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Exploring small family-owned firms’ competitive ability

Differentiation through trust, value-orientation, and market specialization

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Abstract

Purpose – The purpose of this paper is to highlight points of differentiation for small family businesses, relative to larger “big box” retailers, which may provide marketing-oriented competitive advantages.

Design/methodology/approach – From a conceptual perspective, the authors illustrate how small family-owned businesses may be able to successfully compete against big box retailers by differentiation in three key areas.

Findings – The authors conclude that small family businesses may be able to successfully differentiate themselves from the larger big box retailers by: establishing a relationship with customers based on trust; competing on value (not price); and focusing the business on serving a specialized segment of the market.

Practical implications – The paper offers theory-based advice for practitioners, as well as thoughts on future directions for academic research.

Originality/value – Much of the research that has been done on family-owned businesses has focused on the characteristics of the family operating the firm, and how they interact with one another while running the business. Less attention has been given to the exploration of points of differentiation for small family retailers, relative to big box retailers, and how these areas may provide marketing-oriented advantages. Thus, this work offers substantial benefit for practitioners and the authors’ suggestions for future research will benefit academics.

Keywords – Family business management, Small enterprises, Competitive advantage, Competition, Small family-owned firms, Marketing, “Big box” retailers

Paper type – Conceptual paper

1. Introduction

In the USA, existing small family businesses are a key segment within the entrepreneurial sector, and they deliver up to 49 percent of GDP on a yearly basis and create 78 percent of new jobs in a given year (Craig et al., 2008). However, the large format or “big box” retailers’ increasing prevalence is a fundamental change in the marketplace (e.g. Home Depot, Target, Lowes). This trend may prove devastating for small family-owned firms as these firms are often disadvantaged in important facets of operation such as procurement, advertising, and infrastructure. A “big box” competitor represents any national, or international, chain of stores, which competes in the same industry, targets similar customers, and operates in close proximity. Despite the significant impact these larger retailers are having, there has been little research on the topic (exceptions include Arnold and Luthra, 2000; Peterson and McGee, 2000). One specific deficit in the literature is related to how small family-owned firms can
differentiate themselves effectively. This area is the focus of the present research: “What are potential points of differentiation that small family businesses can highlight, in marketing efforts, relative to big box retailers?”

Much of the research that has been done on small family-owned businesses has focused on the characteristics of the family operating the firm, and how they interact with one another while running the business. Less attention has been given to the exploration of points of differentiation between small family-owned firms and big box retailers. We focus on this gap within the present research and provide insight into how small family-owned firms may successfully compete against larger big box retailers by differentiating their businesses. In the present research, to operationalize family involvement, we adopt a similar definition to Chua et al. (2005) – family involvement represents a substantial family presence in ownership, governance, management, succession, and/or employment[1].

We proceed as follows. First, we discuss the theoretical framework for the present research highlighting key differentiators a small family business can use to compete, including trust, competing on value (not price), and becoming a market specialist – we derive three propositions based on this literature. Next, we discuss the implications of this line of thinking, and provide thoughts about the limitations of this work and directions for future research.

2. Exploring the marketing-related opportunities of family-owned firms
2.1 Overview
Extant research in the domain of marketing has summarized, and clarified, the antecedents and consequences of market orientation (Kohli and Jaworski, 1990). Specifically, data indicate that relevant predictors of business performance include business-specific factors (i.e. cost, size), market orientation (i.e. customer orientation, competitor orientation, inter-functional coordination), and market-level factors (i.e. growth, concentration, entry barriers, buyer power, seller power, technological change) (see Narver and Slater, 1990, p. 29). Relative to small family businesses, big box retailers are advantaged in terms of business-specific factors as well as market-level factors. However, in the present research, we propose that small family businesses may have advantages in terms of market orientation – specifically, there are areas related to customer orientation, competitor orientation, as well as inter-functional coordination in which small family-owned business may be advantaged.

Although limited research has examined whether or not family businesses have been able to successfully differentiate themselves against big box retailers, research does point to the need for a firm to “[...] identify and approach its potential customers in an informed, organized and controlled way” (Robins, 1991, p. 325). Two important considerations are first, whether or not customers are more or less loyal to family firms vs non-family firms, and second, whether or not family businesses are better at developing and maintaining relationships with their customers (Cooper et al., 2005). Embedded within this context is the consideration of how flexible the family firm is in terms of marketing (e.g. “immobile marketing”; Donnelley, 1988). We suggest, in the present research, that small family firms due to their flexibility may be able to capitalize on marketing-based competitive advantages, relative to big box retailers, related to developing customer loyalty and relationships. In the following sections, to provide insights to practitioners and academics, we offer thoughts about how small family firms market their firms based on trust, competing on value (not price), and market specialization.
2.2 Trust

Extant research notes that family businesses may have a competitive advantage over non-family firms because they are perceived as being more trustworthy by customers (Cooper et al., 2005; Upton, 2001; Ward and Aronoff, 1991). Trust, defined as “the expectation […] of ethically justifiable behavior” (Hosmer, 1995, p. 399), may indeed be a key differentiator for a small family-owned business relative to larger big box companies. For instance, findings from a sample of customers of family and non-family owned grocery stores illustrated that family businesses are perceived to have higher customer service and be perceived as being more trustworthy[2] (Orth and Green, 2009).

Two focal types of trust, related to small family-owned firms, are character based, which is driven by similarities between two individuals, and process based, which is based on a history or long-term relationships and can be acquired by companies (Ali and Birley, 1998). With family business owners typically playing a more active role in the operations of the business, this may help the business be viewed as more of an individual or person rather than a business – this allows the bond of trust to be more quickly formed, and more customized client-oriented services to be presented (e.g. “customer loyalty”; Le Breton and Miller, 2006). This personalized service can contribute greatly to creating both character-based as well as process-based trust – an area where the family business has the upper hand in marketing their “family” to the customer (Ali and Birley, 1998).

Regarding trust overall, family businesses may have relative advantages gained across the dimensions of customer orientation, competitor orientation, and inter-functional coordination. First, family businesses have much greater flexibility in their ability to make things right with the customer – this allows the customer to forgive the family business when a wrong is quickly righted and strengthen the trust between the family business and the customer. Second, trust may originate from the importance that family businesses place on the quality of their product or service, primarily the result of attaching their own name to the offerings (Cooper et al., 2005). Trust also may be due to the relatively smaller size of family businesses, and the better customer relationships relative to their larger competitors – tacit knowledge that small family businesses are able to accrue and pass on through generations of the business may be greater than the big box chains, which are unable to do so due to frequent turnover of management (Sharma, 2004). Additionally, it may also be that family business owners and managers are “on the floor” with customers on a more frequent basis, thereby collecting and experiencing firsthand information that expensive and sophisticated systems cannot collect and analyze. For small family firms, these factors all may enable increased customer-related “market intelligence,” and an enhanced knowledge of what customers want and need from the overall market (Kohli and Jaworski, 1990, p. 4).

Overall, regarding trust, knowledge of potential advantages can enable small family-owned firms to achieve better customer orientation (i.e. build trust), competitor orientation (i.e. closer ties with customers relative to competitors), and inter-functional coordination (i.e. tacit knowledge; each members of the “team” contributes value to the mission). One example of a small family-owned business, which exemplifies the concept of building customer trust is Ukrop’s (www.ukrops.com/). Ukrop’s, a full-service grocer, was so successful in building its long track record of heavy focus on customer satisfaction that it was recently purchased by Giant Foods (Mui, 2009). Ukrop’s was able to achieve differentiation from their competition through this established trust and shared values, which were prominent throughout the company.
by not being open on Sundays, not selling alcohol, and the widely known belief in having a work-life balance where employees were encouraged to not work extra hours or take work “home” with them (e.g. Butner, 2009). In addition to these in-store marketing practices that helped to differentiate the company, Ukrop’s had a very strong focus on the greater Richmond, VA community sponsoring events and various sports organizations. In addition to the strong focus on providing more time for their customers to spend with families, Ukrop’s also provided customer-facing jobs for local disabled residents.

Overall, we suggest that establishing trust with customers is one way in which small family-owned businesses can increase their chances of competing effectively against their larger big box competitors. Accordingly, we offer our first proposition:

**P1.** Increased customer trust of small family firms, may be positively related to the ability to compete with large format retailers.

### 2.3 Compete on value provided rather than price

Many of the family businesses that fail after the entry of a big box retailer do so because they have taken no competitive action to attempt to retain their customers. This is the result of a widely held belief that no potential action can save the business as customers care only about lower prices. Family businesses that do respond to the entry of a big box retailer typically do so by focussing on quality, matching price, or increasing promotions – however, then they do very little else and eventually settle back into their standard way of doing business (Peterson and McGee, 2000). Existing research has not conclusively provided a prescribed manner in which to compete with the entrance of a big box retailer into the marketplace. Some researchers suggest differentiation on quality, others suggest competing on pricing and promotions, and others still suggest that smaller firms should expand their business into new categories and segments (McGee and Finney, 1997; Peterson and McGee, 2000).

This mixed bag of recommendations from existing research should not come as a surprise. Some family firms may indeed be able to continue to stay in business by matching big box retailers on price – however, under this low-price matching strategy it is unlikely that these family firms will be able to maintain the profitability that they once enjoyed. This, at some point in the future, will impact the financial stability of the firm and potentially precipitate the collapse of the business if the emotional stability of the family firm follows the financial instability (Sharma, 2004).

The upfront pressure that these smaller family firms feel to compete on price when big box retailers enter the marketplace is substantial. However, following the large format retailers down the low-price strategy proves to consumers that they should be evaluating on price alone. By shifting to a lower price point, family businesses signal to their customers that they have been overpaying for the product, service, or mixture of the two all along – essentially telling customers that the offering has decreased in value (Lodish et al., 2001). With this lower quality message being sent to customers, it is no wonder that they begin shopping at the larger low-price big box retailers: their impression that price is paramount is being reinforced by the family business.

In order to be successful, small family business owners may find it useful to market themselves in a way that differentiates them from the competition by providing a better overall value of their offerings. In this sense, the concept of value extends well beyond...
only price as it also incorporates unique emotional and other less-tangible benefits to the customer such as service or trust (Lodish et al., 2001). It is in this area that the family-owned business has an opportunity to successfully differentiate itself from the big box retailers. Other research appears to support this theory that successful family firms with higher prices also have a greater overall value (from a total product or service perspective) than the lower priced big box retailers. The research of Teal et al. (2003) revealed that successful family firms actively adopt strategies that price their products or services higher than average, while non-family firms (including big box retailers) adopt pricing strategies that trend downward to match the average market price.

Overall, regarding competing on value, knowledge in this area can enable small family-owned firms to achieve better customer orientation (i.e. offer more appealing products and services), competitor orientation (i.e. build sustainable competitive posture), and inter-functional coordination (i.e. each member of the team creates value to further the firms’ mission). For instance, one example of a business implementing value-based changes is Grand Frame (www.grandframeinc.com), a family frame shop in the Chicago, IL area. Not surprisingly, Grand Frame has established a 35-year track record of customer satisfaction and has experienced continuous growth. Innovations such as the “Decision Maker,” a patented visual aide device to help customers choose frames, and quality service, such as being the first framer in Chicago to have a “one week turnaround,” help customers see the value-based advantages of Grand Frame relative to competitors. When faced with competition from Michael's and other big box arts and crafts stores, the family that owns Grand Frame made the decision to continue to maintain a customer-oriented focus and differentiate the business on value, rather than compete on price. The company relocated its shop to a new building that would allow for a larger and more premium feeling showroom. In addition to standard art and photo framing that is offered by the big box retailers, Grand Frame also became specialized in meeting the changing needs of customers, namely changing all their products to higher quality materials such as museum glass and doing in-home flat screen TV framing installations. In terms of having a customer focus, the company has never turned down a job, regardless of how complicated or off the wall, and the owners are constantly on the lookout for new ideas of how to update the store to be more appealing to its loyal customer base (for more information see Kiley, 2009 as well as the following web site: www.grandframeinc.com/history.htm).

Overall, we suggest that competing on value (vs price) is one way in which small family-owned businesses can increase their chances of competing effectively against their larger big box competitors. Accordingly, we offer our second proposition:

**P2.** Increased customer perception of value of products/services provided relative to price, of small family firms, may be positively related to the ability to compete with large format retailers.

*2.4 Branding the firm as a market specialist*

Big box retailers often offer lower prices and a wider array of products than their small family-owned competitors. However, this also means that they may have lower margins and a greater array of competitors within their competitive set (Chen, 1996; Orth and Green, 2009). This means that while a big box retailer may be the main or single competitor for a smaller family business, the actions of the family business may have no impact in how the big box retailer conducts its business – this is a concept
which has been identified as competitive asymmetry (Chen, 1996). This competitive asymmetry opens the door of opportunity to the family business to become a specialist in comparison to the jack-of-all-trades role that the big box retailer attempts to fulfill. Accordingly, it is best if the specialist family business keeps its competitive actions from being too large or frequent that they would provoke a response from the big box retailer (Chen, 1996).

In order to stay viable, effective family firms may find it useful to constantly survey the marketplace and customers to make subtle changes to their product or service mix in an effort to better serve customers and meet their expectations. By doing this, family businesses will be able to maintain the innovativeness and proactive approach to meeting customer needs that are required for remaining a successfully differentiated firm (González-Benito et al., 2009). An advantage that small family business owners have, in this regard, is the frequency with which they are on the front-line with customers. It can be an advantage to be able to get on-the-spot feedback from customers as well as having the ability to build and maintain personal relationships with the customers – that is, if complacency does not set in (Miller et al., 2001). Worth noting, are problems which can arise when family business owners spend too much time working in the business, such as being on the floor, rather than working on the business and planning for the future (Rivers, 2010). Overall, though, constant communication with customers and employees can be an advantage for family-owned firms who want to brand themselves as market specialists.

Overall, regarding market specialization, knowledge in this area can enable small family-owned firms to achieve better customer orientation (i.e. more effectively meet the customers’ needs), competitor orientation (i.e. develop sustainable competitive advantage), and inter-functional coordination (i.e. enable family members to develop shared comprehensive product knowledge to further the firms’ mission). A good example of a company that has become a market specialist is Christopher Ranch (see www.christopherranch.com/the_ranch/index.htm). For over 50 years, they have dedicated their family business to the superior quality cultivation of one main crop: garlic. In 1956, Don Christopher, grandson of Ole Christopher who came to America and started the ranch in the early 1890s, decided to focus on a new kind of crop and reduce the number of overall crops grown. This has been the company philosophy ever since then – Bill Christopher, managing partner (and founder’s son) notes, “Garlic is king […] that’s what we do” (Linden, 2011). By focusing on one main product, they have associated their family name with high-quality garlic – and, in the center of the garlic production universe (i.e. California), “the Christopher name is akin to royalty” (Linden, 2011). This single-minded focus, and market specialization (with associated adaptations), has enabled the family business of Christopher Ranch to maintain their competitiveness over the years (for more information see Linden, 2011 and the following web site: www.christopherranch.com/the_ranch/index.htm).

Overall, we suggest that branding the firm as a market specialist is one way in which small family-owned businesses can increase their chances of competing effectively against their larger big box competitors. Accordingly, we offer our third proposition:

**P3.** Increased customer perception of small family firms as market specialists may be positively related to the ability to compete with large format retailers.
3. Discussion

3.1 Overview and directions for future research

In the present research we derive three propositions related to how small family businesses can increase their ability to compete with larger, big box format retailers. First, we proposed that increased customer trust, of small family firms, would be positively related to the ability to compete with large format retailers. Second, we proposed that increased customer perception of value of products/services provided relative to price, of small family firms, would be positively related to the ability to compete with large format retailers. Third, we proposed that increased customer perception of small family firms as market specialists would be positively related to the ability to compete with large format retailers.

Several examples can be found of family-owned businesses that have achieved success against larger competitors through differentiated marketing practices and focussed customer orientation. The present research provides insight into the literature related to how small family firms may pursue this competitive ability. However, before marketplace interventions and strategies are formulated, empirical data are needed in order to better inform practitioners and business coaches.

3.2 Limitations of the present work and directions for future research

For small family-owned businesses with customer-facing operations, many of the concepts within this paper should prove useful in helping to successfully differentiate themselves from the big box competition. However, we note that the relative size (e.g. number of employees) of a family-owned business, as well as the resources available to that business (e.g. revenue and profit), may affect the degree to which one firm may be able to implement some of the suggestions described in this paper when compared to other, larger, family-owned firms within the same industry. Additionally, there may be additional factors related to market characteristics and geographical location, which could affect the ease and success of implementing concepts presented in this research. Accordingly, we encourage future empirical research to recognize the unique definitional as well as contextual issue related to family businesses (e.g. firm size, public firms vs private firms, intergenerational succession plans, family harmony). Along these lines, the present research highlighted examples of firms found within the US market. Future research is encouraged to examine the propositions developed here, and empirically assess their applicability, in international locations.

As a direction for future research to build on and extend the propositions presented in the current work, we recommend longitudinal data collection (in both US domestic, as well as international settings) in order to capture market, and customer-focussed, changes and subsequent ability (i.e. increased, decreased, no change) to compete against large format competitors. For insight into longitudinal methods in entrepreneurship research, and empirical examples, we recommend resources such as Ahuja and Lampert (2001) as well as Chandler and Lyon (2001). Regarding specific assessments with which to conduct future empirical research along the lines of the three propositions offered in the present work, we offer the following thoughts.

The topic of trust has received substantial amounts of research attention within the organizational behavior, human resources, and management literatures. Inter-individual as well as inter-organizational trust are well-studied areas. However, examining how trust can be built between organizations (i.e. family-owned
businesses) and individuals (i.e. customers) is an area ripe for additional future empirical exploration. Future empirical inquiry could assess the effectiveness of company-related marketing and make fruitful theoretical as well as practical contributions to the literature. For trust-based measures, a comprehensive overview of the literature is found in Kramer (1999).

In addition to research in the future examining the topic of trust, we also recommend the concurrent exploration of customers’ emotions. Within the literature, trust and emotion are increasingly linked – by emotion, we refer “[…] a mental state of readiness that arises from cognitive appraisals of events or thoughts” (Bagozzi et al., 1999, p. 184). When factors such as customer service and trust are factored into the minds of customers during the shopping experience, this is the emotional part of the brain at work. Research has shown that effective marketing campaigns are based on an emotional appeal that connects the consumer with the brand – i.e. emotions, for instance, affect information processing and impact responses to persuasive appeals (Bagozzi et al., 1999, p. 202). Not only are emotional appeals effective, but an emotional marketing appeal creates a consumer response more than 3,000 times faster than a rational appeal (Defino, 2009). Thus, research on trust as well as emotions may prove valuable.

Regarding the topics of value and market specialization, we recommend that future work build on the findings of Chen and colleagues (e.g. Chen, 1996; Chen and Hambrick, 1995; Chen and Miller, 1994) as well as Smith and colleagues (e.g. Smith et al., 1989, 1992). Future empirical research, examining a representative sample of businesses to determine the extent to which value-based positioning and market specialization are related to competitive ability, has the opportunity to substantially expand our understanding of how small family firms can compete in the contemporary marketplace.

3.3 Conclusion
A common perspective within the literature is that, though family businesses tend to have a customer-focussed strategy in marketing and operating their business, there is no direct tie to the performance of the business as a whole (Craig et al., 2008). Accordingly, the view that marketing and customer-focussed initiatives will not affect overall competitive ability with regard to large format big box retailers is pervasive. Future empirical inquiry and effective communication of these data could help small family-owned businesses. We hope the present research provides meaningful insights on which future research can expand.

Notes
1. We do recognize, however, that family involvement can be manifested in many ways (e.g. Chua et al., 2005; Craig et al., 2008; Miller et al., 2001) and definitional ambiguity in the study of family business is a commonly cited problem (Sharma, 2004). Overall, it is not the focus of the present research to examine what, specifically, a family firm is – rather, we aim to focus on how businesses, which have family involvement may capitalize on firm-specific capabilities in the marketing of their business. As such, we extend on the work Pearson et al. (2008) who examined the specific capabilities of family firms which foster competitive advantages.

2. However, notably, this did not translate into higher loyalty for family-owned grocers vs non-family owned grocers. Data showed that price and value had a higher influence on customer loyalty (Orth and Green, 2009). This presents an interesting area that future research could explore.
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Further reading


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