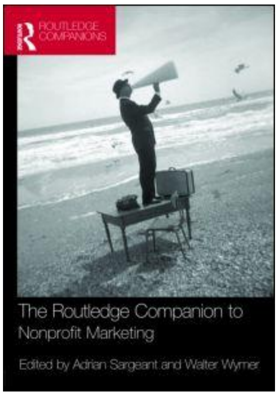

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Operationalizing the marketing concept

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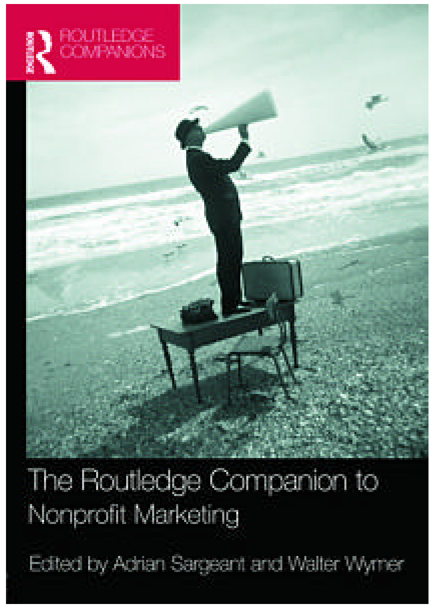

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1

Operationalizing the marketing concept

Achieving market orientation in the nonprofit context

Paulette Padanyi

Introduction: the relationship between marketing, the marketing concept and market orientation

Marketing is generally acknowledged to be an essential strategic management function. In particular, marketing expertise is critical when an organization has to appeal to outside groups to generate revenue and/or to compete with other organizations for its sources of revenue.

Within the for-profit sector, it is also generally accepted that no organization can claim to have fully adopted marketing as a strategic component of its operations if it is not guided by 'the marketing concept'. The marketing concept, a business philosophy which maintains that the customer should be at the centre of the firm's thinking about strategy and operations, was first articulated by Drucker in 1954 (Day 1994). It directs an organization to look outward and to be open to external trends and events that can provide market opportunities (Warnaby and Finney 2005). Outward-looking organizations understand their customers, their competitors and the environment in which they operate, and offer products and services that have a greater chance of being successful because they have been developed and promoted based on this knowledge. By comparison, inward-looking organizations offer products and services based on anecdotal assessments of what they think the market wants or what they want to offer given their existing human and financial resources. In other words, they produce and sell the products they want to, not what the market necessarily wants or needs (Gonzalez *et al.* 2002).

For-profit marketing practitioners and academics further maintain that, in order to implement the marketing concept, a firm must have a 'market orientation'. Since a firm with a high level of market orientation stays close to its customers and ahead of its competition, it is better equipped to respond to market requirements and anticipate changing conditions (Day 1994). A market orientation is therefore a prerequisite for organizational success and profitability (Raju *et al.* 1995).

Although the term 'market orientation' came into use shortly after Drucker articulated the marketing concept, it was not well defined. Indeed, as of this writing, there is still no accepted definition for 'market orientation'. The title of a classic *Harvard Business Review* article, 'What the hell is market-oriented?' (Shapiro 1988), expresses the continued frustration that practitioners and academics have experienced in trying to come to grips with the term.

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Nevertheless, academic acknowledgement of market orientation as a construct worthy of investigation in the for-profit sector began in 1989 with a *Journal of Marketing* article tying it to the organizational culture literature from organizational behaviour (Deshpande and Webster 1989). Empirical research to prove that there is a direct, positive relationship between market orientation and organizational performance in the for-profit sector has been under way since 1990, when Narver and Slater developed the first valid, reliable scale to measure the market orientation construct. Results have been mixed but, for the most part, they indicate that market orientation should increase and improve organizational results (Lovelock and Weinberg 1989; Kotler and Andreasen 1996; Vasquez *et al.* 2002)

The idea of extending the marketing concept to the nonprofit sector was first advocated publicly by Kotler and Levy (1969), who posited that marketing is a pervasive societal activity performed by all organizations, whether they are profit-seeking or not. They maintained that all organizations are concerned with their 'products' in the eyes of certain 'consumers' and seek to find 'tools' for furthering their acceptance. Thus, Kotler and Levy basically initiated an idea that has since become an article of faith among marketing academics, that the marketing concept has no boundaries.

The discussion generated by Kotler and Levy's article regarding the applicability of marketing and the marketing concept to the nonprofit sector is reviewed in the next section. The remainder of this chapter focuses on what is currently known about market orientation and the conclusions that can be reached about operationalizing it for academic or managerial purposes.

The applicability of marketing and the marketing concept to the nonprofit sector

The 'yes' arguments

Following Kotler and Levy's 1969 article, Shapiro (1973) declared that 'marketing is as intrinsic to the nonprofit sector as it is to the business community'. He sought to justify the applicability of marketing and the marketing concept to the nonprofit sector by demonstrating that marketing principles, such as the marketing mix, readily apply to the nonprofit challenges of resource attraction, resource allocation and non-donor persuasion.

Typical of many academics since Shapiro, Lovelock and Weinberg (1989) supported the extension of the concept into the nonprofit arena by framing nonprofit management challenges and actions in marketing strategy terms. For example, they talked about nonprofits becoming more selective in the market segments that they target, as well as being market-oriented in terms of developing and maintaining products and services, determining price policies and building awareness of their offerings.

Other theorists have supported applying the marketing concept to the nonprofit sector by arguing that:

- nonprofits are just as profit-oriented as other businesses because they need an excess of revenues over expenses to survive; therefore, the difference with nonprofits is not that profits cannot be made, but that profits cannot be distributed (Hay 1990);
- nonprofits operate in the same environment and face similar demands with regard to effectiveness and efficiency as for-profits (Anthony and Young 1990); and
- competition is a reality for all organizations, thus nonprofits must deal on an

ongoing basis with rivalry for capital, labour, customers and revenues, just like for-profits (Tuckman 1998).

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The 'no' arguments

The first argument against Kotler and Levy's treatise appeared shortly after its publication. Luck (1969) felt that the authors were defining marketing in terms that were too broad, and that the marketing concept was developed for a different type of organization. He felt it was developed for businesses that are based on market transactions, i.e. 'buying and selling', and thus are focused on tapping customer markets to achieve a profit goal.

Another concern raised was the emphasis that the marketing concept places on competition. Bush (1992) suggested that cooperation among nonprofit organizations should be the basis for organizational and managerial orientation in the nonprofit sector, not competition. He maintained that a competitive mindset provokes an 'insular mentality' and a predisposition to see relationships with other organizations as potentially threatening. In his opinion, this insular attitude would make it difficult, if not impossible, for nonprofit agencies with similar goals to share information and resources, which is a desirable and necessary form of collaboration given the ongoing resource limitations faced by nonprofits.

Sheth (1993) also pointed out that application of the marketing concept entails offering users what they want, as opposed to what they need, which is inappropriate in need-driven nonprofit areas like health care and education. He also noted that a market orientation is incongruous with the nonprofit approach since it is openly discriminatory against non-targeted segments and thus unequal in its provision of services.

The 'compromise'

At this point in time, many nonprofit-sector academics and practitioners have taken the position that the marketing concept is applicable in the nonprofit sector, but that, when it is implemented as a 'market orientation', it requires modification due to the unique aspects of the sector (Liao *et al.* 2001). The unique aspect of the sector that receives most attention is its greater complexity, which is caused by the fact that nonprofit organizations typically:

(a) maintain a higher number of relationships that can be considered vitally important, in large part because the attraction and assignment of resources are two separate tasks (Vasquez *et al.* 2002); and
(b) have much more varied organizational objectives, which are mission-based and less tangible than the financially oriented objectives in the for-profit sector (Forbes 1998; Kotler and Andreasen 1996).

The greater number of relationships maintained by nonprofit organizations results in the need to view at least some of their stakeholders as separate target markets that warrant separate annual marketing plans. Having multiple target markets further complicates the application of the marketing concept because it requires spreading already strained marketing resources to understand the needs and expectations of the different stakeholder groups, and to plan and undertake multiple, possibly divergent activities.

With regard to performance assessment, the 'soft' and often subjective nature of nonprofit organizational objectives makes it difficult to establish whether and how strategies and tactics based on the marketing concept are impacting upon mission achievement (Lovelock and Weinberg 1989). Furthermore, the existence of multiple constituencies complicates matters because different stakeholders have different goals and therefore differ in the criteria they use to evaluate the effectiveness of an organization (Herman and Renz 1997).

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Other characteristics of nonprofit organizations which claimed to influence the implementation of the marketing concept in the nonprofit sector include:

¦ the potential conflict that exists between the organizational mission and consumer satisfaction, because the behaviour of nonprofit organizations is often not determined by the market but by other concerns (Vasquez *et al.* 2002);
¦ the fact that competitors for resources may also be collaborators on various projects (Kara *et al.* 2004); and
¦ the lack of true markets for nonprofits in the economic sense of the term, and the subsequent inappropriateness of the concept of exchange (Liao *et al*. 2001).

Given the many unique aspects of the nonprofit sector, operationalizing market orientation in the nonprofit context for research or managerial purposes involves considering at least five issues:

1 What is market orientation in the nonprofit context?
2 How should market orientation be measured in the nonprofit context?
3 Is market orientation a single construct or multiple, constituent-specific constructs?
4 Does market orientation impact upon nonprofit organizational performance?
5 Does market orientation impact upon organizational performance in all nonprofit subsectors?

The following sections review the academic discourse in these areas.

Issue 1: what is market orientation in the nonprofit context?

Until very recently, thinking about market orientation in the nonprofit sector was entirely based on for-profit conceptualizations. Therefore, a review of the key for-profit literature in this area is a necessary starting point for understanding the nonprofit discourse about market orientation.

As noted earlier, academic acknowledgement of market orientation as a construct worthy of investigation in the for-profit sector began with a 1989 *Journal of Marketing* article by Deshpande and Webster. They related market orientation to an organization's culture and climate, with culture being the history, norms and values that members of the organization believe underlie climate, and climate being how organizations operationalize the themes that pervade everyday behaviour. Their landmark article spawned two very different interpretations of market orientation: (a) market orientation as a form of organizational culture; and (b) market orientation as a specific set of activities that implements the marketing concept.

Market orientation as organizational culture

Narver and Slater (1990) championed this interpretation of market orientation. They characterized market orientation as the organizational culture that produces the necessary behaviours to create superior value for customers and attain a sustained competitive advantage. More specifically, they envisioned market orientation as consisting of three behavioural components: customer orientation (the sufficient understanding of one's target buyers to be able to create superior value for them continuously), competitor orientation (understanding the short-term strengths and weaknesses and the long-term capabilities and strategies of both current and potential competitors) and interfunctional coordination (the coordinated utilization of company resources in creating superior value for target customers).

Slater and Narver (1994) rejected the notion that management should attempt to adjust market orientation according to market conditions. They said that adjustment would be complex, time-consuming and expensive. Furthermore, because all markets will encounter slow growth, hostility and changing buyer preferences over time, it is better for management to develop and maintain a high level of market orientation to deal with conditions as they arise.

Market orientation as organizational activities

Deshpande and Webster (1989) also said that culture could be viewed as a lever or tool to be used by managers to implement strategy and to direct the course of their organizations more effectively. Therefore, Kohli and Jaworski (1990) defined market orientation as 'specific activities that translate the (marketing concept) philosophy into practice', making deliberate engendering of a market orientation possible. According to their view, market orientation is composed of three sets of activities: organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of this intelligence across departments, and organization-wide responsiveness to this intelligence through developing and executing plans (Jaworski and Kohli 1993). They considered market orientation an elective business strategy, the adoption of which may or may not be desirable depending upon supply-and demand-side factors (Kohli and Jaworski 1990).

Tying market orientation to specific activities is defended by supporters as being directly related to the implementation of the marketing concept, whereas culture is broader, the way that things are done generally across the firm (Greenley 1995). These supporters also claim that tying market orientation to specific activities allows it to be measured at all levels of the firm (organizational, departmental, individual), whereas tying the construct to culture limits the measurement of market orientation to the firm level only (Siguaw *et al*. 1994).

Market orientation in the nonprofit sector

The two for-profit interpretations of market orientation have very distinct implications for the operationalization of the marketing concept in the nonprofit world. A market orientation that is purely cultural in nature requires that management actively develop and maintain market orientation norms throughout the organization (Day 1994; Greenley 1995; Slater and Narver 1994). Alternatively, a market orientation that is behavioural in nature requires that management plan and implement activities depending upon environmental circumstances (Kohli and Jaworski 1990). For pragmatic reasons, the latter interpretation is more attractive for the nonprofit sector, since acute resource limitations, both human and financial, make it prohibitive for most nonprofit organizations to expend the time and money needed to build a market orientation culture (Slater and Narver 1994).

Many nonprofit researchers have resolved the issue of which interpretation is more appropriate by taking the position that culture is an antecedent variable (Shoham *et al*. 2006), making market orientation a set of activities by default. Gonzalez *et al.* (2002) and Gainer and Padanyi (2005) challenged this approach, suggesting that market orientation is both market-oriented culture and market-oriented activities. As posited in Gonzalez *et al*. (2002:64), 'a nonprofit organization's full market orientation requires that its adoption be made from the dual philosophical–cultural and behavioral perspective that defines it. These perspectives should be considered complementary, not exclusive.'

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The theoretical model developed by Gonzalez *et al*. (2002) recognizes market orientation as a management philosophy that requires three conditions to transform it into a form of organizational culture: an external orientation (which results in orientation towards beneficiaries, donors, competitors and the environment), integration and internal coordination (with the aim of satisfying beneficiaries and donors, and achieving the organization's mission), and adoption of a long-term management perspective (leading to continuity and permanence of activities directed towards beneficiaries and sustained permanent relationships with donors). Their model further indicates that market orientation is a function of carrying out a series of activities: the generation of intelligence, the internal dissemination of this intelligence and the development and initiation of responsive actions.

Gainer and Padanyi's (2005) empirical study involved collecting data from nonprofit service organizations and analysing alternative models incorporating separate cultural and behavioural market orientation constructs. Their results indicate that a positive relationship exists between market-oriented behaviours and organizational performance which is mediated by market-oriented culture.

Other researchers have gone further, arguing for moving away from for-profit-based interpretations of market orientation and completely redefining market orientation for nonprofit purposes. Vasquez *et al*. (2002:1027) suggest that, within the context of private foundations, market orientation is 'adopting a sensitive attitude toward the beneficiaries' and donors' real and latent needs and expectations'. Liao *et al*. (2001) advocate replacing the term 'market orientation' with an entirely new term, 'societal orientation'. They reject the term 'market orientation' because it implies an orientation towards markets in the true economic sense of the term (which they maintain the resource acquisition and resource allocation markets are not) and because it implies some form of exchange (which they do not consider to be a helpful concept in the nonprofit context). They also contend that the recognized components of market orientation are problematic because: (a) nonprofits often seek longer-term benefit to society rather than simply customer satisfaction; (b) the notion of competition is less relevant; and (c) market orientation implies focusing on one or two stakeholder groups rather than the large number that nonprofits must deal with. Therefore, they theorize that 'societal orientation' should comprise stakeholder orientation, competitive orientation, collaborative orientation and interfunctional coordination.

Bennett (2005) has further advanced discussion about the shortcomings of the for-profit interpretations of market orientation in a nonprofit context by recognizing that market orientation implies a short-term transactional marketing approach rather than the longer-term relationship marketing approach that charities and other caring organizations need to deal effectively with their beneficiaries and donors. His study of charitable service organizations in the UK indicates that market orientation must be operationalized by relationship marketing methods (such as advertising, direct marketing and the use of sales promotion devices) to achieve a nonprofit organization's goals.

Issue 2: how should market orientation be measured in the nonprofit context?

The recent progress made towards moving the conceptualization of market orientation in the nonprofit sector beyond the frameworks established by Narver and Slater and Kohli and Jaworski has not yet been translated into accepted measurement schemes. As a result, the scales

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they developed continue to be the most frequently used means of measuring the construct in nonprofit marketing research.

To measure culture-based market orientation, Narver and Slater (1990) developed a fifteen-item scale (MKTOR) with multiple-item measures of customer orientation (e.g. we express commitment to our customers; we create value for our customers; we understand the needs of our customers), competitor orientation (e.g. our personnel share information about our competitors; we respond rapidly to competitive actions; our managers discuss competitors' strategies) and interfunctional coordination (e.g. we coordinate customer contacts between our departments; we share information about customers among our departments; we integrate departmental strategies with regard to our customers).

With the MKTOR scale, a researcher derives an overall market orientation index for a respondent firm by averaging the item scores across all the items of the three components. Although Narver and Slater (1990; Slater and Narver 1994) claimed that their scale was unidimensional, a recent study by Ward *et al.* (2006) indicates that it is multidimensional. These authors recommended a nine-item unidimensional alternative to minimize the larger scale's potential for mixed results and to resolve some of the activities-oriented wording problems they saw with MKTOR.

Kohli *et al*. (1993) developed the twenty-item MARKOR scale to operationalize their activ-ities-based definition of market orientation and to address the weaknesses they saw with the Narver and Slater scale. Personal interviews conducted with managers led to the identification of three basic components of market orientation (intelligence generation, dissemination and responsiveness). Multiple-item measures were then developed to reflect intelligence generation (e.g. we meet with customers at least once a year to discuss their needs; we conduct research studies on our customers; we poll customers at least once a year to assess the quality of our products or services), intelligence dissemination (e.g. we hold periodic department meetings to discuss trends and developments relating to our customers; marketing personnel spend time discussing future customer needs; data on customer satisfaction is disseminated at all levels of this organization on a regular basis) and responsiveness (e.g. customer complaints are attended to rapidly; we respond to competitive actions quickly; in planning and developing new activities, we focus on what is of value to our customers).

The advantage of the MARKOR scale is that it focuses on specific organizational activities which are more tangible than measures of culture and less vulnerable to the overgeneralization possible with using self-administered questionnaires. However, the authors never verified that it measures the three components of market orientation that they hypothesize. Attempts at factor analysis (e.g. Pelham 1993) have also been unsuccessful, consistently suggesting that the scale measures more than three dimensions.

For-profit researchers investigating the relationship between market orientation and business performance have typically elected to use either the culture-oriented MKTOR scale or to use the activities-oriented MARKOR scale, or to develop their own scale based on one approach to market orientation or the other. They have rarely provided a rationale for the route they have selected (Padanyi 2001).

The vast majority of nonprofit marketing academics have used adapted versions of the MARKOR scale (Shoham *et al*. 2006). In a study designed to determine whether MARKOR is appropriate to measure market orientation in nonprofit services, Kara *et al.* (2004) justified their preference for the MARKOR scale by noting that the three basic functions that it operationalizes (intelligence generation, intelligence dissemination and responsiveness) incorporate the activities referenced in some of the specific items used in the MKTOR scale. Based on reliability tests of the three dimensions and confirmatory factor analysis, they

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concluded that MARKOR is a valid and reliable measure of market orientation in nonprofit organizations, and further noted that 'when presented with the scale, executives had little difficulty relating to its items' (Kara *et al.* 2004:68).

Notably, Vasquez *et al*. (2002) attempted to generate an entirely new scale based on their proposed redefinition of market orientation (cited earlier: 'adopting a sensitive attitude toward the beneficiaries' and donors' real and latent needs and expectations'). In developing this scale, they claimed that they disregarded any existing scales, but their new scale is clearly based on the Kohli and Jaworski framework, since it is a sixteen-item scale with three basic categories of measures: intelligence generation, intelligence dissemination and responsiveness. They claim that this scale is unidimensional, and that it is both valid and reliable for the nonprofit context of private foundations.

Issue 3: is market orientation a single construct or multiple, constituent-specific constructs?

The discussion thus far suggests that market orientation is a singular mindset that pervades all of an organization's external dealings. However, the fact that organizations have multiple constituencies is acknowledged throughout the marketing literature, and 'multiple constituency theory' suggests that an organization should deal with each of their constituencies as separate markets, using different strategic and targeted marketing appeals and techniques to achieve specific performance goals.

A multiple constituency approach is often not achieved in practice, because fielding different marketing efforts to appeal to different constituencies is costly and inevitably taxes organizational resources. As a result, organizations often focus their efforts on the one group they deem to be most important. In the case of the for-profit sector, the final users of the products or services sold have historically been viewed and treated as the most important constituency because of the financial dependence of commercial enterprises on the goodwill and satisfaction of their customers (Kimery and Rinehart 1998).

In borrowing the market orientation construct for nonprofit-sector use, nonprofit academics initially accepted it as a singular mindset focused on the client/customer market. This was consistent with early assertions that the nonprofit sector needed to adopt marketing principles and techniques because customer satisfaction is very important to 'mission-driven' organizations (Kanter and Summers 1987). It is not surprising, then, that the first studies dealing with market orientation in the nonprofit sector focused exclusively on clients and customers (e.g., Naidu and Narayana 1991; Raju *et al*. 1995; Kumar *et al*. 1997; Wood *et al*. 2000; Voss and Voss 2000).

However, since nonprofit marketing serves many other purposes (such as attracting human and financial resources, and setting up commercial ventures), and given the current economic, public relations and information challenges facing nonprofit managers (Sheth 1993), it is increasingly being recognized that market orientation in the nonprofit context must be treated by academics in more complex terms (Gonzalez *et al*. 2002).

According to Kotler and Andreasen (1996), there are at least sixteen constituencies that nonprofit organizations must deal with: three *input publics* (donors, suppliers and regulatory agencies), four *internal publics* (management, boards of directors, staff, volunteers), four *intermediary publics* (merchants, agents, facilitators, marketing firms) and five *consuming publics* (clients, local publics, activist groups, general publics and the media). A comparable list developed by

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Liao *et al*. (2001) includes individual donors, corporates, trusts/foundations, trustees, employees, volunteers, recipients, government, umbrella bodies and society in general.

To date, empirical nonprofit marketing researchers have dealt with very few of these groups. Padanyi (2001) focused on three stakeholders: funders (governments and foundations), donors and clients/customers. Vasquez *et al*. (2002), Gonzalez *et al*. (2002), Kara *et al.* (2004), Bennett (2005) and Macedo and Pinho (2006) all focused on two key stakeholders, beneficiaries and donors. Most nonprofit researchers have studied only one (Liao *et al*. 2001).

The few studies conducted to date involving multiple constituencies have achieved mixed results. Based on data collected in Canada, Padanyi and Gainer (2004) found that organizations cluster into four groups in dealing with their government funders and clients/customers. These clusters are organizations with (a) low client orientation and high government funder orientation; (b) high client orientation and low government funder orientation; (c) high client orientation and high government funder orientation; and (d) low client orientation and low government funder orientation. Macedo and Pinho (2006) conducted a study of Portuguese nonprofit organizations (NPOs) investigating their market orientation towards users/ beneficiaries and donors. They found that these organizations favour a market orientation towards users/beneficiaries but are less proactive with regard to having a donor market orientation. On the other hand, Bennett's (2005) study of charitable service organizations in the UK found that charities that were market-oriented towards donors were also market-oriented towards their beneficiaries.

Issue 4: does market orientation impact upon nonprofit organizational performance?

Despite general agreement that market orientation should increase and improve a nonprofit organization's results, relatively few studies have been conducted to date on the relationship between market orientation and organizational performance in the nonprofit context (Kara *et al*. 2004). The primary difficulty associated with conducting studies of this nature is goal definition at the organizational level. Evaluation at the programme level has been a common practice in the nonprofit sector for years, but evaluation at the organizational level is a relatively recent pursuit, caused in part by growing demands for accountability by funders and donors (Padanyi 2001). Furthermore, at the organizational level, nonprofits do not define themselves based on financial returns, but rather based on the more amorphous goal of achieving their mission (Liao *et al*. 2001).

In 1987, Kanter and Summers stated that the key issues associated with performance measurement in nonprofit organizations are: (a) the number of stakeholders; (b) the need for input as well as output measures (because the effectiveness of a nonprofit organization is as dependent upon its ability to attract resources as it is on its ability to provide service); (c) the need to incorporate short-term, intermediate and long-term perspectives (because the ultimate criterion for the performance of a nonprofit may be long-term survival); and (d) the need to incorporate subjective as well as objective measures (because nonprofits typically provide intangible services). Several attempts have been made to model nonprofit performance in multidimensional terms (e.g. Herman 1990; Kushner and Poole 1996). In practice, however, empirical researchers have either used single measures, such as the effectiveness of the organization in carrying out its mission or changes in revenues and annual operating budgets (e.g. Bradshaw *et al.* 1992; Crittenden *et al*. 1988; Herman and Tulipana 1985) or a limited set of multidimensional performance indicators (e.g. Padanyi 2001; Kara *et al.* 2004; Gainer and

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Padanyi 2005). At the time of writing, operationalization of nonprofit performance remains 'problematic' (Shoham *et al*. 2006).

For a recent meta-analysis of studies conducted to date on the relationship between market orientation and organizational performance in the nonprofit and voluntary sector, the authors found seventeen empirical studies, most of which identified a positive market orientation– performance link, albeit with 'high deviation' (Shoham *et al*. 2006). To explain this deviation, they identified three potential moderators of the market orientation–organizational performance link: location, market orientation operationalization and performance measure used. With regard to study location, they found that US samples exhibited a weaker market orientation– organizational performance relationship than samples from other countries. Based on this, they suggested that market orientation may have its greatest effect in nations where high standards of consumer service and expectations are still evolving. With regard to market orientation operationalization, they found that using the MARKOR scale resulted in a stronger relationship than using proprietary scales, which they maintain supports the importance of using previously validated scales with proven reliability. Finally, with regard to performance measures used, they found that the impact of market orientation on subject measures of performance is stronger than its impact on combinations of subjective and objective measures.

Issue 5: does market orientation impact upon performance in all nonprofit subsectors?

There are a large number of 'subsectors' or 'industries' in the nonprofit sector, as illustrated by the schemas used by the Canadian and American governments to categorize registered charities. The Canadian government uses six basic groupings: social welfare, health, education, religion, benefits to community and 'others' (primarily service clubs), which are divided into over fifty subgroups (Revenue Canada 1998). The US government recognizes twenty-four non-business categories, including: health, arts and culture, environmental quality and protection, consumer protection, crime and delinquency prevention, and youth development (Kotler and Andreasen 1996).

No matter how they are classified, the activities and purposes of different types of nonprofit organizations are highly diverse. Thus, nonprofit observers claim that a management process that works for one subsector will probably not work for another (Anthony and Young 1990). Furthermore, a tenet of nonprofit marketing education, based on anecdotal evidence, is that the subsectors tend to select different marketing strategies and tactics due to differences in sources of funding, extent of public scrutiny, reliance on volunteers, the types of objectives they set, the product/services they offer and the nature of the markets they serve (Hay 1990; Kotler and Andreasen 1996).

Given the differences known to exist between nonprofit subsectors, studies of the application of marketing principles should involve more than one subsector if results are to be truly generalizable across the entire nonprofit sector. Nevertheless, most studies of the market orientation–organizational performance relationship in the nonprofit sector have focused on one subsector, such as hospitals, or social service agencies, or arts and culture organizations (Shoham *et al.* 2006). This has allowed these researchers to incorporate performance measures actually used in practice by a given subsector into their studies. Therefore, they have used not only subjective measures of effectiveness but sector-specific objective data, such as hospital occupancy rates (Naidu and Narayana 1991) or subscriber attendance at cultural events (Voss and Voss 2000) or fundraising practices (Kara *et al*. 2004).

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Padanyi and Gainer (2004) took the approach recommended by Herman and Heimovics (1994) and measured organizational performance using 'widely-shared' performance measures (client satisfaction, peer reputation and resource attraction). This allowed them to claim that their finding that client/customer orientation and government funder orientation both have significant, positive relationships with organizational performance was generalizable across three important subsectors of the nonprofit sector (social services, community support, and arts and culture).

Conclusions: operationalizing market orientation in the nonprofit sector

It should be apparent at this point that much work remains to be done to understand market orientation in the nonprofit context and to provide definitive answers to the questions raised in this chapter. Nevertheless, several conclusions can be drawn in relation to its operationalization for both managerial and scholarly purposes.

Managerial operationalization of market orientation

Although market orientation is still ill-defined, the information gathered to date indicates that nonprofit managers who ignore this strategic approach in their operations do so at their own peril. In an economic sector increasingly oriented towards competition for new resources and collaboration to extend existing resources, a nonprofit organization which is determined to survive must recognize that 'its beneficiaries and donors should feel that they are receiving a nonprofit offer that satisfies their needs and expectations to a greater degree than any other alternative to which they might resort' (Gonzalez *et al*. 2002:65).

The current academic literature clearly indicates that market orientation involves both culture and activities, even if one or the other is not technically considered to be part of its definition. From a managerial perspective, initiating client-oriented activities prior to attempting to instil a client-oriented culture, as suggested by Gonzalez *et al.* (2002) and Gainer and Padanyi (2005), has practical advantages. Success with market-oriented activities may help to overcome employee resistance to change. It should also reduce the risk to human and financial resources associated with imposing cultural change in a deliberate, top-down manner (Harris 1999).

The starting point for developing market orientation is self-analysis to understand what the organization currently does. More specifically, the organization must determine who its key stakeholders are, what market-oriented behaviour it currently directs towards them, and whether or not it can already be characterized as having a market-oriented culture. In determining its key stakeholder groups, obvious considerations are beneficiaries, donors, competitors and collaborators. However, other groups which should be considered include volunteers (Shoham *et al.* 2006), suppliers who provide components of the organization's service or product offerings (and can thus impact upon the satisfaction of beneficiaries) or interest groups that have the potential to impact upon a nonprofit organization's capacity to fulfil its mission (Gonzalez *et al*. 2002). The organization must then inventory the activities it currently undertakes with each of its stakeholders and, based on this, assess its existing culture in terms of the attitude or 'sensitivity' of all of its personnel towards these various groups.

In addition, if it has not already done so, the organization must determine how to assess its own performance and set specific standards or goals which it can use to judge its success. These

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goals should be based on what is relevant to achieving the organization's mission, rather than on what is simply easy to measure, e.g. a library should measure user satisfaction rather than number of books borrowed (Harrison and Shaw 2004). Well-defined means to assess performance are needed to determine the contribution that each stakeholder group makes or could make to the organization's performance. This understanding provides the basis for judging the relative importance of each group, and for determining whether or not appropriate levels of effort and resources are being devoted to each one. Furthermore, since the purpose of market orientation is to improve organizational performance, it is not worthwhile developing it without also having the means to determine whether the effort has been worthwhile and should be continued.

Self-analysis and goal-setting provide the organization with the strategic foundation needed to build multiple market orientations. A variety of market-oriented activities has been identified that can be undertaken with different constituent groups. The activities selected may vary by stakeholder group and must be determined based on the priority that the organization places on a given constituency and its available human and financial resources. Using the Kohli and Jaworski (1990) framework, these activities can be grouped into intelligence generation, intelligence dissemination and responsiveness categories as follows:

Intelligence generation includes:

¦ meeting with or polling or conducting some other form of regular and systematic research on stakeholders to determine their needs, desires and expectations (Gonzalez *et al*. 2002);
¦ collecting and analysing information on organizations competing for the attention and loyalty of the same donors or beneficiaries (Bennett 2005);
¦ using the information gathered to profile the strengths and weaknesses of competition in order to identify one's own competitive advantage, or to identify opportunities for self-improvement or collaboration (Gonzalez *et al*. 2002); and
¦ understanding the specific and generic environmental forces that may impact upon the organization's capacity to deal with its various stakeholders (Gonzalez *et al*. 2002).

Intelligence dissemination includes:

¦ sharing, jointly considering and processing information across all the departments within an organization pertaining to stakeholders' requirements (Bennett 2005);
¦ using all of the formal and informal tools at hand (e.g. holding meetings, making use of information technology and creating taskforces) to analyse, interpret, discuss and forecast trends and events relating to both stakeholders and competitors (Gonzalez *et al*. 2002); and
¦ using learning systems such as 'communities of practice' and networks of collaborating organizations to interpret the environment (Murray and Carter 2005).

Responsiveness includes:

¦ developing a full response action plan for targeted groups (Vasquez *et al*. 2002); and
¦ putting the action plan into practice with a budget which adequately covers the costs associated with its generation, distribution and communication (Gonzalez *et al*. 2002).

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It must be noted that, in a multiple-constituency situation, it is important that nonprofit managers continue to recognize and treat different stakeholder groups as distinct entities. Therefore, as activities are undertaken to generate and disseminate market intelligence, or to build relationships, each constituent group should be researched, consulted and communicated with separately. Attempts to collapse data on them to simplify distribution across the organization, or to combine communication efforts should be avoided.

Once the organization has fielded the various market-oriented activities that it has selected for each stakeholder group, it cannot automatically claim to have a market-oriented culture. Development of a market-oriented culture involves more than 'merely implementing tactically-oriented marketing practices more effectively' (Warnaby and Finney 2005:193). To assess whether it has achieved a market-oriented culture, an organization must consider whether it:

- unconditionally assumes the ongoing need to generate exchanges of value with beneficiaries and other stakeholders (Gonzalez *et al*. 2002);
- has a learning orientation that results in improved intelligence generation and dissemination (Murray and Carter 2005);
- responds to stakeholder needs and wants, rather than placing emphasis on what the organization has considered most appropriate for the stakeholders (Harrison and Shaw 2004);
- allocates resources to support multiple market orientations based on a systematic evaluation and prioritization of its various stakeholders (Padanyi 2001);
- recognizes the existence of competition and is aware that competitive offerings and performance provide a basis for stakeholders to judge their own organization's performance, as well as providing ideas for upgrading their offerings (Harrison and Shaw 2004);
- provides superior value creation and delivery (Warnaby and Finney 2005);
- has a commitment from everyone in the organization to undertaking market-oriented behaviours, and maintaining and generating mutually beneficial relationships with the targeted markets (Gonzalez *et al*. 2002);
- has some degree of formalization of the communication and activity processes adopted by the organization (Vasquez *et al*. 2002);
- has fully integrated marketing into the organization, with all employees recognizing that they all 'market' their services and/or products and that effective marketing has long-term benefits for the organization (Harrison and Shaw 2004); and
- recognizes or rewards personnel (employees or collaborators) to the extent that their performance is adapted to market orientation principles (Vasquez *et al.* 2002).

Academic operationalization of market orientation

From an academic perspective, it is clear that market orientation is still fertile ground for exploration and investigation. It is also apparent that a researcher interested or involved in this area must make a conscious decision to either: (a) continue attempting to adapt the for-profit conceptualizations of market orientation to the nonprofit context; or (b) build on recent efforts to reconceptualize market orientation and specifically tailor it to the nonprofit context.

If the chosen path is to adapt for-profit conceptualizations of market orientation to the nonprofit context, the researcher must recognize that some for-profit dimensions (e.g. competitor orientation with regard to clients/customers) may only apply to nonprofit organizations

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operating in environments where organizations compete for customer/client patronage and loyalty, such as theatres or hospitals (Shoham *et al*. 2006), and that for-profit conceptualizations do not allow for relationships with certain key stakeholders (such as collaborators).

These weaknesses, combined with a body of research to date showing that the impact of market orientation on the performance of nonprofits is 'positive, but with high deviation' (Shoham *et al*. 2006), argue for taking the alternative path, i.e. reconceptualizing market orientation in a way that specifically tailors it to the nonprofit sector. One alternative conceptualization has been developed, societal orientation, which is worthy of consideration (Liao *et al.* 2001). It must be noted, though, that the similarity of its proposed components (stakeholder orientation, competitive orientation, collaborative orientation and interfunctional orientation) to the Narver and Slater components (customer orientation, competitor orientation and inter-functional coordination) might encourage merely adapting MKTOR, with its problematic blend of both cultural and behavioural items, to create a societal orientation scale. Thus, there is room for further reconceptualizations of market orientation in the nonprofit context that can potentially lead to totally new measurement scales and complex models which incorporate various antecedents and moderators specific to the nonprofit sector.

No matter which path is taken, multidimensional, 'widely-shared' organizational performance measures that can be applied to a variety of subsectors are needed to determine the applicability of the marketing concept across the nonprofit sector (Herman and Heimovics 1994). Liao *et al.* (2001) further recommend distinguishing between two critical dimensions of performance: efficiency and effectiveness. Effectiveness involves the analysis of the extent to which an organization fulfils its mission (plus other measures or constructs that relate to the achievement of this goal), while dealing efficiently with fundraising and administrative costs/ allocation of scarce resources.

Researchers following either path must also seek to overcome the many limitations associated with previous research on market orientation in the nonprofit context. Thus, consideration must be given to:

- gathering data in a variety of types of nonprofit organizations (Vasquez *et al.* 2002; Kara *et al*. 2004);
- encompassing other key nonprofit constituencies such as time donors (volunteers), current and potential collaborators and mass-media contacts (Padanyi 2001);
- going beyond self-described behaviour to consider the perceptions of targeted stakeholder groups regarding the organization and its market orientation (Vasquez *et al*. 2002);
- exploring interactions between multiple market orientations by identifying and surveying each individual organization's entire set of constituent groups (Rowley 1998);
- evaluating the moderating role that factors such as market dynamism and uncertainty or existing competitive intensity may exert on the market orientation–organizational performance relationship (Vasquez *et al*. 2002); and
- using longitudinal data collection methodologies, rather than continuing to rely on cross-sectional data, in order to understand long-term effects (Kara *et al.* 2004).

Overcoming the last limitation is particularly critical to proving the value of market orientation and its impact on organizational performance in the nonprofit context. It is difficult to infer causality between these variables with cross-sectional design because 'precedence' or temporal priority, a condition for establishing causality, is not present (Lehman *et al*. 1998).

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