

# **THE RELATIONSHIP BETWEEN RESOURCE DEPENDENCE AND MARKET ORIENTATION: THE SPECIFIC CASE OF NON-PROFIT ORGANISATIONS (NPOs)**

## **Abstract**

In the context of an increasingly competitive environment in which organisations are compelled to manage their resources and capabilities in more efficient and effective ways, the concept of market orientation has been acknowledged as highly important in the marketing and management literature. The existing literature, however, has mainly been focused on the for-profit sector and, to our best knowledge, little research has been undertaken in other organisational contexts, such as the non-profit sector. Given the specificity of NPOs and the increasingly demanding resource environments in which these organisations operate, the present study examines the extent to which resource dependence impacts the market orientation construct. The results of the first cross-sectional study on the market orientation of Portuguese NPOs are reported.

Keywords: *NPOs, Market Orientation, Resource Dependence Theory, Resource Strategies*

## **INTRODUCTION & PURPOSE OF THE STUDY**

In contrast with mainstream marketing literature addressing the positive link between market orientation and business performance, the present work draws on a resource dependence conceptual framework to examine the effects of various NPO revenue strategies in the degree of market orientation. According to resource dependence theory, much of how an organisation behaves is determined by its resource dependencies (Pfeffer and Salancik, 1978). The revenue structure evidenced by NPOs presents itself as an important tool for understanding the way organisations behave (Anheier et al., 1997). Other authors concur by stating that the fate of organisations depend upon their access to resources (Galaskiewicz and Bielefeld, 1998). Following this argument, it is assumed that the specific type of resource dependence evidenced by organisations may also explain their degree of market orientation. Moreover, the resource dependence perspective has been applied to NPOs and has proven to be an important theoretical tool for understanding problem assessments, opinions and strategies evidenced by these organisations (Anheier et al., 1997). The central question issuing from the aforementioned discussion includes the extent to which resource dependence (associated either with public sector funding or private sector funding) affects the degree of market orientation.

## **CONCEPTUAL FRAMEWORK**

### **THE CONCEPT OF MARKET ORIENTATION AND ITS APPLICATION IN THE NON-PROFIT SECTOR**

In the present study, the market orientation construct addresses two distinct stakeholders: donors and users/beneficiaries. Justification for this procedure lies in the assumption that “exchange” is a core concept in marketing and that NPOs engage in transactions with a large variety of stakeholders. Whereas one side of the “exchange” includes the donor’s generation of funds and resources, the other involves resource allocation to the user/beneficiary market. As Shapiro (1973) has correctly noted, although the success of non-profits mainly depends on their capacity to attract resources, most of their products or specific benefits are not always available to donors. The need to obtain resources from donors may lead to ambiguous situations in which the major purpose (or mission) of the organisation may either be jeopardised or be non cost-effective (Andreasen and Kotler, 2003). This occurs when the need for attracting resources subverts the provision of services addressing the effective needs of service beneficiaries (or users). That is, NPOs may be tempted to concentrate on target groups or on activities in which funding is easily obtainable although not corresponding to the core purpose for which the organisation was created (Bovaird and Rubienska, 1996). This also

accounts for a particular relationship between these organisations and their multiple stakeholders. Closely related to satisfying different constituents, the separation between donors and beneficiaries or users has important implications for management functions that may also impinge on the organisational market orientation. Thus, the following hypothesis is considered:

**H1: *The greater the market orientation towards donors, the lower the market orientation towards their users/beneficiaries.***

As NPOs are increasingly involved in competition for donations, membership, clients and sales (Steinberg, 1987) they are also becoming more cost-conscious and competitive in relation to securing resources (Leat, 1995). In this light, resources acquire an increasing importance in NPO management. More than ever before, organisations seeking to attract resources must adapt themselves to client and user requirements (Froelich, 1999).

## **RESOURCE STRATEGIES IN THE NON-PROFIT SECTOR**

NPOs are currently required to adopt a much different attitude in relation to their funding sources and their organisational strategies. In other words, they have to find ways of managing their resources more efficiently in order to accomplish their goals. A relevant body of theory has been developed to account for the underlying dynamics related to the effect of environment on organisations and the ways in which organisations respond to environmental constraints. A general assumption in resource dependence theory is that “the key to organisational survival is the ability to acquire and maintain resources” (Pfeffer and Salancik, 1978: 2). Organisations are not isolated entities free from external pressures and acting on their own will. Instead, organisations are in permanent interaction with other entities in the environment where resource exchange relationships take place (Thompson, 1967). For resource dependence theorists, this process is understood within a context of scarcity and uncertainty, in which organisations are compelled to adapt to the requirements of important resource providers (Froelich, 1999). When applying this concept to NPOs, this uncertainty stems mainly from dependence on external funding. These organisations are particularly dependent upon the flow of resources from external providers (Heimovics et al., 1993). Consequently, the ability to raise funds and to attract resources is crucial for any non-profit organisation wishing to succeed or in some cases simply to maintain their mission-related activities (Palmer and Randall, 2002).

It is worth noting that the degree of dependence experienced by an organisation is determined by the importance and concentration of provided resources (Froelich, 1999). Consequently, organisations exclusively depending on one or few resource providers are likely to experience their constraining influences. In fact, income diversification has often been regarded in the literature as advantageous to NPOs since it prevents dependency on one source of income (Kramer, 1981). For example, the risk of having just one funding source means that if that source of funding is withdrawn, then the organisation is likely to close (Palmer and Randall, 2002). On the contrary, organisations wishing to maintain their autonomy in relation to their resource providers should adopt a diversified revenue strategy. In addition, the adoption of the marketing concept can be viewed as an adaptive strategy to ensure that organisations get the necessary resources to accomplish their mission and to carry out their activities. Along this line of reasoning, the following hypothesis can be suggested:

**H2: *Organisations that evidence a diversified revenue strategy are likely to be more market oriented (users/donors) than those which rely on only one or few resource providers.***

Kohli, Jaworski and Kumar (1993) emphasised the need to assess the role of additional factors in influencing the market orientation of an organisation. In this vein, the present study considers the type of resource dependence as a relevant factor for explaining the degree of market orientation, which is considered as an organisational response to environmental pressures. Assuming that organisations are likely to engage in specific strategies related to resource flows (Leat, 1995), it is expected that the type and composition of resource funding will influence the way organisations behave. A broad review of the literature demonstrates that NPOs can be funded from different sources and on different terms (Leat, 1995). Basically, the most common sources of non-profit revenue are obtained through state funding (government grants and contracts); self-generated resources (income from fees and charges, individual contributions, fundraising from the general public, commercial activity and investment income) and private funding (individual donations and corporate giving). Each source of funding has particular associated constraints and benefits for the organisations (Gronbjerg, 1993). Furthermore, Palmer and Randall (2002) maintain that non-profit organisations tend to appraise their income portfolios in terms of independence from the funding stream. This is in line with Froelich (1999) who concurs that in the process of revenue acquisition, diverse revenue strategies can be undertaken by non-profit managers to minimize the potential effects of resource dependence.

The relative weight of each revenue source in relation to the total organisational income is important for gaining an understanding of revenue strategies undertaken by NPOs. For instance, an organisation may derive its income from either private or public revenue sources. As noted by some 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). Drawing on Institutional Theory, organisational isomorphism (the tendency for organisations to acquire the attributes of other organisations upon which they depend) can occur through mimetic processes in which NPOs tend to resemble their funders (DiMaggio and Powel, 1983). It is expected, then, that NPO market orientation will be related to the chief funding source. Along these lines, the following hypotheses have been formulated:

**H3: *Organisations that depend predominately on private resources are likely to be more market oriented (users/donors) than those which are predominantly dependent on public resources.***

**H4: *Organisations that depend predominately on self-generated resources are likely to be more market oriented (users/donors) than those which are predominantly dependent on public resources.***

## **METHODOLOGY, CONSTRUCT DEVELOPMENT AND SAMPLE**

A self-completion questionnaire was then developed addressing basic information about identification, revenue sources and market orientation. The questionnaire was pre-tested with 10 senior NPO managers before being mailed to 1500 Portuguese NPOs. The response rate was 26 per cent, yielding a sample size of 392.

Given the specific characteristics of the organisations under study, the market orientation construct was measured using the MARKOR scale adapted from Kohli et al. (1993). The individual items were examined for correlation with total scores for each related individual variable, i.e., IG1, IG2, IG3, IG4, IG5, IG6 to Intelligence generation (summation of intelligence generation scores on items IG1 to IG6) and the same procedure was adopted for

other MARKOR dimensions. The resource dependence construct was operationalised by asking respondents to indicate the percentage contribution of each revenue source with respect to total organisational income. The collected data was then aggregated into three major categories of resource revenue comprised of state funding; private funding and self generated revenue resources. These organisations were included in each category by meeting a share minimum requirement of 60% or higher. In order to describe the heterogeneity/homogeneity of resource dependence, revenue variables were combined into a diversification measure. In this sense, diversification was defined as the number of resource providers from whom an organisation could obtain their funds. Revenue structure was characterized by a measure of low, moderate or high diversification.

## RESULTS AND HYPOTHESIS TESTING

A broad range of non-profit activities were represented in the survey. Although the areas of Culture/Recreation (41.8%) and Social Services (40.6%) were slightly over-represented, the same did not apply to Environment/Civic Advocacy (7.4%), Health (6.6%) and International Activities/Development (3.8%), which were less represented. With regard to the primary type of financing, the sample appeared to be skewed in favour of predominantly state financed organisations (45.9%), followed by that of predominantly self-generated funding (27.8%) organisations. In order to examine H1, a difference of means ( $t_{test}$ ) was performed (Table 1).

Table 1: Difference of means between donors and users

	<b>Donors</b> Mean/SD	<b>Users</b> Mean/SD	<b>t-value</b>	<b>D.F</b>	<b>p.</b>
<b>Intelligence Generation (IG)</b>					
IG1 + IG2 + IG3 + IG4 + IG5 + IG6	2.79 (.718)	3.50 (.812)	-19.682	391	.000
<b>Intelligence Dissemination (ID)</b>					
ID1 + ID2 + ID3 + ID4	2.70 (.920)	3.14 (.867)	-10.739	391	.000
<b>Responsiveness (RI)</b>					
R1 + R2 + R3 + R4 + R5 + R6 + R7 + R8 + R9	3.10 (.717)	3.51 (.712)	-13.283	391	.000

IG1= Intelligence generation for donors; ID1= Intelligence dissemination for donors; RI1= Responsiveness for donors; IG2= Intelligence generation for users; ID2= Intelligence dissemination for users; RI2= Responsiveness for users.

The paired sample t-test clearly indicates that, overall Portuguese NPOs did not show a very strong degree of market orientation. Understanding of the needs, desires and perceptions of donors and users (or beneficiaries) did not seem to be a major organisational concern. Results also revealed that Portuguese NPOs were more market oriented towards users/beneficiaries than towards donors. There were significant differences not only for the overall scale and its components but also for most of the items. As a result, the previous findings seemed to **support H1**. Related to the second Hypothesis, an Anova<sub>one-way</sub> was computed (Table 2).

Table 2: Diversification of resource providers and Market Orientation

	<b>Donors</b>						<b>Users</b>					
	<b>IG1</b>		<b>ID1</b>		<b>RI1</b>		<b>IG2</b>		<b>ID2</b>		<b>RI2</b>	
	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD
<b>Low Diversification</b>	2.81	.700	2.79	.937	3.07	.731	3.53	.789	3.31	.784	3.49	.750
<b>Moderate Diversification</b>	2.56	.714	2.35	.844	3.02	.757	3.29	.685	2.85	.780	3.51	.635
<b>High Diversification</b>	2.85	.744	2.68	.822	3.20	.656	3.53	.910	2.91	.991	3.55	.665
<b>F – Statistic / p</b>	3.246	<b>.040</b>	5.313	<b>.005</b>	1.605	.202	2.132	.120	11.86	<b>.000</b>	.265	.768

Overall results indicated that a high diversification of resource providers was not necessarily associated with a high degree of market orientation either for donors or for users, leading us

to reject H2. With regard to donor market orientation, there was a mean difference between intelligence generation ( $F = 3.246$ ;  $p < 0.5$ ), and intelligence dissemination ( $F = 5.313$ ;  $p < .05$ ) along various degrees of diversification. At the same time, no difference of means was found along the responsiveness dimension ( $F = 1.605$ ;  $p > 0.5$ ) and the various degrees of resource diversification.

Concerning market orientation towards users, a difference of means was found along the different degrees of diversification among resource providers in the intelligence dissemination dimension ( $M=11.86$ ;  $SD=.000$ ). No difference of means was found with regard to the other MARKOR dimensions. The relative inconsistency of previous results may be attributable to the diversification measure, which did not take into account the specific nature of the resource. In other words, a low level of resource diversification can be observed in organisations that depend predominately on either public or private funding. This difference, which is not visible in the current data, is likely to bias the results. In order to shed more light on this discussion, Table 3 depicts whether or not different MARKOR dimensions vary between private and state resources. With such a purpose in view, an  $Anova_{one-way}$  was computed.

Table 3: Type of resource and Market Orientation (1)

	Donors						Users					
	IG1		ID1		RI1		IG2		ID2		RI2	
	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD
<b>Predominantly financed by private resources</b>	3.28	.678	3.16	.800	3.60	.577	3.76	.723	3.24	.831	3.76	.663
<b>Predominantly financed by state resources</b>	2.85	.664	2.84	.902	3.00	.749	3.56	.793	3.35	.773	3.48	.766
<b>F – Statistic / p</b>	9.156	<b>.003</b>	2.756	<b>.098</b>	14.81	<b>.000</b>	1.490	.224	.437	.510	3.07	<b>.081</b>

Empirical evidence in this work suggests that organisations which are “predominantly private financed” are likely to be more donor market oriented than those which are “predominantly state financed”. This result is consistent with literature which maintains that organisations tend to acquire the same attributes of other organisations from which they depend on. Since one of the sources of private funding is principally composed of corporate giving, new opportunities may arise from the interaction among NPOs and corporations. Considering the previous analysis, H3 is partially supported.

The 4th hypothesis examines whether different Markor dimensions vary between self-generated financed and state resources. In order to examine this hypothesis, another  $Anova_{one-way}$  was performed (Table 4).

Table 4: Type of resource and Market Orientation (2)

	Donors						Users					
	IG1		ID1		RI1		IG2		ID2		RI2	
	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD
<b>Predominantly financed by self-generated resources</b>	2.56	.700	2.39	.882	3.06	.670	3.39	.744	2.96	.860	3.48	.618
<b>Predominantly financed by state resources</b>	2.85	.664	2.84	.902	3.00	.749	3.56	.793	3.35	.773	3.48	.766
<b>F – Statistic / p</b>	12.46	<b>.000</b>	17.17	<b>.000</b>	.550	.459	3.27	<b>.071</b>	15.59	<b>.000</b>	.000	.993

Results suggest that organisations which are primarily dependent on self-generated resources are likely to be less donor market oriented than those which are “predominantly state financed”. The same pattern can be discerned in relation to the user’s market orientation leading to the rejection of H4. This is partly explainable by the fact that these organisations are less able to reduce uncertainty, especially if they are small (Bielefeld, 1992). This reasoning can also account for a lower degree of market orientation.

#### **CONCLUSIONS AND IMPLICATIONS OF THE STUDY**

In this article, resource dependence theory has provided important insights into a better understanding of market orientation in the non-profit sector. This has, moreover, been considered as an organisational response to market pressures in a context of scarce resources. Given the fact that the Portuguese non-profit sector is viewed as highly dependent on financial resources (Hespanha 1997), it provides an interesting case study, which might be applicable to other countries with similar social and cultural backgrounds.

This study demonstrates that specific types of resource dependence may influence donor market orientation in the sense that a higher degree of market orientation towards donors is found in organisations primarily dependent on private resource providers. Additionally, predominant dependence on public funding does not encourage a market orientation strategy towards donors when compared with a predominant dependence on private sources of revenue. In relation to user market orientation, results are somewhat inconclusive in that only the responsiveness dimension assumes statistical significance. The aforementioned pattern is not found when comparing predominantly state funded organisations with organisations depending mainly on self-generated resources. This might be attributable to the fact that, in this sample, organisations relying primarily on self generated resources are small in size, present a simple organisational structure and have no means to implement a market orientation strategy as a way of reducing uncertainty.

In a context within which competition for resources has increasingly intensified, it was expected that the adoption of a market orientation would benefit from a diversified revenue strategy, although the present study did not confirm this. This study provides a better understanding of strategies undertaken by NPOs so that adequate policies can be implemented to match organisational needs. Finally, it is hoped that the present analysis will pave the way for future research surrounding the effects of resource dependence on market orientation.

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