

**THE RELATIONSHIP BETWEEN MARKET ORIENTATION AND FINANCIAL DEPENDENCY: THE  
SPECIFIC CASE OF PORTUGUESE NON-PROFIT ORGANISATIONS**

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# THE RELATIONSHIP BETWEEN MARKET ORIENTATION AND FINANCIAL DEPENDENCY: THE SPECIFIC CASE OF PORTUGUESE NON-PROFIT ORGANISATIONS

## *Abstract*

It has been largely emphasised in the literature that a market orientation can provide important competitive advantages to organisations. However, for-profit organisations have so far been the focus of much of the market orientation research and less emphasis has been put on other organisational contexts, such as the non-profit sector. Therefore, the purpose of this paper is to apply the construct of market orientation to the non-profit sector and to analyse the constraints that can be posed to an effective assimilation of this construct, namely the dependency of non-profit organisations on financial resources.

**Keywords:** Non-profit organisations, market orientation, financial dependency.

## **Introduction**

In the context of an increasingly competitive environment, in which organisations are compelled to manage their resources and capabilities in a more efficient and effective way, the concept of marketing orientation has been acknowledged as highly important in the marketing and management literature. However, the majority of studies on marketing orientation have been mainly focused on for-profit organisations and little research has been undertaken on other organisational contexts, such as the non-profit sector. This is in line with Greenley (1995) who argued that more empirical research into market orientation is needed, particularly when different business contexts are taken into account. The marketing concerns of non-profit organisations became increasingly important over the 1980s and 1990s when both the public and voluntary sectors were greatly exposed to market mechanisms and business approaches (Harris, 1997; Balabanis, 1997). Currently, non-profit organisations have to face a number of challenges, as they are increasingly involved in competition for revenues, and other resources.

Furthermore, relevant literature on the non-profit sector has largely emphasised the dependent character of non-profit organisations for financial resources (Anheier, 1990; Smith and Lipsky, 1989, 1993; 6, 1994, Salamon, 1995; Leat, 1995). Considering that the pattern of financial dependency (predominantly associated with public sector funding or with private sector funding) can be related to a particular organisational profile, which influences the organisational orientations, opinions and strategies (Anheier et. al.: 1997), then it is hypothesised that financial dependency is likely to influence the orientation of the market. The present study is of particular relevance since it examines a relationship, which has not yet been addressed in previous research. Concerning the organisation of this paper, five parts will be considered. In the first and second parts, marketing in the non-profit sector and the relationship between financial dependency and market orientation will be addressed. The third and fourth parts will discuss the research propositions and the methodological approach. The last section concerns some possible implications for practice and public policy making.

## **1. Marketing in the non-profit sector**

Before analysing the construct of marketing orientation within the context of non-profit organisations, it seems important to start by clarifying the concept of non-profit organisations. An important contribution has been made by Salamon and Anheier (1996) who proposed a “structural/operational definition” which focuses on the organisational characteristics of non-profit organisations. As such, non-profit organisations must be: 1) formally constituted organisations; 2) private organisations and separate from government; 3)

non-profit distributing, to their owners or directors; 4) self-governing and equipped to control their own activities; and 5) have some meaningful voluntary content, such as voluntary income, volunteer labour or voluntary management.

Currently, non-profit organisations have to face a number of challenges, as they are increasingly involved in competition for revenues. These include fees and grants from government or other government sources, voluntary income, fees from individuals, income from investment and income from the sale of property or land (Keaveney, 2001). As a result, non-profit organisations are involved in a network of interactions and exchanges with different stakeholders (state, private individuals, profit organisations and other peer organisations). Since the role of marketing is to create and maintain “satisfying exchanges” (Balabanis et al., 1997), it becomes evident that non-profit organisations undertake marketing activities directed at four different constituencies, namely: 1) commercial marketing, 2) social marketing, 3) marketing to donors, and 4) marketing to funders (Blois, 1993). Commercial marketing can be applied to non-profit organisations since a range of commercial activities are performed to create a source of income to support their ongoing activities. These activities can vary from advertising, running shops, marketing research, target marketing and segmentation. However, as observed by Skloot (1987), there are times when commercial and charitable activities conflict, resulting in a stressful and unproductive environment. Another approach to marketing in the non-profit sector is social marketing where the prime objective is the dissemination of ideas. The principles of social marketing can apply to an extremely diverse set of social problems wherever the bottom line is influencing behaviour (Andreasen, 1995; Kotler & Roberto, 1989). The third area of marketing - marketing to donors - is concerned with the generation of funds rather than the marketing of products. As observed by Balabanis et al. (1997), the importance attached to marketing to donors is highlighted not only by the vast number of studies which have examined donors’ motivations and their behaviour but also as a way to segment and to encourage donors to contribute with funds or volunteers. Blois (1993) also contends that there are two distinct sources of funds for non-profit organisations. The first relates to donors and includes individuals, charitable bodies and other organisations. The second addresses funders and relies on the support of central or local government. One of the reasons why governments often choose to fund organisations to carry out a number of activities is that they can perform these activities better than official employees (Blois, 1993).

As it was seen, the importance of market orientation goes beyond the limits of profit-making commercial business in the private sector. Currently, non-profit organisations are forced to adopt a very different attitude in relation to their funding sources and their organisational strategy (Leat, 1995). In this sense, non-profit organisations have to find ways of managing their resources more efficiently in order to accomplish their activities. In fact, health care and educational organisations, as well as local and central governments and other non-profit organisations are increasingly required to adopt a distinctive market orientation (Barksdale and Darden, 1971; Wood et al., 2000). In the present study, the concept of market orientation will be used to assess the non-profit sector’s implementation of the marketing concept (Wrenn, 1997).

## **2. Assessing the relationship between financial dependency and market orientation**

The resource dependence perspective has been applied to non-profit organisations and has proved to be an important theoretical tool to the understanding of problem assessments, opinions and strategies evidenced by these organisations (Anheier et al., 1997). In short, the resource dependency theory informs that much of how an organisation behaves is determined

by its resource dependencies (Pfeffer and Salancik, 1978). Following this argument, Leat (1995) argues that organisations are likely to engage in specific strategies related to resource flows. Considering the purpose of the present research and following the resource dependency approach, it is expected that the revenue structure of non-profit organisations will be related to the market orientation evidenced by these organisations.

In the last decades there has been evidence of an extensive pattern of state funding of non-profit organisations which reflects not only an increasing reliance of the state on the non-profit sector to carry out public purposes but also emphasises a financial dependency from non-profit organisations on statutory funds. Furthermore, empirical evidence has also demonstrated that public funding is a major source of non-profit finance (Salamon, 1995; James 1989; Anheier and Seibel, 1990; Kuhnle and Selle, 1992; Gidron et al., 1992; Kendal and 6, 1994). Thus, the increasing dependency of non-profit organisations on financial resources has been increasingly questioned and an intense debate on the implications of a funding relationship has emphasised the argument that government support undermines the independence of these organisations, diverts them from their basic objectives, and leads to excessive professionalism (Butler, 1985; Smith and Lipsky, 1993). Similarly, it is also argued that this funding relationship not only erodes strategic autonomy (Mintzberg, 1983) but also brings with it a general degradation of important capacities, such as flexibility, cost-effectiveness as well as the capacity to innovate and encourage participation (Knapp et al. 1990). Interestingly and unusually Anheier et al. (1997) have avoided the dominant thought that non-profit funding with its corresponding problems, opinions and strategies, derives basically from public sector revenues. In fact, private resource dependencies are also found among most fields of non-profit organisations. As noted by the previous authors “the difference between predominant public sector funding and majority private sector funding emerges as the most important distinction to understand how organisations differ” (Anheier et al., 1997: 212).

Deriving from this conceptual framework a central question is formulated: To what extent does financial dependency (associated either with public sector funding or private sector funding) affect the extent to which non-profit organisations are more or less market oriented? Given the fact that the Portuguese non-profit sector has been acknowledged as highly dependent on financial resources (Santos, 1987; Pereirinha, 1997; Hespanha et al., 1997), the Portuguese case provides an interesting case study, which might be applicable to other countries with similar social and cultural backgrounds.

### **3. Research Propositions**

Most of the past research about market orientation addresses the relationship between market orientation and organisational performance. Drawing from a resource dependency approach, which compares with Anheier et al (1997), it is expected that the stance assumed by non-profit organisations regarding their market orientation will be related with the dominant type of revenue. Therefore, the following research propositions are suggested:

H1: Financial dependency predominantly associated with public sector funding is likely to lead to a lower Marketing Orientation.

H2: Financial dependency predominantly associated with private sector funding is likely to lead to a higher Market Orientation.

#### **4. Methodology and construct development**

Drawing upon the tradition of positivism and following similar studies in the field, the present study applies mainly to a quantitative approach. The constructs will be measured objectively using a questionnaire. The study requires the collection of data across a number of non-profit organisations within a diverse set of areas of activity.

Considering the market orientation construct and given the specific characteristics of the non-profit sector, the adaptation of the 20-item MARKOR market orientation of the 32-item Kholi et al. (1993) measure was carefully introduced. Phrasing was also adapted to suit the specific characteristics of the sampled organisations. Despite the interest of the Narver and Slater (1990) measure of market orientation, their construct has been subject to detailed academic criticism (Sigaw and Diamantopoulos, 1995; Harris, 2001). The Kholi's et al. (1993) market orientation construct was adopted in the present study because it has been applied in a number of differing contexts and consists of three sub-scales used to measure the generation of market intelligence, the dissemination of this intelligence and organisation-wide responsiveness. Additionally, the set of key indicators of this construct has received widespread support for its reliability and validity (Carmines and Zeller, 1979). The proposed items were measured in a Likert type 5-point scale where 1= strongly agree, and 5= strongly disagree. The Likert scale was chosen because it is the most widely used measure of attitude and it is easy to administer (Zikmund, 1984). This scale is also useful in circumstances in which there is no interviewer to explain how to use the measuring instrument. The financial dependency construct, in turn, is assessed by asking the respondents information about the revenue structure so that the predominant source of funding can be identified.

#### **5. Possible implications for practice and Public Policy Making**

The present study will provide important implications not only for non-profit managers but also for public policy makers. From the point of view of non-profit managers the adoption of a market-oriented approach enables their organisations to increase its revenues and diversify its funding sources. This is particularly important in a context within which competition for resources has been increasingly intensified. From the perspective of public policy makers, the present study provides a better understanding of the strategies undertaken by these organisations so that adequate policies can be implemented to match their needs. Besides, most activities run by non-profit organisations are also embedded with a public and social purpose reinforcing an extensive partnership between these organisations and state agencies.

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