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## HOW ENTREPRENEURIAL ORIENTATION AND STAKEHOLDER ENGAGEMENT SHAPE INNOVATION AT FAMILY BUSINESS

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### ABSTRACT

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### PURPOSE OF THE RESEARCH

The importance of innovation today is fully recognized by both academic and business communities (Chesbrough, 2006). The sustainability of family-owned enterprises involves linking innovation with the entrepreneurial orientation of their decision makers (Kaufmann and Shams, 2015; Bughin, Chui and Johnson, 2008; Smith and Lohrke, 2008). This paper aims to verify how the entrepreneurial orientation of Family Business (FB) allows them to adopt innovation to become sustainable in the long term.

### CONCEPTUAL MODEL AND PROPOSITIONS

The concept of EO (Entrepreneurial Orientation) developed by Miller (1983, 2011) considers that this requires a constant balance between the proactive, innovative behaviour and the propensity to risk, in a one-dimensional perspective. Another approach considers EO divided into several dimensions: the assumption of the risk, proactivity and the propensity for innovation, backed by Covin and Slevin (1989), Zara and Covin (1995), Wiklund (1999) and Anderson, Kreiser and Kuratko (2015). Lumpkin and Dess (1996) and, extended this concept by introducing the dimensions of autonomy and competitive aggressiveness, giving it a multidimensionality perspective (Lumpkin et al., 2013; Wales, 2016). According to Miller (1983), and Anderson et al. (2015) an entrepreneurial orientation translates decision models and management practices, that includes the assumption of risks, the search for change, innovation, and proactive action with the purpose to outperformer their competitors. Hall and Vredenburg (2003) sustain that viable change innovation is more complex than the conventional, market-driven novelty, because it must reveal a wider range of stakeholders. Business need to innovate

by reinventing the way they relate to their multiple stakeholders: employees, customers, competitors, suppliers, communities, governments, etc. But at the same time, the dynamically managed relationships with stakeholders can become an important source of ideas for innovations that report stakeholder expectations and eventually add to the welfare of the social and natural environment (Ayuso et al., 2011). Based on the above, the following propositions related to entrepreneurial guidance were formulated: P1: The risk assumption by entrepreneurs of family-owned enterprises positively influences the adoption of innovation; P2: The proactivity of family-owned entrepreneurs positively influences the adoption of innovation; P3: The innovative behaviour of family-owned entrepreneurs positively influences the adoption of innovation; P4: The autonomy of the entrepreneurs of the family companies positively influences the adoption of the innovation; P5: The involvement of different stakeholders in family companies positively influences the adoption of innovation.

## METHODOLOGY

Indirect information gathering techniques can play a key role in the conduct of research, particularly when they favour access to the narrative of different actors who describe their beliefs and experiences in the first person. When these techniques are supported by credible sources, the researcher can contact a large volume of information, thus constituting powerful tools, among others, for the generation or validation of hypotheses (Colás, 1998). In this research, ten interviews to current managers and other stakeholders, namely leaders, white colour workers and others, were analysed from a tv program, dedicated to Portuguese FB, belonging to various sectors: food, cosmetics, art supplies, ceramics and paper. These FB are small and medium-sized enterprises that have been developing their business through several generations. All the programs have been viewed. Then, seeking to ensure methodological triangulation, a content analysis was held by four researchers and resorted to software *NVivo*. Have been analysed the main themes, categories and subcategories of information that result from the participants' discourse and establishing a relationship between them, developing categorical schemas, conceptual schemas, and testing their acquisition of data (Azevedo, 1998).

## FINDINGS

The analysis of the literature led to the identification of three major themes, around which the discourses of the various stakeholders are organized: the entrepreneurial orientation, the stakeholders' engagement and the innovation. When we performed a frequency analysis of the speeches given by the interviewees, we noticed that some of the subcategories stand out. When it comes to entrepreneurial orientation, the risk assumption category is clearly highlighted by the boldness to explore new opportunities. As far as pro-activity is concerned, the pioneering approach to the introduction of new

products, services and / or technologies emerges, followed by customer monitoring. The innovative behaviour subcategory reveals a focus on launching new products and innovative solutions. About stakeholder engagement, workers and the surrounding community are the ones who are mainly present in the expression of these interviewees when compared to clients, suppliers and the family itself. Finally, in the innovation category the focus of the participants was distributed in a balanced way by the three following subcategories – flexibility, openness to the external environment and attempted and error learning. Concluding, we can say that these FB were forced to evolve and innovate, both by vicissitudes of history, such as changes in consumer habits, constituting cases of companies that show a superior performance in way of dealing with the risk, making use of the know-how and value of employees and the external community. Furthermore, developing new products, and inventing novel solutions to solve problems, through a flexible trial and error learning strategy, had been critical.

## **ORIGINALITY AND VALUE**

The main contribution of the present research is to prove qualitatively the dimensions of entrepreneurial guidance and engagement for the culture of innovation. Entrepreneurial orientation, in conjunction with stakeholder involvement, reveals an important organizational capability for the development a culture of innovation.

## **LIMITATIONS**

Although this work has been conducted based on indirect data collection, the source is credible and provide information directly by the different stakeholders of the companies involved. However, it would be interesting not only to increase the volume of cases, but also to have the opportunity to make direct contact with the current managers of the companies involved, validating the model.

## **THEORETICAL AND PRACTICAL IMPLICATIONS**

The distinct categories of entrepreneurial orientation were of different importance to the concerning companies analysed and it was found that this orientation had an influence on the development of a culture of innovation. These findings confirm theoretical assumptions of the multidimensionality of entrepreneurial orientation concept (EO), presented in the work of Lumpkin and Dess (1996) and Lumpkin et al. (2013). Beyond, the results show the importance of the involvement of internal and external stakeholders for the development and creation of a culture of innovation (Freeman, 1996; Ayuso et al., 2011; Hart and Sharma, 2004; Holmes and Smart, 2009).

*Keywords: Entrepreneurial orientation, Family business, Innovation, Stakeholder engagement.*

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