ALIGNING PROFIT MAKING ORGANISATIONS’ STRATEGY TO THE PUBLIC SECTOR FOR IMPROVED PERFORMANCE: MARKET ORIENTATION

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Abstract

This study is a review of the market orientation concept in relation to performance in the public sector. Related literature reveals a positive correlation of market orientation and public sector performance. Although the MARKOR scale, a process approach and the behavioural approach show a significant organisational performance in the profit making organisation, these models appear to have focussed mainly on generic issues in the public sector. The SERVQUAL instrument attempts to only gauge service delivery quality and not the implementation of the marketing concept which defines market orientation. This paper attempts to fill this gap by examining public sector benefits of market orientation. The contribution prompts public sector organisations to embrace market orientation and in turn enhance performance.

Keywords: Market Orientation, Public Sector, Public Officials, Private Sector

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1 Introduction

This paper reviews the market orientation concept, and how it can be implemented in the public sector. In the marketing literature, an entity is market oriented when it does market intelligence, disseminate this intelligence within the organisation, and use this intelligence to benefit its customers. This understanding of the market orientation, as collecting, disseminating, and using market intelligence in the public sector, underlies the discussion developed in this paper. Studies in the last decade highlight the importance of embracing the market orientation philosophy to the public sector context in response to fiscal austerity measures and environmental changes. The world over and Africa in particular, the public sector has been experiencing pressures such as tight monetary and fiscal policies, competition for resources, cutbacks in subsidies and donor fatigue.

The market orientation philosophy serves as a self-assessment tool for public sector departments to determine whether they are doing well or not. The analysis is especially relevant when linked to specific performance indicators. Thus, understanding market orientation in relation to departmental performance will help public officials to improve their effectiveness and efficiency. Studies that have been carried out in business organisations have established a positive relationship between market orientation and strategic business units’ performance indicators (Jaworski and Kohli, 1993; Slater and Narver, 1994). While such studies may not be applicable to the public sector organisations some modifications can be done.

This paper is organised as follows: research method, definitions of market orientation, theoretical background and successful market orientation in the non-profit sector highlighted. Practical and theoretical implications of market orientation to the public sector and criticism are discussed. Conclusions and recommendations for further research are made.

2 Research Method

The study is an analysis of empirical and theoretical studies conducted on the concept of market orientation. It is aimed at establishing the applicability of the concept to the public sector and the attendant benefits.

3 Definitions of Market Orientation

The concept of market orientation has been defined in several ways some of which are stated below:

- “We use the term “market orientation” to mean the implementation of the marketing concept” (Kohli and Jaworski, 1990:1)
- “Market orientation is the business culture that most effectively and efficiently creates superior value for customers” (Narver and Slater, 1990: 10).
- “Market orientation is the degree to which the different management systems of an organization are designed in a market-oriented way” (Becker and Homburg, 1999: 20)

As demonstrated by Kohli and Jaworski (1990), the marketing concept stands as a business philosophy and implementation of this concept refers to market
orientation. Accordingly, the most important characteristic of market orientation is the satisfaction of a customer. Amalia et al (2008:1058) had this to say, “...if academics consider consumer orientation the most important element of market orientation, managers are usually competitors oriented. Firms that focus on competitors in their market analysis are considered "marketing warriors". First, these "warriors" identify the target rivals, second they identify their own strengths and weaknesses and finally decide if they will keep pace or will stay ahead of the rest of the field.”

They conclude that, market orientation can be implemented by any type of an organisation, be it public sector or private sector.

4 Theoretical Background

The marketing approach appears to have evolved due to disappointment with earlier approaches focussed on production, product, and sales. This placed the product, goods, services and the organization in the centre. In contrast, Kotler (2002) and Siegal and Doner (2007), viewed the marketing approach as focussing on fitting the products and services to the customers.

Market orientation in one perspective concentrates on the behaviour of organizations when interacting with stakeholders and customers (Liao et al, 2001; Ormond, 2005).

In another perspective, market orientation put emphasis on values, norms and cultural perceptions of the organisation on matters of marketing (Narver and Slater, 1990). The third perspective focuses on managerial guidance and how tools are applied by management (Voss and Voss, 2000). In light of the market orientation scale (MARKOR) developed by Kohli et al (1993) three market orientation dimensions are defined. (1) Intelligence generation – Intelligence generation is the first of the three constructs as viewed by Kohli and Jaworski (1990). These authors provide a view that considers market intelligence as wider than stakeholders’ needs and preferences. It refers to the development of information that pertains to contemporary needs and expectations of the customers (Lees Marshment, 2001). (2) Intelligence dissemination- Second is the intelligence dissemination construct which recognises decision making in the context of organisational politics to spread market intelligence across departments. It also encourages these departments to adopt the marketing concept, sharing of information among departments in the organisation so that members are kept abreast with changes that occur in the environment and adjust according to the dictates of the environment (Kara et al., 2004; Sargeant, 1999) and, (3) Responsiveness - the response to changes in the environment by way of modifying existing ones or developing new ones (Cervera et al, 2001). Responsiveness, being the third is seen as the enabler of the two. Kohli and Jaworski (1990:7) argues that, “...unless it responds to market needs, very little is accomplished.”

Im and Workman (2004) contend that market orientation enhances organisational efficiency and effectiveness. This has been corroborated by Jaworski and Kohli (1993) who view market orientation as contributing to organisational innovation and change, and improve employee commitment to the organisation. Research has shown the role of market orientation (Wood; 2008) in developing public services whose material and financial resources continue to dwindle in the wake of increasing competitors (Mayntz, 2006). For Kaplan and Haenlein (2009) market orientation helps streamlining and innovation and (Clarke; 2006) it ensures accessibility of services to clients.

Public officials and employees of other service organizations perceive market orientation as alien to their domain (Andreasen and Kotler 2003) and associate marketing with the business world. As such, they are sometimes reluctant to adopt it. For Gotthelf (2005) there are no firms which are 100% market oriented, instead market orientation theories are idealistic. Pandelica et al (2008) do not necessarily agree with this affirmation, because many researchers demonstrate the importance of market orientation. Market orientation implies implementation of the marketing concept (McCarthy and Perreault, 1984) but Kohli and Jaworski (1990) argue that there is little effort shown by literature to develop an understanding for the implementation of the marketing concept. Further, extant literature appears to give less attention to factors that make a market orientation appropriate for a given type of an enterprise. However, several scholars and authors have highlighted the benefits of marketing and that non-profit organisations need to engage in marketing as well, these include Kester and Barns (1994); Collins and Glyptis (1992); Mokwa (1981); Walsh (1994); Novatorov and Crompton(2001) and Wakefield and Bush (1998).

Narver and Slater (1990 : 22 ) contend that performance for non-profit organisations is similar to "...survival, which means earning revenues sufficient to cover long term expenses and/or otherwise satisfying all key constituencies in the long run.” While this explanation was borrowed from the work of Kotler and Andreasen (1987), it appears no studies have been done in an attempt to evaluate a correlation or to consider the role and function of market orientation in the public sector.

4.1 Organisational Performance and Market Orientation

Two research models of market orientation emerge in the literature. One by Kohli and Jaworsky(1993) and the other by Narver and Slater (1994). According to Sinkula (1994), Kohli and Jaworsky use a process approach. The authors argue that market orientation
must involve the entire organisation than leaving it exclusively to the marketing department. The MARKOR scale, which they developed, is made up of three main components namely, intelligence generation, intelligence dissemination and responsiveness. The main focus here is the customer or stakeholder. In another model by Narver and Slater (1994) the model follows the behaviourist approach giving superior attention to a value for customers. This model has a bias towards organisational culture. Here, market orientation has three behavioural components which are customer orientation, competitor orientation and inter-functional coordination focussed on long-term basis and profitability. With respect to the public sector, they argue that the main focus should be survival of the entity by collecting revenues enough to cover long-term expenses or alternatively to satisfy all critical stakeholders in the long-run. Farrell (2002) notes that, following these two studies many authors attempted to improve the concept of market orientation and the scale to measure it, but the effect was insignificant.

4.2 Performance of Public Sector Organisations

Herman and Renz (1998) and Kanter and Summers (1987) single out the multiple constituencies model as one that is often used for performance analysis in most non-profit organisations. This model recognises that a multiplicity of stakeholders in a public sector organisation use different criteria to measure and evaluate its efficiency and effectiveness. However, these authors contend that, a social constructionism perspective should be combined with the multiple constituencies’ model about effectiveness criteria that may change with time. A social constructionism perspective involves stakeholders’ judgments, negotiations and agreements. For Wholey (1998), cost effectiveness, utility for decision making and quality of information form the basic characteristics for performance measurement.

The balanced scorecard also features among several frameworks for organisational performance measurement in the public sector and private sector. A Balanced Scorecard shows a balanced presentation of the entity’s financial and operational perspectives. These perspectives refer to customer satisfaction, internal processes, innovation and learning activities (Duque-Zuluaga and Schneider, 2008). The Balanced Scorecard was adapted by Kaplan (2001) to public organisations in order to satisfy the stakeholders including donors and for it to involve the whole organisation.

4.3 Previous Research on Non-profit Organisations (NPOs)

According to Duque-Zuluaga and Schneider (2008; 30), “Although various studies suggest adapting market orientation and organizational performance to NPOs, only few attempts have been made to actually develop concepts and measures that fit the non-profit context”.

These authors summarised a few studies that clearly adapted market orientation to non-profit organisations and the attendant empirical applications are shown in the table below.

The tabulated details show the nature of the study and those who carried the study and year. It then shows the measure of market orientation employed, the performance measures and findings. What is conspicuous from the table is the variation across the studies in the use of terminology and methods. The findings also vary depending on what was being studied and the locality in which they were conducted. In these studies Duque-Zuluaga and Schneider (2008) note that, the performance indicator mostly used has been fundraising or resource acquisition and that market orientation and performance varies from one sector to another. The studies by Voss and Voss (2000), as well as Padanyi and Gainer (2004) made an assessment of the multiple orientations on a variety of performance indicators in as far as the relationship of market orientation to performance measures is concerned. From the findings, Balabanis et al (1997)’s study shows a somewhat unclear relationship between performance and market orientation. It could be for that reason why market orientation adapted to the non-profit context is called societal orientation as postulated by Liao et al (2001).
### Table 1. Review of the Empirical Literature on MO and Organizational Performance in NPOs

<table>
<thead>
<tr>
<th>Study</th>
<th>Market Orientation</th>
<th>Performance Measure</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chan and Chau (1998) Children and youth centres of Hong Kong</td>
<td>Marketing orientation (MOI index) Customer philosophy Integrated marketing organ, adequate marketing info, strategic orientation, operational efficiency</td>
<td>Overall satisfaction (25 users in each centre)* Members currently registered in the centre* Financial subsidy received in 1994/95*</td>
<td>The MOI index is correlated to users’ satisfaction and financial resources</td>
</tr>
<tr>
<td>Gainer and Padanyi (2002) Canadian art and cultural organisations</td>
<td>Market orientation Market orientation activities Market oriented culture (activities affect culture)</td>
<td>Managers’ perceptions of customer satisfaction, resource acquisition and reputation among sector peers (compared to five years ago)***</td>
<td>Market orientation is strongly related to the three subjective performance dimensions</td>
</tr>
<tr>
<td>Kara, Spillan and DeShields (2004) Diverse non-profit organisations (NPOs) across the U.S</td>
<td>Market orientation (MARKOR scale) Intelligence generation Intelligence dissemination Responsiveness</td>
<td>Fundraising performance factor derived from 3 measures (continuous analysis of funding, proposal to funding sources, periodic fundraising)*</td>
<td>Strong direct effect of market orientation on funding efforts</td>
</tr>
<tr>
<td>Padanyi and Gainer (2004) Social services, arts and culture, and community support sub-sectors in Canada</td>
<td>Multiple market-orientation to clients and government funders Market oriented activities Market oriented culture</td>
<td>Clients: Same factors as in Gainer and Padanyi (2002)*** Government funders: Growth in resources* Growth in peer reputation*</td>
<td>Multiple market orientations co-exist independently. Most of the relationships in the two models are significant and vary across sub-sectors.</td>
</tr>
</tbody>
</table>


#### 4.4 Public Service and Marketing

Most public sector organisations the world over had a misconception that marketing management is a preserve for the private sector and for profit
organisations. From the viewpoint of Andreasen and Kotler (2003), evidence is abounding that most public officials are negative towards the term marketing. In addition, public officials tend to have discomfort embracing the concept of marketing, because many see their role more as caregivers to the public than marketing staff (Dearling et al, 1995). Perhaps the explanation could be the professed variance between the basic values of social service organizations in relation to those of the private sector that public officials are asked to adopt (Buurma, 2001). Lee-Treweek (1997) and Buroway, (1979) note that, new ideas and methods in the public sector such as market orientation, with their roots in the business sector revealed resistance to the change processes by public officials.

Contrary to those views, Boehm and Freund, (2007) observe that, increasingly research is recognizing the role of marketing as being beneficial to the public sector. Ewing and Napoli, (2005) share the same sentiments and view market orientation as an effective means for adapting to the changing environments. In the public sector, innovation is the successful implementation of novel ideas, which enables it to respond promptly to changing stakeholder needs (Osborne and Gaebler, 1992), and become more effective and efficient (Janssen et al, 2004). Innovation is therefore prone to the development of a market orientation in the public sector because its adoption process is not widely used by public officials and, second, marketing requires changes and new ideas to adapt the services to environmental changing conditions (Miron et al, 2004).

As defined by Boehm et al (2007), achievement reflects a desire for employees to advance and succeed in their careers, and this achievement orientation contributes to a market orientation (Lynn, 1998) Marketing in the public sector (Walsh 1994) is generally accepted although its expansion is considered peripheral. It appears there are many arguments in favour of marketing research in the world of public service although Cowell (1981) sees ethical problems for public entities. For instance, determining the demands of the public (Kerley, 1994), their wants (Burns, 1992) and needs (Blackman, 1994).

4.5 Service Quality in the Public Sector Defined

Beaumont-Kerridge (2001:75) notes that, “the literature on service quality and its application to marketing is vast.” This has resulted in service quality defined in many ways by both academic scholars and marketing practitioners. For instance, for Levit (1972) service quality includes conformance to expectations, Crosby (1979) conformance to requirements, Garvin (1987) uncompromising standards and high achievement. These views imply that, perceived good quality service is one obtained and experienced by customers and meeting their quality expectations. But invariably, what a customer sees as quality depends on factors like communication, corporate image and needs, or dimensions of expectations (Babakus and Inhofe, 1991). According to Parasuraman et al (1988) perceived quality is a customer’s judgement, or a form of attitude. This is a result of comparisons by consumers’ expectations of services compared against perceptions of actual service performance by an entity. Beaumont-Kerridge (2001:79) observes that, “This study of the relationship between expectations and perceptions has been used often by academic researchers in an attempt to understand customers’ service assessment and its role in the marketing process.” The SERVQUAL is an instrument which has generic applicability, developed and gained significant attention to measure service quality (Parasuraman et al, 1985). Other measures include the service value chain and modified SERVQUAL measures.

5 Successful Market Orientation In Nonprofit Sector

As noted by Sargeant et al, (2002) studies have since examined how the market orientation construct might have relevance for the non-profit sector with overwhelming evidence that the construct does have relevance, although some adaptation may be required. For instance, applying market orientation to the setting of Further Education Colleges (Siu and Wilson, 1998) the concepts of profit and competition have to be replaced with terms like ‘employee orientation’ and a ‘long term survival requirement.’ The education sector seems to have benefited immensely in the literature on market orientation. In the U.K, Stewart (1991)’s study of the market orientation of higher education argues it attracts and retains students. Similar observations were made by Kotler and Fox (1985) and Blackburn (1980). An abridged market orientation instrument, MARKOR was applied (Caruana, et al, 1998) to the public sector and public university. The result in the two scenarios was a positive relationship between market orientation and measures of performance. The same methodology was employed by Bennett (1998) in small to medium sized UK charities. The result was also a positive correlation between market orientation and fundraising performance. Hayden (1993) and George and Compton (1985) established the same relationship in two different studies carried out in the healthcare, a public sector. Whereas market orientation has been lauded for its role in the public sector it has met a number of criticisms.
6 Theoretical And Practical Implications To The Public Sector

Maier et al (2014) make a distinction between organisational performance and fulfillment of societal functions. They describe organisational performance as the fulfillment of its mission as well as securing of material, financial and human resources. On the other hand; societal functions are fulfillments that are external in nature.

6.1 Organisational Performance

Business-like approaches that are implemented in totality tend to yield stronger positive effects (Beck et al, 2008) to the public sector. Shoham et al (2006) conclude that, organizational performance is positively related to market orientation. However, extant literature shows that positive effects of market orientation are well documented, for financial resources (Levine and Zahradnik, 2012; Padanyi and Gainer, 2004).

6.2 Fulfillment of Societal Functions

Froehlich (1999) argues that, studies find that commercialization does not lead the public sector organization to move away from its mission, and that diversified funding may prevent mission drift. Commercial activities (Young, 1998) may even promote mission attainment. An opposing view has been found to this assertion (Maier, et al., 2014) in which business-like approaches may cause a drift away from community-building and advocacy towards service delivery (Keevers et al, 2012).

6.3 Knowledge, Subjectivities and Power

Maier et al (2014:14) contend that market orientation affords “...privilege to certain types of knowledge such as instrumental rationality, while devaluing substantive rationalities based on empathy, religion, aesthetics, and feminism.” This argument has also been made by Bromley (2010) and Keevers et al (2012). Business-like approaches may help stabilizing capitalist relations of power and accumulation. Becoming market-oriented fosters some neo-liberal subjectivities. For instance, (McDermott, 2007) beneficiaries are reframed as consumers and activists as entrepreneurs (Merz, 2012). Donors are reframed as investors (Vestergaard, 2013). Some players or actors may resist or partially adopt such new identities (Dey and Teasdale, 2013). Public sector organizations that are well resourced proactively adopting market orientation approaches and operate above expectations of the grassroots level, stand a chance of gaining power and popularity.

7 Some Criticisms on Market Orientation in the Public Sector

Certain terms used in the for-profit sector do not fit neatly in the public sector. The term market orientation itself implies an orientation towards business markets. Sargeant et al (2002:45) point out that, “Even though one could argue that nonprofits have a market for resource acquisition and a market for resource allocation, these are often not true markets in the economic sense of the term. For many, it would appear that, the term ‘market’ has a connotation that some form of exchange will take place between the supplier and the recipient of the products. It can be argued that an organization can supply their services and recipients exchange their need for service but, Foxall (1989) advocates for the use of the word matching in place of the word exchange in order make to bring clarity to a public sector situation. It is also apparent that the public sector, although concerned about customer satisfaction, it is more often more concerned with long term societal benefits. Customer satisfaction is not the only consideration in the public sector domain. Competition in the public sector is not as tight as it is in the for-profit organizations. The demand for goods and services (Bruce, 1998) in the public service can be very high so much that direct competition from other players may not warrant recognition by the general public. The competition highly pronounced is that of government ministries or charities bidding to secure funds from government. In view of these arguments, Sargeant et al (2002:46) posit that “…a nonprofit operationalization of the marketing concept should properly be termed ‘societal’ rather than market orientation.”

Conclusions and Recommended Further Research

Market orientation is about socio-economic activities that help achieve the organisation’s goals. The goals of the public sector are invariably diverse and assorted but bent on benefiting society as noted by González, et al, (2002) and Balabani et al, (1997). Perhaps, this explains why the performance management and measurement in the public sector is relatively cumbersome than in the private sector. Fisher(2004), Kendall and Knapp(2000) argue that this difficulty is presented by varied expectations from both internal and external stakeholders, unclear departmental outputs and expected outcomes, and the difficulty to measure success and failure in monetary terms (Evans, et al, 1993). However, literature available reflects market orientation as a concept that can be pursued vigorously for effective and efficient public sector performance. There has been growing research on public sector and other non-profit organisations becoming business-like since the 1980s. More studies should be carried out in the various departments of the public sector and in different socio-economic and cultural set up. Most empirical studies appear to have been carried out in Europe and...
other continents while more should be done in Africa. Further investigation into the need for replacement of the term market orientation with the term ‘societal orientation’ might refine and extend theoretical understanding of less thoroughly understood issues. Meanwhile, public officials should develop market orientation strategies and run the public sector in a business-like manner in view of governments’ limited resources against growing populations and social demands.

References:


70. Miron, Ella., Erez, Miriam., & Naveh, Eitan. (2004). Do Personal Characteristics and Cultural Values that Promote Innovation, Quality and Efficiency Compete or