject matter experts in marketing and stakeholder theory, and senior managers. The final scale items reflected these individuals' ideas related to gathering and disseminating information and priorities related to customers, as well as at discovering aspects of organizational culture, behaviors, processes and practices consistent with the definition of ‘orientation’ (Ferrell et al., 2010).

To generate proactive customer orientation items, established question topics were modified to measure forward looking, anticipatory, and future action-oriented concepts. The reflectively

measured proactive items for market orientation (Narver et al., 2004) served as a guideline for incorporating proactive concepts. As with responsive customer orientation items, subject matter and managerial feedback were used to clarify and focus questions. The items primarily address future planning and product testing to discover and meet latent customer needs, as well as social media. Care was taken to distinguish proactive and responsive perceptions of the top management teams.

A similar procedure was used to generate scale items for competitor, employee, and shareholder orientations. For competitor orientation the items used by Narver and Slater (1990) were adapted from Sorenson (2009) and Tsai, Chou, and Kuo (2008). The competitor orientation items represent perceptions of management practices related to tracking and responsiveness. The employee orientation items were adapted from Zhang (2010) and Janz and Prasarnphanich (2003). They relate to trust, working environment, compensation, and promotion practices. The shareholder orientation items were extracted from qualitative interviews and Yau et al. (2007). The topics reflect shareholder priorities, information sharing, and public relations activities. For competitors, employees, and shareholders the responsive items were then modified to represent anticipatory and preemptive stakeholder perceptions. Social media questions were also included for these three orientations.

The questionnaire was reviewed qualitatively in a pretest with domain experts, entrepreneurs, and managers. Respondents reported the questionnaire was easy to complete and the items were clear and interesting. Minor editing of some items was executed based on the feedback. A quantitative pilot study was then completed online using Qualtrics[®]. Exploratory factor analysis (EFA) was executed; items with the highest loadings (>0.60) were retained in the final questionnaire, which included 67 indicators.

The exogenous constructs were specified as higher order based on theoretical considerations (Maignan et al., 2011; Yau et al., 2007). The first order constructs were developed and modeled as reflective based on guidelines of Bollen & Diamantopoulos (2016), Hair, Hult, Ringle, and Sarstedt (2017) and MacKenzie, Podsakoff, and Jarvis (2005). The higher order constructs were specified as formative based on theoretical considerations and the guidelines of Becker, Klein, and Wetzels (2012).

3.3. Data collection

The final questionnaire was also administered online by Qualtrics[®] in five European Union countries: France, Germany, Austria, Netherlands, and the U.K. Seventy-four responses were obtained, with approximately equal representation from the five countries, and consisting of 84% private companies. The responses included CEO/C-level (67%) and senior management above VP level. The average number of employees was 1,944, and over 82% of firms had 100 or more employees. The tenure of respondents in their current position was generally greater than 5 years (86%). Most firms were manufacturing based (36%) and wholesale/retail (13%), with a mix of information technology, financial services, health care, construction, and others making up the balance. Thus, a diverse cross-section of firms was represented. The study's sample size exceeded the minimum recommended level of 41 for this research, assuming a statistical power of 0.80 and considering the model specification, significance level and anticipated R^2 (Hair et al., 2017).

In empirical social sciences research, variance that is attributable to the method of measurement rather than to the constructs represented by the measures can be a potential problem (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). Common method bias (CMB) can threaten the validity of conclusions drawn about the relationships between constructs (Bagozzi, Yi, & Phillips, 1991). To

minimize the likelihood of CMB, the questionnaire was designed based on guidelines by Podsakoff et al. (2003). The Harman's single factor method was applied on a post hoc basis to examine CMB, and it did not indicate a problem. Previous studies have suggested the Harman approach may not detect the presence of CMB, but more recent research indicates it is a quite meaningful method (Fuller, Dickerson, Atinc, & Babin, 2016).

4. Measurement and structural theory

Our proposed theoretical model integrates second order constructs for each of four core stakeholder orientations. Those second order constructs are then combined into an overall stakeholder orientation that is subsequently correlated with firm performance. The result is a parsimonious framework consistent with prior conceptualizations of market and stakeholder orientation, while adding proactive components as a distinct extension of stakeholder orientation (Kirca et al., 2005; Narver et al., 2004; Yau et al., 2007).

Covariance-based SEM or component-based PLS-SEM (Chin, Peterson, & Brown, 2008; Hair et al., 2017) could be applied to estimate the parameters in a hierarchical model. PLS-SEM was chosen based on the hierarchical modeling constraints, the number of exogenous indicators (Hair, Sarstedt, Pieper, & Ringle, 2012a), and because the focus of the analysis was primarily prediction. PLS-SEM obtains solutions with as few as two first order constructs, which is how the theoretical constructs are modeled in this research (Hair et al., 2017). Also, the higher order models were structured according to guidelines recommended by Becker et al. (2012). Finally, PLS path modeling is generally more suitable for studies in which the phenomenon under study is new or evolving (i.e., the theoretical framework is not yet fully crystallized), the model is relatively complex with a large number of manifest and latent variables, and the objective is prediction (Hair, Ringle, Sarstedt, & Gudergan, 2018; Hair et al., 2017, 2011).

Researchers have noted that PLS-SEM is particularly appropriate in the early stages of theory development or extension (Hair, Ringle, & Sarstedt, 2011), as is the case in this study in which we propose both proactive and responsive first order constructs, and higher order component models. Moreover, PLS-SEM is commonly used in international business (Henseler, Ringle, & Sinkovics, 2009), strategic management (Hair et al., 2012a), and marketing (Hair, Sarstedt, Ringle, & Mena, 2012b). In situations where the focus is on theory development and extension and researchers are emphasizing the examination of composite-based measurement models, PLS-SEM is considered the preferred approach (Astrachan, Patel, & Wanzenried, 2014; Hair et al., 2012a; Rigdon, 2012).

The model was tested using SmartPLS 3 (Ringle, Wende, & Becker, 2015). Guidelines for model assessment, including sample size, were applied according to Hair et al. (2011; 2017). The initial model included 61 measures of the four core stakeholder orientations and six measures of firm performance. Based on the indicator loadings (<0.70), fourteen measures of stakeholder orientation were removed, leaving a total of 53 indicators across the nine latent constructs. The final model including the measurement and structural model results is shown in Fig. 1.

The outer measurement model was examined first. Composite reliability ranged from 0.88 to 0.93 for the nine constructs, exceeding the minimum requirement of 0.70 (Hair et al., 2010). Indicator loadings for all 53 indicators were above 0.708, confirming individual item reliability (Hair et al., 2010). The average variance extracted for the constructs ranged from 0.54 to 0.72, thus demonstrating convergent validity for all constructs by exceeding the minimum standard of 0.50 (Hair et al., 2012b). Finally, in accordance with the recommendations of Hair et al. (2017), the exogenous and endogenous constructs were evaluated using

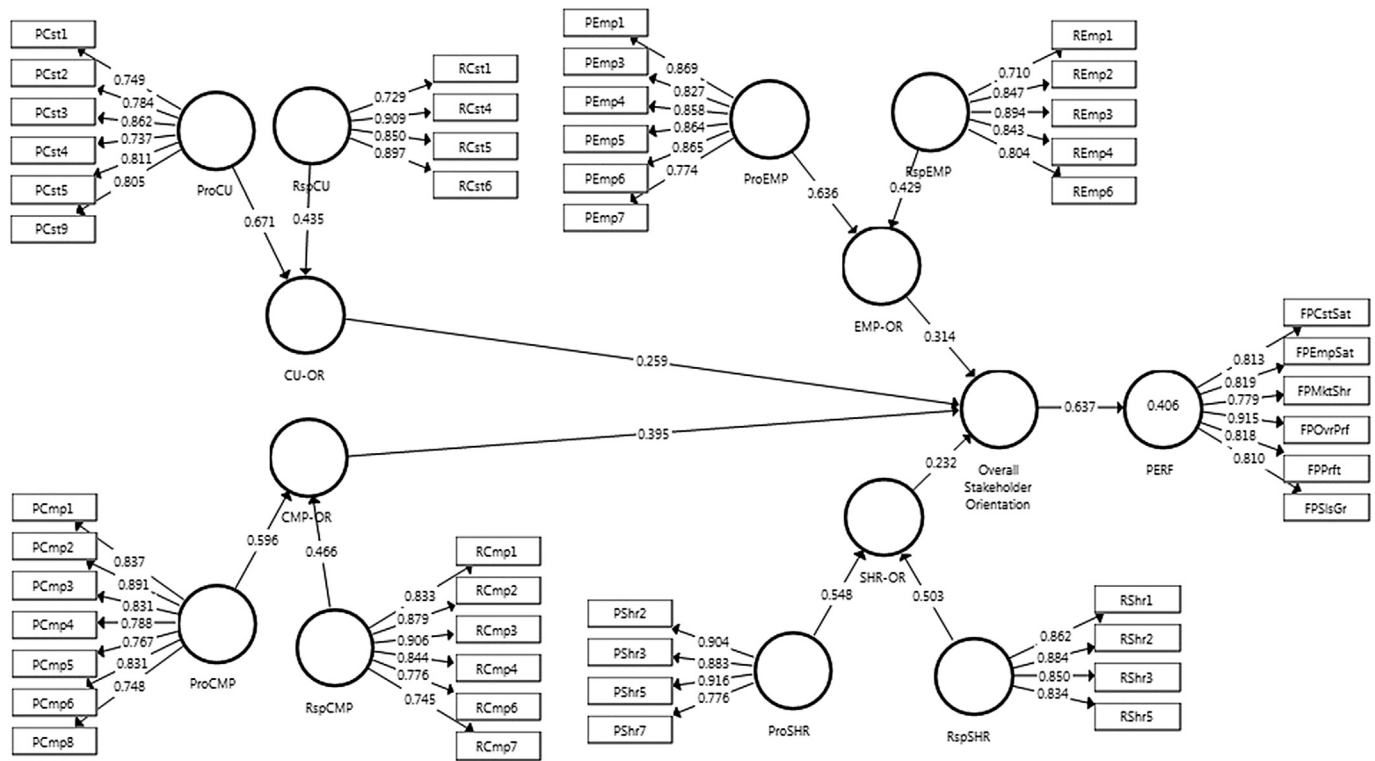


Fig. 1. Final measurement and structural model.

confirmatory tetrad analysis (CTA). Results of the post-hoc analysis confirmed that all of the indicators included in the measurement model are appropriately specified as reflective.

Discriminant validity was evaluated based on recommended guidelines (Hair et al., 2017) using two approaches. The Fornell and Larcker (1981) criterion revealed that all of the square roots of the AVEs for the nine constructs were higher than the interconstruct correlations, thus demonstrating initial discriminant validity. The HTMT criterion (Henseler, Ringle, & Sarstedt, 2015) also demonstrated discriminant validity. All of the stakeholder constructs exhibited ratios of less than 0.85, except for the proactive and responsive shareholder constructs, which was 0.89 (considered acceptable since the constructs are related). Overall, therefore, discriminant validity was demonstrated for the constructs (see Table 1).

After the constructs were confirmed as reliable and valid, the structural model results were assessed. First, the exogenous constructs were examined for collinearity since the path coefficients are based on OLS regressions and may be biased if multicollinearity is present (Hair et al. 2017). Moderate multicollinearity was identified between the second order constructs. However, given the conceptualization of the third order Stakeholder Orientation, limited multicollinearity was not an issue (Hair et al., 2017). To obtain the significance levels, the bootstrapping option was run using 5000 subsamples (Hair et al., 2017). Table 2 shows the coefficients and significance levels, as well as summarizes the results of the hypotheses tests. An analysis of path coefficients and levels of significance shows that all of the hypotheses were accepted. The sizes of the structural coefficients for the accepted hypotheses were all considered meaningful for interpretation purposes (Hair et al., 2017). Moreover, the R² of 0.406 for the ultimate endogenous firm performance construct represented moderately high prediction considering the complexity of the model (Hair et al., 2017).

Uncited references: This section comprises references that occur

in the reference list but not in the body of the text. Please position each reference in the text or, alternatively, delete it. Any reference not dealt with will be retained in this section. Thank you. The f^2 effect size and Q^2 blindfolding were also examined. The effect sizes of the predictive constructs (employee, customer, competitor, and shareholder orientations) of 0.08, 0.03, 0.07, and 0.08, respectively, are small (Cohen, 1988). At the same time, the Q^2 of 0.39 indicates a high predictive relevance for the model (Hair et al., 2017). Table 3 shows the means, standard deviations, and Pearson correlations for all of the constructs included in this study.

4.1. Post-hoc assessments

Having completed the core evaluations of the structural model, we then undertook several post-hoc assessments to further clarify the implications of the theoretical findings. The first assessment was examination of invariance between the models for the five European countries from which data was collected. The MICOM procedure for testing invariance was applied (Hair et al., 2017, 2018; Henseler, Ringle, & Sarstedt, 2016). The results demonstrated the composite scores did not significantly differ across the countries, thus establishing both configural and compositional invariance, thus indicating partial measurement invariance. Moreover, the composite means and variances were equal, confirming full measurement invariance, thus supporting pooled data analysis.

Multigroup analysis was also executed to determine whether the path coefficients of the different country samples were statistically significantly different (Hair et al., 2017, 2018). The path model complexity resulting from comparing parameters from five countries requires comparisons of more than 100 group-specific parameters, thus resulting in the likelihood of alpha inflation (Hair et al., 2018). The results indicated only three significant differences from the comparisons of the country parameters. Thus, overall we concluded that the statistical parameters of the

Table 1
Reliability and average variance extracted.

	Composite reliability	Average variance extracted (AVE)
Firm performance	0.93	0.68
Proactive customer orientation	0.91	0.63
Proactive employee orientation	0.94	0.71
Proactive competitor orientation	0.93	0.66
Proactive shareholder orientation	0.93	0.76
Responsive customer orientation	0.91	0.72
Responsive employee orientation	0.91	0.68
Responsive competitor orientation	0.93	0.69
Responsive shareholder orientation	0.92	0.74

Table 2
Structural model results and hypotheses.

Structural relationships	Path coefficients	T statistics	P values	Hypotheses
Proactive customer → customer orientation	0.671	8.98	0.000	H1a
Responsive customer → customer orientation	0.435	8.53	0.000	
Proactive competitor → competitor orientation	0.596	23.74	0.000	H1b
Responsive competitor → competitor orientation	0.466	23.20	0.000	
Proactive employee → employee orientation	0.636	15.83	0.000	H1c
Responsive employee → employee orientation	0.429	13.87	0.000	
Proactive shareholder → shareholder orientation	0.548	22.72	0.000	H1d
Responsive shareholder → shareholder orientation	0.503	24.97	0.000	
Customer orientation → overall stakeholder orientation	0.259	7.56	0.000	H2a
Competitor orientation → overall stakeholder orientation	0.395	7.49	0.000	H2b
Employee orientation → overall stakeholder orientation	0.314	5.29	0.000	H2c
Shareholder orientation → overall stakeholder orientation	0.232	7.07	0.000	H2d
Overall stakeholder orientation → firm performance	0.637	8.08	0.000	H3
Country control → firm performance	0.238	1.41	0.160	

Table 3
Descriptive statistics and Pearson's correlations of study variables.

	Mean	s.d.	1	2	3	4	5	6	7	8	9	10	11	12	13
1 Proactive Employee Orientation	6.10	2.34													
2 Responsive Employee Orientation	6.92	1.94	0.753**												
3 Overall Employee Orientation	6.47	2.02	0.955**	0.905**											
4 Proactive Customer Orientation	6.57	1.97	0.582**	0.413**	0.549**										
5 Responsive Customer Orientation	7.68	1.86	0.511**	0.570**	0.573**	0.595**									
6 Overall Customer Orientation	7.01	1.73	0.617**	0.527**	0.621**	0.939**	0.836**								
7 Proactive Competitor Orientation	6.19	2.08	0.692**	0.435**	0.628**	0.741**	0.412**	0.683**							
8 Responsive Competitor Orientation	6.49	1.99	0.371**	0.238*	0.338**	0.586**	0.331**	0.542**	0.761**						
9 Overall Competitor Orientation	6.33	1.91	0.582**	0.368**	0.529**	0.714**	0.400**	0.660**	0.950**	0.925**					
10 Proactive Shareholder Orientation	5.21	2.64	0.547**	0.290**	0.475**	0.567**	0.336**	0.529**	0.658**	0.529**	0.639**				
11 Responsive Shareholder Orientation	5.89	2.52	0.527**	0.287**	0.461**	0.464**	0.310**	0.449**	0.593**	0.467**	0.573**	0.809**			
12 Overall Shareholder Orientation	5.55	2.57	0.569**	0.307**	0.497**	0.548**	0.344**	0.521**	0.662**	0.525**	0.640**	0.950**	0.947**		
13 Overall Stakeholder Orientation	6.35	1.73	0.827**	0.637**	0.802**	0.836**	0.642**	0.843**	0.909**	0.733**	0.885**	0.759**	0.708**	0.776**	
14 Firm Performance	66.41	19.64	0.459**	0.459**	0.544**	0.507**	0.399**	0.516**	0.581**	0.499**	0.516**	0.363**	0.435**	0.420**	0.637**

** . Correlation is significant at the 0.01 level (2-tailed), * . Correlation is significant at the 0.05 level (2-tailed).

individual countries are not significantly different and can therefore be interpreted as an aggregate data group and substantiates generalization of a single underlying theoretical model for the stakeholder concepts and relationships examined in this research.

A final post-hoc assessment was the addition of a country control variable attached to the endogenous performance construct. This assessment was designed to exclude alternative explanations of performance and facilitate testing hypotheses for our explanatory variables (Hair et al., 2018). The country control variable was not statistically significant (i.e., $p > 0.05$). For this reason, we do not consider the country control variable in the

results representations and the figure of the PLS path model. This finding of a non-significant country control variable is directly attributable to the relationship associated with the four stakeholder constructs examined in this research.

5. Discussion and implications

Together, an overall stakeholder orientation for European firms is associated with improved financial performance. This study provides empirical support for a European market conceptual framework consisting of proactive and responsive components for

four primary stakeholder orientations: customer, competitor, employee, and shareholder. Scholars have suggested that the framework should include proactive and responsive components (e.g., Ferrell et al., 2010; Harrison et al., 2010; Jaworski & Kohli, 1993; Narver & Slater, 1990; Narver et al., 2004), and this research demonstrated that approach is meaningful. Further, scholars have suggested that a balanced stakeholder approach to management will yield long-term profitability and corporate sustainability, at least to the extent that enhanced firm performance is a necessary prerequisite (Clarkson, 1995; Freeman et al., 2010; Harrison et al., 2010), and this research supports that concept for European firms in general, to the extent that the countries in the sample are representative of the broader European market. A balanced stakeholder approach with both responsive and proactive components is more likely to provide improved overall profits and satisfaction of key stakeholders, which suggests positive and sustainable relationships and improved performance. Moreover, the broader stakeholder focus may help prevent debacles seen in major banks and Volkswagen by reducing short-term bottom line priorities.

Additionally, the study provides validated scales to measure proactive and responsive components of primary stakeholder orientation. The scale items incorporated recent research, and the loadings on the latent constructs over 0.708 indicate that the measures are reliable (Hair et al., 2011; Hair et al., 2017). Based upon the findings of this study, the stakeholder scales are associated with improved firm performance on both financial and non-financial dimensions. A diverse sample of respondents consisting of European firms produced an R^2 of 40.6 percent. This study confirms that proactive and responsive components of the four primary stakeholders are foundational among primary stakeholders and are consistent with a broadened stakeholder perspective. Moreover, the results suggest the stakeholder dimensions exhibit common elements representing a broad cross-section of European community companies.

5.1. Contributions

This study makes several contributions to both market orientation and stakeholder orientation literature as an empirical study in the European context. First, it validates incorporating proactive and responsive components of stakeholder orientation. Second, the study adds employees and shareholders to the original conceptualization of market orientation, yielding a broader concept of core stakeholder orientation. Third, the study provides empirical evidence that both proactive and responsive stakeholder management are complementary and enhance firm performance. Fourth, the findings indicate a single comprehensive stakeholder model is relevant for the five European Union countries included in this study.

An interesting finding of this study is that proactive components are more strongly related to the overall stakeholder orientations than their responsive components. As shown in Fig. 1 and Table 2, the path coefficients for each of the proactive stakeholder orientations are consistently larger than the path coefficients for the corresponding responsive orientation. The managerial implication of this finding is that firms should seek to build strong proactive engagement with their core stakeholders.

Although this study finds that the responsive orientations towards each of the core stakeholders does not exert as much influence as the proactive orientations, this should not limit the importance of responding to stakeholders. Firms should develop a strategic approach to gathering information about the interests and concerns of primary stakeholders and use that information to respond to stakeholder concerns. Such information about the

concerns and potential reactions of primary stakeholders should be embedded in all strategic decision making.

This research indicates that core stakeholder engagement will improve both financial and nonfinancial performance. European managerial implications are that proactive considerations and stakeholder concerns are key to both financial and non-financial performance, as suggested in related U.S. research despite potentially different cultural and governance nuances in Europe (Doh & Guay, 2006; Gaskell et al., 1999; Klijn, 2008). This finding is in itself significant since previous empirical support was not available for the European context. Together with Yau et al. (2007) and Patel (2012), this research provides initial support that stakeholder theory is useful across Europe, China, and the United States, and is perhaps applicable in other cultural and economic contexts. The results of this study should prove helpful for future scholarly investigations that consider the nature of the relationships between stakeholder management and innovation, corporate social responsibility, entrepreneurship, and globalization. More specifically, this study reveals the importance of firms' proactive engagement with their core stakeholders in an increasingly challenging and dynamic environment.

5.2. Limitations and future research

The sample data consists of responses from 74 European firms, which limits the generalizability to other economies. While Yau et al. (2007) found the core stakeholder orientation enhances performance in Chinese firms, this study is the first to replicate those findings outside of China. Further research is needed to validate the results using additional western firms. We recognize the relatively small sample size and further research may help confirm and perhaps extend these results. That said, the size, significance, and consistency of the path coefficients across the five countries, and the moderately strong R-square are encouraging. While the data is cross-sectional, it is diversified in terms of size and organizational structure with private and public firms included. Thus, a longitudinal study may provide further insights since stakeholder relationships are likely both path and time dependent.

While we focus on core stakeholders for this study, at least two other stakeholders may be important for future research. Suppliers are stakeholders that have the potential to be positively or negatively affected by interactions with the firm. Research has shown that market orientation positively moderates logistics performance (Matsuno & Mentzer, 2000; Slater & Narver, 1995). Therefore, supplier relationships can have an influence on organizational performance. Similarly, communities are important to all firms and should be included in a comprehensive stakeholder framework for firm engagement from a normative perspective (Maignan & Ferrell, 2004).

Future research should replicate and validate the scales in multiple cultures and institutional frameworks. In addition, we recommend research that adds suppliers to the four primary stakeholder groups. There is support based on previous research to include suppliers, and it is possible the R^2 of 0.406 may be improved. Further investigation relative to size, family and non-family firms, and industry would be useful. For example, in the technology sector of the economy the value of proactive stakeholder orientation in particular may emerge as a key factor due to intense competition and rapid technological innovations. Entrepreneurship and innovation are keys to firm competitive advantage. The linkage among these dimensions and stakeholder orientation could be revealing. Further work on how stakeholder orientation and ethical climate are related would be especially helpful at a time of escalating questions about major corporations and institutions that provide disturbing headlines on a daily basis.

5.3. Conclusion

The structural model results confirm proactive and responsive components for customer, competitor, employee, and shareholder orientations that are all related to overall stakeholder orientation. Further, overall stakeholder orientation is positively related to overall firm performance, and the findings indicate a single theoretical stakeholder model is likely relevant for industries in multiple European countries. This research also provides a validated set of measures for proactive and responsive components of core stakeholders, and a basis for further empirical research in varied cultural and industry contexts. Moreover, from an analytical point of view the scales represent at least an initial basis for practical implementation. Consistent with Hult (2011), this study supports a market orientation plus other core stakeholders and further reinforces the long-standing calls to integrate stakeholder theory and market orientation. Further work remains in investigating stakeholders such as suppliers and communities to the core group studied here. Such studies may provide insights and better explanatory relationships among stakeholders and firm performance, or other corporate dimensions such as ethics and corporate social responsibility (Freeman et al., 2010).

Appendix 1

Customer Orientation

Responsive Customer Orientation.

RCst1 Our business planning ensures outstanding customer satisfaction is a priority.

RCst2 We freely communicate all customer information with our managers.

RCst3 We develop long range forecasts of market trends to design future products.

RCst4 We analyze customer satisfaction reports for needed rapid actions.

RCst5 We work to be more customer focused than our competitors.

RCst6 Data on customer satisfaction are provided to all management levels to brainstorm recommendations for improvements.

RCst7 We monitor FaceBook/Twitter/Social Media to obtain customer perceptions of our products.

Proactive Customer Orientation.

PCst1 We help our clients to plan for future needs of their customers.

PCst2 We implement features for our products which customers would really like but cannot tell us about.

PCst3 We regularly brainstorm future needs of customers to create new product plans.

PCst4 We release new products even if they might compete with our existing products.

PCst5 We research product improvements customers would find attractive if we made them available.

PCst6 We are always focused on creating an outstanding customer experience.

PCst7 We regularly test product improvements with selected customers.

PCst8 Product improvement ideas from employees are well rewarded.

PCst9 We forecast market trends for future customer requirements.

Competitor Orientation

Responsive Competitor Orientation.

RCmp1 We regularly gather information on competitors' goals.

RCmp2 We often track performance of key competitors.

RCmp3 We analyze major competitor successes to respond rapidly.

RCmp4 We analyze reported competitor assumptions about our industry to make future plans.

RCmp5 Top management regularly discusses competitors' strengths and weaknesses.

RCmp6 Our salespeople regularly provide feedback on competitors to management.

RCmp7 We respond rapidly to competitor actions that threaten us.

Proactive Competitor Orientation.

PCmp1 We often create teams to analyze competitors' products to improve our design and development work.

PCmp2 Designated managers analyze competitor reports to recommend strategic options for action.

PCmp3 Our sales and marketing teams participate in future design improvements for products.

PCmp4 Top management rapidly implements plans to exploit competitor weaknesses.

PCmp5 We forecast trends from market information to develop action plans for staying ahead of the competition.

PCmp6 Top management regularly creates plans to stay ahead of competitor strengths.

PCmp7 We often integrate advanced technology in our products before competitors.

PCmp8 We develop strategic plans for important niches which the competition may have overlooked.

Employee Orientation

Responsive Employee Orientation.

REmp1 People in this organization are rewarded based on their job performance.

REmp2 Top management sets the example for a supportive workplace environment.

REmp3 Our promotion system ensures the most capable employees rise to the top.

REmp4 We believe trust between managers and workers results in an improved customer experience.

REmp5 Employees are invited to provide frank comments on a confidential website.

REmp6 Our top management is always focused on exceeding employee expectations.

Proactive Employee Orientation.

PEmp1 We give rapid promotions to high performing employees.

PEmp2 Top management awards large bonuses for high performers.

PEmp3 We pay bonuses to employees based on overall firm performance.

PEmp4 Feedback from employees is regularly used to act on suggested improvements for the company.

PEmp5 Top management ensures total employee compensation is better than the competition.

PEmp6 Top management regularly implements plans to improve employee job satisfaction.

PEmp7 We provide team development programs to build trust among all employees.

PEmp8 We provide counseling with confidential professional help to employees.

PEmp9 We encourage all employees to obtain training for professional development.

PEmp10 We continually implement improved employee benefits based on reports from human resource experts.

Shareholder Orientation

Responsive Shareholder Orientation.

RShr1 Our objectives are driven by creating shareholder wealth.

RShr2 Our senior managers have frequent meetings with shareholders.

RShr3 Our senior managers keep major investors fully informed on major developments.

RShr4 We regularly compare our share value to that of our competitors to help improve our performance.

RShr5 We regularly provide public relations bulletins aimed at all shareholders.

RShr6 Designated managers are responsible for satisfying shareholder interests.

Proactive Shareholder Orientation.

PShr1 We regularly gather market performance information to plan for improved shareholder value.

PShr2 We meet often with shareholders to identify potential concerns before they develop.

PShr3 We prioritize shareholder wealth in our strategic planning.

PShr4 We share our long range plans with major shareholders to invite their input.

PShr5 We project shareholder sentiments from comments gathered in our investor relations website.

PShr6 We develop forward looking plans to improve shareholder relations based on their feedback.

PShr7 Our website is updated regularly with important management communications.

PShr8 We use Facebook/Twitter/Social Media to discover emerging concerns of our shareholders.

Firm Performance

FPCstSat How satisfied are you with your firm's performance in terms of the following: Customer Satisfaction.

FPEmpSat How satisfied are you with your firm's performance in terms of the following: Employee Satisfaction.

FPMktShr How satisfied are you with your firm's performance in terms of the following: Market Share.

FPPrft How satisfied are you with your firm's performance in terms of the following: Profitability.

FPOvrPrf How satisfied are you with your firm's performance in terms of the following.

Overall firm performance relative to your competitors.

FPSIsGr How satisfied are you with your firm's performance in terms of the following: Sales Growth.

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