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**Market Orientation and Organizational
Performance in the Nonprofit Context:
Exploring both Concepts and
the Relationship between them**

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Market Orientation and Organizational Performance in the Nonprofit

Context:

Exploring both Concepts and the Relationship between them

Lola C. Duque-Zuluaga* & Ulrike Schneider+

The purpose of this paper is to explore the relationship between the concepts market orientation and organizational performance for nonprofit organizations. To understand the nature of this link in the nonprofit context, the authors will discuss and elaborate on the applicability of both concepts to nonprofits. They will develop multidimensional notions of “societal orientation” and “nonprofit organizational performance,” which fit the specific operating environment of nonprofit organizations engaged in the provision of health and social services. The authors also propose a conceptual framework that relates both notions and present the main underlying propositions. They conclude by suggesting items to empirically measure both constructs and venues for future research.

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Introduction

Recent studies highlight the importance of bringing the market orientation (MO) philosophy to the nonprofit context as an organizational response to current pressures and environmental changes. In the last two decades the nonprofit sector has been experiencing different pressures such as increasing control by the public sector and donors, competition for resources, and cutbacks in subsidies. These reasons make that nonprofit organizations (NPO) give special attention to performance measures and achievement of external goals in order to obtain new resources.

In the for-profit sector various studies have found a positive relationship between market orientation and organizational performance indicators (e.g. Jaworski & Kohli, 1993; Slater & Narver, 1994). As we can expect from studies focusing on for-profit organizations, their primary concern was to unravel the relationship between market orientation and a variety of profit performance measures, such as ROI, ROA, sales growth, market share and financial performance. The thesis behind these kinds of studies is that the more market oriented a firm, the more profitable it is. However, neither profit performance nor the concept of market orientation may be completely suitable for or applicable to the nonprofit environment:

In the nonprofit sector profit goals and profit performance indicators assume less importance. Nonprofit organizations may forego profit in order to contribute to other, overriding objectives such as output maximization (e.g. servicing the greatest possible number of needy people in a community) or quality maximization (James & Rose-Ackerman, 1986). Obtaining resources and profits for a nonprofit organization are just considered means to higher ends which ultimately serves the organizational mission (Anheier, 2000). Against this background, successful profit performance could be just one among a broader variety of NPO performance indicators, also covering non-monetary performance measures. The performance concepts and its measures should be modified in order to take into account particular characteristics of nonprofit organizations and their specific context (Liao, Foreman & Sargeant, 2001).

Similarly, market orientation may take a different flavor in the nonprofit context. Both, service-oriented and “expressive” or “representational” NPOs face “customers” who in some instances are not able or willing to pay for the services offered. Many times, services are provided for free, using funding raised from private or public donors. In these cases consumers differ from funding agents so that there are two groups which need to be convinced of the services offered. Input and output markets are hence intertwined in a very special way, which should be captured by indicators of market orientation.

Given that the meaning and relevance of market orientation and organizational performance differ between nonprofit and for-profit organizations, the functional link between both concepts could differ from the for-profit context as well. Accordingly, the main purpose of this paper is to explore the relationship between market orientation and organizational performance for nonprofit organizations. To understand the nature of this link in the nonprofit context, we discuss the adaptation of the two concepts: “market orientation” and “organizational performance” to NPOs and propose a conceptual framework that relate them.

The article is structured as follows: section one reviews previous research on the relationship between market orientation and organizational performance in the NPO context. Next we discuss how each of the two concepts as such have been and could be adapted to NPOs, developing multidimensional notions of “social orientation” and “organizational performance”. Section four proposes a framework that relates these concepts and makes some suggestions for empirical work in the line of the model. Finally, we present the discussion and future lines for research.

1 Previous Research

While various studies highlight the importance of market orientation and organizational performance and their adaptation to the NPO context, only few attempts have been made to actually develop concepts and measures fitting the nonprofit context. As Alvarez, Santos & Vasquez (2002) note, the number of pertinent studies is significantly lower than in the for-profit context. We first present briefly six studies that explicitly try to adapt both concepts for application in the nonprofit context. Against this backdrop, we will identify conceptual gaps and key points for improvement. The first study is concerned with charity organizations, a second study for the hospital context, two for artistic organizations, and the last two studies refer to various NPO activities.

Balabanis, Stables & Phillips (1997) studied the donor-market orientation in the top 200 British Charity organizations and its impact on performance. They adapted the MARKOR scale (Kohli, Jaworski & Kumar, 1993) that comprises intelligence generation (collection and evaluation of information about governmental and corporate donor needs and preferences, etc.), intelligence dissemination (information processing and sharing the information within the organization), and responsiveness (action taking, planning and implementation of programs towards the donor market). Four performance indicators were assessed: two judgmental which are supposed to measure effectiveness (achievement of short-term objectives and achievement of long-run objectives), while the other two are supposed to measure efficiency (expenses to donor contribution ratio and variation in number of volunteers). Donor-market orientation data was collected in two points of time (1989-past and 1994-present). Performance indicators were related to past and present donor-market orientation separately. Balabanis' at al. findings suggest a lag effect between donor-market orientation efforts and these performance indicators, since no relationship was found between present donor-market orientation and the four performance indicators, but past donor-market orientation was affecting achievement of both short- and long-term objectives.

The second research study by Chan & Chau (1998) studied the relationship between marketing orientation and four performance indicators in a group of children and youth centers of Hong Kong. They point out that the marketing orientation concept is applicable to nonprofit organizations as well. The authors adapted the rating instrument to measure organizations' marketing orientation degree that was designed by Kotler (1997). This instrument consists of five dimensions: customer philosophy, integrated marketing organization, adequate marketing information, strategic orientation and operational efficiency. The various question scores of these dimensions are summed up creating the marketing orientation index (MOI). The four performance indicators studied were: 1) overall satisfaction level of 25 members in each

center based on 5P's marketing aspects (people at the center, promotion, product, price and place), 2) number of members currently registered in the center, 3) financial subsidy received in 1994/95, and 4) paid staff in 1994/95. Correlation analysis was performed between the MOI and each performance indicator. The results show that the children and youth centers with a higher degree of marketing orientation are also better able to satisfy their target groups and to attract more financial resources. No statistically significant relationship between marketing orientation and the other two performance indicators emerged in this study, which could be due to the small sample size or the wording of performance indicators. It would be insightful to replace indicators 2 and 4 for members' retention rate and number of volunteers, respectively.

The third study by Voss & Voss (2000) for nonprofit theatres uses the strategic orientation concept proposed by Gatignon & Xuereb (1997). This multidimensional construct captures product orientation, competitor orientation, customer orientation and inter-functional coordination. The four components were related to various performance measures divided into subjective and objective ones. The study, which used a moderated regression analysis, found ambiguous results; some of them support the for-profit literature findings (positive relationships between inter-functional coordination and objective measures, and between competitor orientation and some objective measures), while others do not. The most interesting result that contradicts the literature is a negative effect of customer orientation on objective performance measures (subscriber attendance, total income and net surplus/deficit) and subjective ones (manager's perception of how well their theaters were doing compared with peer organizations in season subscription sales and manager's perception of overall financial performance). This means that customer orientation may not be desirable in the nonprofit professional theater industry. The authors attribute this finding to nonprofit goals, particularities of the industry such as intangibility and artistic innovation, and difficulty to articulate customer preferences given that buyers expect to be surprised.

Gainer & Padanyi (2002), following the suggestion of Hurley & Hult (1998), studied market orientation in Canadian arts and cultural organizations as two different components: market-oriented activities (implementation of market-driven activities into marketing plans) and market-oriented culture (organizational culture). This study imposes a structure between these components. Market-oriented culture was mediating the relationship between activities and organizational performance. Then, market-oriented culture was linked to three out of four organizational performance dimensions proposed by Herman (1990). They are customer satisfaction, resource acquisition and reputation among sector peers. The outcome dimension (the fourth one) was not included in this study because of (1) the difficulty to define and measure the multiple outcomes in the artistic field, and (2) as Herman & Renz (1997) noted, practitioners and experts in nonprofit organizations do not rely on bottom line outcomes, but prefer evidence that they are doing things well (and this is supposed to be captured by the three performance dimensions). Gainer & Padanyi (2002) proposed some relationships between the three performance dimensions: resource acquisition is affected by customer satisfaction and reputation, while the latter is affected by customer satisfaction as well. These performance dimensions were measured as manager's perception of current performance compared to a benchmark of how the organization was doing five

years ago (subjective performance measures). The authors found support for their hypothesized relationships: market orientation was strongly related to the three performance dimensions.

The fifth study of Kara, Spillan & DeShields (2004) relates market orientation and fundraising performance in a variety of NPOs. They give some explanations for focusing on fundraising performance based on other studies: (1) nonprofit organizations must market their services to attract resources and to obtain funds for survival, and (2) to avoid the problem of trying to measure service performance from the users' point of view. Market orientation was measured adopting the Kohli, Jaworski & Kumar (1993) proposal (i.e. MARKOR scale), and fundraising performance was measured by means of three indicators: conducting continuous analysis of funding, request for proposal (RFP) to funding sources and periodic fundraising. Using structural equation modeling, these authors found a strong direct effect of market orientation on fundraising performance.

The last study by Padanyi & Gainer (2004) takes into consideration various NPO constituent groups. The authors developed a multiple market-orientation concept which states that a NPO can exhibit different degrees of market orientation toward different constituencies. In this study they developed two models for two specific orientations toward clients/customers and government funders. The first model has the same structure proposed in their previous study (Gainer & Padanyi, 2002), while the second model studied government funder-oriented activities and culture, relating them to two performance dimensions: growth in resources and growth in peer reputation. Both models were applied to three NPO sub-sectors in Canada: social service, arts and culture, and community support. The authors found that multiple market orientations co-exist and are independent of each other, i.e. a NPO can have different levels of orientation toward each constituent group and treat them as distinct entities.

In summary, we can see that terminology, methods and findings are mixed. The adaptation degrees of the market orientation concept to the nonprofit context are different, some use a one-dimensional construct, others use up to four dimensions to represent market/strategic orientation, and others develop more specific market orientation concepts (donors or customers). The performance indicators are different as well. The studies mainly use subjective or judgmental indicators. Three studies used objective measures, and two of them found a significant relationship to market orientation. The performance indicator used most has been fundraising/resource acquisition. When relating market orientation to performance measures, only the studies of Voss & Voss (2000) and Padanyi & Gainer (2004) assessed the effects of multiple dimensions/orientations on various performance indicators. One study (Balabanis et al. 1997) points to a lagged relationship between market orientation and performance. Also, there is some indication that the link between market orientation and performance varies by industry. In short, the studies signal that the market orientation concept is interesting for the nonprofit sector, offering a background for organizational analysis and assessment, but the NPO context requires and deserves a deeper adaptation and development of both concepts.

2 Adapting Market Orientation to the Nonprofit Sector

2.1 Importance of market orientation philosophy for nonprofit organizations

The philosophy of market orientation is basically to understand the organization's environment and the changes occurring in it so that strategy and activities can be adapted to achieve its organizational mission. This philosophy is appropriate for almost any organization, and taking into account the various changes that NPOs are going through, it becomes an interesting tool to take advantage of. But as many authors suggest, the concept needs to be adapted to the NPO sector and to the particularities of NPO activities.

The mission of nonprofit organizations are assorted, they can be roughly summarized as relieving or benefiting society (Balabanis, Stables & Phillips, 1997; Alvarez, Santos & Vasquez, 2002) and involves aspects of equity, value considerations, compassion among others (Anheier, 2000). Nonprofit organizations play an important role in communities by offering services considered important for the society such as health, social welfare, and education, among others (Henderson, Chase, & Woodson, 2002; Liao, Foreman & Sargeant, 2001; Kara, Spillan & DeShields, 2004).

In achieving these kinds of missions NPO has to monitor the environmental forces acting directly on it or on its key constituent groups. Major environmental forces include: legislation, the behaviors of potential and current collaborators, intermediaries and providers of services. As Anheier (2000) points out, NPOs have a more complex environment than for-profit organizations. Key constituent groups encompass (1) users or beneficiaries, who receive their service, and (2) donors providing funding for the service or voice activities being offered. In the case of NPOs relying heavily on unpaid labor, current and potential volunteers form another key constituency.

The market orientation philosophy appears to contribute to both organizational mission and sustainability (Padanyi & Gainer, 2004). It constitutes a self-assessment tool to know whether the organization is doing well, and, if so, in which aspects. The market orientation approach takes relevance when it is linked to performance indicators because the analysis would suggest where to focus efforts in order to obtain better results in terms of effectiveness and efficiency.

2.2 Definition of the Market Orientation concept

There are two dominant research streams of market orientation (MO) in the literature. The first one from Ajay Kohli and Bernard Jaworsky is based on a process (Sinkula, 1994). They define MO as "the organizationwide generation of market intelligence pertaining to current and future needs of customers, dissemination of intelligence horizontally and vertically within the organization and organizationwide action or responsiveness to market intelligence" (Kohli, Jaworski & Kumar, 1993, p.467). The authors initially treated MO as the application of the marketing concept, but latter pointed out that MO is a philosophy in which all the organizations must be involved. They developed the MARKOR scale which consists of three main components titled: intelligence generation, intelligence dissemination and responsiveness, being the customer their main focus. Methodologically, the authors suggest maintaining

the three correlated MO components and one general MO factor. This approach permits to study each component by using the three subscales.

On the other hand, John Narver and Stanley Slater have continued their MO research that stresses organizational culture. They define MO as “the organizational culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and, thus, continuous superior performance for the business” (Narver & Slater, 1990, p.21). It comprises three behavioral components (customer orientation, competitor orientation and inter-functional coordination), a long-term focus, and a profitability focus. For nonprofit organizations, the authors translate them to survival, this is, obtaining revenues sufficient to cover long-run expenses or otherwise to satisfy all key constituencies in the long-run. Methodologically, the authors found that the three components are strongly correlated (presenting discriminant and concurrent validity as well) and use one single MO measure as the simple average of them.

Although both the definition and development of scales have many similarities, the Narver & Slater’s proposal is more related to strategy and the creation of competitive advantage. In this vein Lado, Maydeu-Olivares & Rivera (1998) propose a scale of nine MO components that take into account market participants (customer, distributors, competitors and environment), stages of MO process (analysis and strategic actions) and inter-functional coordination. They found one overall MO factor and another factor representing context particularities, i.e. specificities of the countries where the scale was validated. After these studies, many authors have tried to improve the concept or the scale to measure market orientation, but they added little to the literature (Farrell, 2002).

2.3 Key features in bringing the MO philosophy to the NPO context

The MO approach can offer benefits and some counterproductive effects to NPOs. The main pro is the dynamic way of looking at different environmental forces, allowing NPOs to attract more resources, getting a good reputation between donors and better knowledge of beneficiaries/recipients, among others. In the cons part the MO approach can threaten the ability of nonprofit organizations to remain focused on their public service or on their “voice” missions (Non-profit sector strategy group, 2001) shifting their attention and getting closer to businesses.

A caring adaptation of this philosophy to the NPO context should look at eight key features to be presented below in order to develop an insightful tool for assessment and decision making. The first one proposes to use a more appropriate term for “market orientation” in the NPO context, namely “societal orientation”. Features two through five discuss various constituent orientations. Features sixth and seven are not related to specific constituencies, but to internal organizational capacity and processes. Finally, the eighth feature discusses the focus of “societal orientation” concept as compared to “market orientation”.

2.3.1 The term “market” is not convenient for nonprofit organizations. Hansmann (1980) notes that one of the NPOs’ roles in society is to cover market failures. On the other hand, the economic sense of market implicitly refers to price, exchange, demand and supply, which take different meanings in the NPO context. We agree with the terminology proposed by Liao, Foreman & Sargeant (2001), who point out

that the adaptation of the MO philosophy to nonprofit organizations should be called Societal Orientation. The authors suggest this term based on Kotler & Levy's (1969) definition of marketing in the nonprofit sector (sensitively serving and satisfying human need), and note that it avoids confusion with for-profit business concepts, while enhancing NPOs reason for existence: betterment of society.

2.3.2 Customer Orientation as it is used in the for-profit sector may not work for a number of nonprofit organizations. In the case of social services, nonprofits serve disadvantaged groups who at times are not even interested in using the service in the first place. Even if they are, social services can be characterized as credence goods or "trust goods" (Darby & Karni, 1973). Even after using the service it is difficult for customers to judge its quality. In this case, the customers have to either rely on (trust in) the integrity of service providers or include experts or substitute decision-makers in their service choices. Substitute decision-making is also common, when beneficiaries face an emergency or psychic illness. As a consequence, "customer orientation" component should be wider in the NPO context, covering disaster victims, passing through beneficiaries, users, consumers, substitute decision-makers who take decisions for consumers, until clients. We will call it Beneficiary or Recipient Orientation. It is important to define the role of those who receive the NPO service in determining the best way of assessing the benefit they are experiencing and who is in the position to evaluate it.

2.3.3 As it was pointed out before, Donor or Resource Acquisition Orientation is necessary for mission achievement of NPOs. The majority of MO studies have focused on this type of orientation. Although we acknowledge the importance of the resource acquisition orientation, we believe that it is only one of the multiple components of the Societal Orientation construct. It is important to look dynamically at the various entities for obtaining resources (government, private donors, foundations, corporations, call for applications, etc). This implies to (1) monitor the retention of current donors, and (2) searching for new ones. To retain current donors, a NPO has to take care of donors' desires. The latter were summarized by Evans & Berman (1993) as accountability on the part of the organization, recognition of their contributions, efficient operations and high success rates. To search for new donors or resources, a NPO must monitor its environment with regard to legislative changes, news about cutbacks, and also has to pay attention to new calls for applications.

2.3.4 Some studies have suggested taking into account employee orientation in the MO framework (Jaworski & Kohli, 1993). Given that nonprofit production is labor intensive and that the quality of the many service outputs depends crucially on the quality of the labor input and worker motivation, this suggestion assumes even higher relevance. In addition, one of the main features characterizing nonprofit organizations is the voluntary input in their activities and management (Salamon & Anheier, 1997). Hence we consider that Volunteer and Employee Orientation is a relevant component of the Societal Orientation construct.

2.3.5 We agree with Liao, Foreman & Sargeant (2001) in that Collaborative Orientation should be a crucial component of the Societal Orientation construct. Cooperation can be considered as one of the fundamental characteristics of the nonprofit sector. According to failure-performance and interdependencia theories of the nonprofit sector (Ben-Ner & Gui, 2001), NPOs come to existence

because either the market or the government fail to provide the appropriate amounts or qualities of certain goods or services. In economic theory, the underlying logic or “modus operandi” of the market is competition. Hence, market failure also points to a weakness of the competitive approach in allocating goods or services. The government is considered as an alternate institution for the allocation of goods which builds on democracy (e.g. elections) hierarchy (e.g. government bureaucracy). Thus, if public authorities fail to meet societal needs, either democracy or hierarchy may not have performed well. Cooperation can then be thought of a third kind of logic, in allocating goods and services. We hold that this logic is more prevalent in the nonprofit sector than in the government or for-profit sectors. Self-help groups or mutual insurance funds illustrate this idea. A cooperative stance is directly linked to the existence and survival of NPO. Partnership can ensure continuity of operation, increase NPOs’ capability of solving problems and contribute to improving the efficiency of service delivery. NPO cooperators could be its own members, clients (through a process of user participation in producing outputs), government, other NPOs, local and international businesses, corporations, etc.

2.3.6 There are other two interesting concepts which could be included in the Societal Orientation construct. The first one is social entrepreneurship, which Mort, Weerawardena, and Carnegie (2003) consider as a behavioral characteristic expressed within a social organization, reflected in four aspects: (1) the organization is driven by a social mission of creating better social value, (2) social entrepreneurs demonstrate the ability to form balanced judgments and a coherent unity of purpose and action in the face of complexity, (3) recognition of opportunities to create better social value, and (4) social entrepreneurs’ decision making display innovativeness, proactiveness and risk taking propensity. Lee (2002) explains that social entrepreneurship could be a good idea for NPOs if it is taken in moderation, i.e. giving the right weight to profits and business management. This is why we propose considering as well a second concept: organizational learning capacity. As Slater and Narver (1995) and Mort, et al (2003) point out, that entrepreneurship is possible in an organizational setting within a learning orientation. For nonprofits, the interaction between these two concepts would constitute a dynamic way of management improvement and decision making. Implicitly, it could guide the right NPO role in society. Thus, we consider that Learning and Social Entrepreneurship could be an appropriate component of Societal Orientation as well. This component, in terminology of Kendall & Knapp (2000), would comprise the NPO assessment of dimensions such as Equity and Innovation.

2.3.7 Inter-functional coordination has been found to be related to other MO components in for-profit and nonprofit organizations. Inter-functional coordination is not a special feature of for-profit organizations, but for any kind of entity to perform better. In the NPO sector it takes relevance because of the many constituencies related to it. NPOs need coordination in strategy and activities not only inside the organization, but in a greater extent: from the board to temporal volunteers. Inter-functional coordination in the NPO sector should comprise coherence and alignment between strategy and mission, planning of campaigns and activities, and synergic work between departments, employees and volunteers.

2.3.8 Customer, profitability and a long-term perspective have been the primary focus of the MO concept in the for-profit sector. Narver & Slater (1990) explain that survival is the analogous to profitability. A

long-term perspective is also an important objective which applies to NPOs (Alvarez, Santos & Vasquez, 2002); but more than survival and long-term focus, NPOs have a more important objective: their particular mission. As Kaplan (2001) points out, it is critical to take into account the mission to develop every strategy, program, campaign or activity; this represents the accountability between a NPO and society. Thus, Mission summarizes the Societal Orientation construct's focus.

2.4 Societal Orientation Construct

Based on the previous discussion we will define Societal Orientation (SO) as the organizational belief and culture that create and align behaviors for offering/delivering services that are worthy for society, thus fulfilling the nonprofit organizational mission (focus). From the discussion we deduce that Societal Orientation comprises the following six behavioral components:

Beneficiary or Recipient Orientation refers to the identification of the service beneficiaries (who are usually disadvantaged or neglected in economic, social or political terms), to the understanding of their situation and needs, and to the development of programs and activities which are valuable for them.

Donors or Resource Acquisition Orientation refers to the dynamic monitoring of current and potential sources of NPO financial support, namely private and government donors. This process includes implementing activities in order to retain current donors and attracting new financial resources.

Volunteer and Employee Orientation refers to the strategic process of obtaining and maintaining motivated human resources, taking into account their perceptions and suggestions for the NPO planning, where volunteers represent a unique and key resource for NPOs.

Collaborative Orientation refers to the process of looking for convenient partnerships to cooperate in either better provision of services, lobbying or resource acquisition.

Learning and Social Entrepreneurship refers to the organizational capacity of consciously assessing NPO overall performance and environment opportunities in an innovative and proactive way, and to the continuous comparison to other benchmarks in order to learn from its own and other's experiences.

Inter-functional Coordination refers to the extent to which every activity is synergistically contributing to the organizational mission. It implies coherent planning, information sharing across all NPO members, and alignment of strategy and programs.

3 Organizational Performance Measurement in Nonprofit Organizations

3.1 Importance of organizational performance measurement for NPOs

The establishment of performance indicators has been a practice in continuous growth during the last decades. The basic benefits of introducing performance measurement into organizational planning and decision making activities are: (1) it allows obtaining organizational feedback and the identification of changes over time, (2) it offers standards or comparison references as benchmarks for the organization

itself and constitutes an informed base to make organizational decisions, and (3) it serves as a signal for public and stakeholders' assessment of NPO operations

The most used indicators in the for-profit sector are financial ones. Objectives are more complex in NPOs because success or failure cannot be measured strictly in financial terms (Evans & Berman, 1993). In the nonprofit sector, financial performance is just one of the goals or means that NPOs pursue. Many authors have pointed out that NPO performance indicators should be wider, covering the very different goals NPOs are supposed to achieve. The major goals for NPOs relate to quantity and quality of the goods and services they are delivering (Hansmann, 1987). Some NPOs focus on maximizing certain types of inputs rather than outputs, others may maximize revenues. Still others focus on lobbying societal issues, aiming at a maximum political impact. In essence, the ultimate goal of an NPO might even consist in becoming redundant. The multiple goals of NPOs address to a multidimensional way of measuring performance (Herman & Renz, 1999b; Sowa, Selden & Sandfort, 2004; Fishel, 2004).

3.2 Definition of Performance concepts

For understanding performance proposals and studies, it is useful to be aware of two different vantage points for a discussion of "performance". To begin with, there are theories or models of organizational effectiveness that guide the development of performance indicators. Next, there are two levels of analysis; namely the organization on one hand and programs on the other. At the organizational level there exist performance systems and frameworks that involve the complete organization and suggest how to analyze various organizational dimensions. While at the program level, the analysis is done by studying different aspects of a specific program that a NPO carries on ("program performance").

Cameron (1986) summarizes eight commonly used models of organizational effectiveness. One of them, the competing values model (CVM) comprises the following four models: rational goal, open system, internal processes and strategic constituencies (the last one is also called "ecological", "human relations" or "participant satisfaction" model). Rojas (2000) explains that this CVM could be useful for comparing for-profit and nonprofits organizational performance. But for specific nonprofit performance analysis Herman & Renz (1998) point out the multiple constituencies model as the most useful, which should be combined with a social constructionism perspective. These authors conceive the multiple constituencies model as a modification of the goal model, recognizing that multiple stakeholders of an NPO are likely to use different criteria (rational goals) to evaluate its effectiveness. On the other hand they refer to social constructionism as the stakeholders' judgments, agreements and negotiations about effectiveness criteria that may change over time.

On the organizational level, performance measurement systems constitute a way for observing, reporting and using performance measures in decision making (Poister, 2003). Wholey (1998) singled out the following characteristics of a performance measurement system as the most important: quality of information (valid and reliable), utility for decision making, and costs (it should not be too costly in terms of management and staff time to collect data, analyze it, etc.). Among the various frameworks for organizational performance measurement the Balanced Scorecard (BSC) stands out. This framework

shows a balanced presentation of the organizational financial perspective and the operational one (customer satisfaction, internal processes, and organization's innovation and learning activities). Kaplan (2001) adapts the BSC to NPOs. The author suggests that the highest level of an NPO scorecard should be its mission (which must drive the organizational strategy). Next, a NPO should develop processes in order to satisfy donors and recipients or beneficiaries. Finally, a complete involvement of the entire organization (people, communication, working together, etc.) is needed. The Annual Impact Monitoring and Evaluation System (AIMES) is another framework or tool developed by Henderson, Chase & Woodson (2002) for the Christian Children's Fund. The authors point out that this tool can be adapted to other NPOs by following a series of steps, which are very similar to those suggested in the BSC.

At the program level, it is worthwhile to mention Poister's (2003) method to measure performance. This method is based on a program logic model that clarifies the desired short- and long-term outputs and outcomes of the program. This makes it easier to identify the most relevant measures of program performance. In short, the program logic model starts taking into account the resources used to carry on program activities. Program activities generate outputs, which again contribute to program outcomes. The outcomes can be classified into initial, intermediate and (final) long-term outcomes. The latter are supposed to be the program's ultimate objectives.

Using theories, models, or frameworks as guidelines, academics and practitioners have developed a range of measures for organizational and program-performance. The logical way is to set the unit of analysis (organization or program), identify the aspects or dimensions to be evaluated in accordance with the organizational mission or strategy, and then to develop measures that capture those dimensions. Some dimensions studied in NPOs are objective fulfilment, job satisfaction, resource acquisition, management capacity, adaptability, and service quality, among others (Pounder, 1999; Griggs, 2002; Poister, 2003; Sowa, Selden & Sandfort, 2004). Finally, it is important to clarify that the criteria to assess performance dimensions could be objective (e.g. financial figures, number of beneficiaries, etc) or subjective (e.g. judgments based on interviewed perceptions). Objective and subjective measures offer complementary information which is useful to understand and evaluate performance (Selden & Sowa, 2004).

3.3 Performance Measurement in the NPO sector

Performance measurement can be very helpful for NPOs if it is developed and used in the appropriate way. The main problems in measuring performance in NPOs have been the various stakeholders leading to different priorities (Fishel, 2004; Kendall & Knapp, 2000), having an unclear definition of the NPO strategy, the monitoring of outputs more than outcomes (due to the difficulty to measure some organizational outcomes²), and the lack of alignment between mission and programs (Kaplan, 2001).

As various authors note, there is no agreement concerning the specific performance dimensions that must be assessed in the nonprofit sector. Based on a wide literature review, in the next two subsections we try to integrate suggestions and research findings in order to propose a formal definition of nonprofit organizational performance and its dimensions. Each dimension will be discussed briefly, before suggesting ways to measuring them.

3.3.1 Nonprofit Organizational Performance Construct

We will define Nonprofit Organizational Performance (NPOP) as a social construction that takes into account stakeholders' expectations, organizational values and mission to define the base or criteria that will guide organizational assessment. Trying to encompass the multiple constituencies' interests and with the intention of offering a useful assessment framework for decision making, we suggest studying seven nonprofit organizational performance dimensions. Six dimensions refer to organizational and program effectiveness, while the last one refers to organizational efficiency. They are: (1) Beneficiary or Recipient Response, (2) Financial Stability and Resource acquisition, (3) Volunteer and Employee satisfaction, (4) Responsiveness Assessment, (5) Long-term outcomes, (6) Program outputs and intermediate outcomes, and (7) Organizational efficiency. As some authors point out (e.g. Cameron, 1986; Herman & Renz, 1999b), the criteria for each dimension must be adapted to the specific NPO context and to the stakeholders' agreement on desirable results.

3.3.2 NPOP Dimensions: discussion and suggestions for measuring them

3.3.2.1 Customer satisfaction has become a very important measure of service delivery in the for-profit sector. It explains not only organizational performance but also customers' repurchase intentions and loyalty (Oliver, 1997). In the nonprofit sector many authors have suggested evaluating customer satisfaction as a key dimension of NPO performance. As we discussed before, users or beneficiaries of the services provided by NPOs sometimes are not able to evaluate service consequences and sometimes they realize the service benefits only much later. This does not mean, however, that NPO benefits can not be assessed from the users' point of view but that this evaluation should be made carefully, and might involve substitute decision makers. We prefer calling this performance dimension Beneficiary or Recipient Response, which could be assessed with different measures depending on the NPO type and mission. In some cases it could take the form of satisfaction, attendance, participation, improvement reported by a user's supervisor, among others.

3.3.2.2 The financial performance dimension has received much attention in NPO studies. In fact, some studies focus only on its measurement, explaining that this is the most important goal pursued by NPOs or because it is easy to be captured. As we noted before, it is a necessary dimension for assessing NPO performance, but not a sufficient one. According to Cameron (1986), performance indicators must be appropriate to their context. Thus, depending on the NPO activity or financial structure, some indicators would be preferable to others. Some NPOs would like to monitor resource acquisition (some studies give monetary value to volunteers work as input resources), fundraising, financial health or stability, but others would prefer running a deficit in order to take advantage of tax exemptions or deductions. Tuckman & Chang (1991) propose studying financial vulnerability or conversely, financial flexibility to respond to program cutbacks or financial chocks. A financially flexible NPO is one with access to equity balance (assets higher than liabilities), many revenue sources, administrative costs which could be cut without affecting programs' administration, and positive operating margins. Hager (2001) found that although those measures do not apply to all NPOs, they are good predictors of their survival or closure. Trying to encompass various measures we will call this dimension Financial Flexibility and Resource acquisition.

3.3.2.3 Job Satisfaction of Volunteers and Employees is crucial for various NPOs, and even more when they deal with social services. Because many NPOs' missions are related to benefit or relief society, intrinsic and extrinsic personal motivations take higher relevance. In a cross-country study, Benz (2005) compared employees' satisfaction in the for-profit and nonprofit sector. This author found evidence that nonprofit workers obtain a particular satisfaction from their jobs, not given by monetary compensation or individual heterogeneity. This satisfaction seems to be given by specific NPO working conditions. In the nonprofit sector the determinants of human resources' motivation are mixed. On the one hand, volunteers are highly motivated by intrinsic values, personal recognition and realization, social interaction, sense of debt or obligation, and altruism (Varner, 1983; Mitchell & Yates, 1996). On the other hand, although employees can be motivated for the NPO mission, they value monetary compensation to remain working for it (Brown & Yoshioka, 2003). Job satisfaction in the nonprofit sector could be assessed as the employees' identification with the organization and its mission, full participation in activities or – to put it in a negative way – absenteeism and fluctuation; in the case of volunteers, the willingness to collaborate in the future, among others.

3.3.2.4 According to Herman & Renz (1999a, 1999b) it will be very appropriate to use a measure of responsiveness as an indicator of organizational effectiveness. The authors based this suggestion on a panel study where three different stakeholders were asked about their perceptions of organizational effectiveness. The ratings, in various items, displayed significant differences between the three groups (board, donors and funders), however the ratings were very similar when assessing organizational responsiveness. This instrument, developed by Tsui (1984) asked respondents about how well the NPO had been doing on whatever was important for them. Jaworski & Kohli (1993) treat responsiveness as a component of MO, meaning action taken to respond to market needs. In the nonprofit sector it would take a similar meaning, but Herman & Renz refer to responsiveness as the stakeholders' satisfaction with organizational responsiveness. Then, to avoid confusions, we will call this performance dimension Responsiveness Assessment. It could encompass the general perception of the NPO adaptation to environmental changes and stakeholders' needs and expectations.

3.3.2.5 It has been clear from the literature that there are different levels of objectives achievement. They can go from outputs, short term outcomes up to long-term outcomes, which are supposed to contribute to the NPO mission. In order to consider these differences and to know if programs are aligned with the organizational mission, we propose two different dimensions to capture long-term and short term results. The dimension related to goal achievement will be called Long-Term Outcomes. It measures if the NPO mission is being achieved, and if strategies and activities are contributing to them. This dimension can be measured as NPO survival, percentage of main goals achieved last year, results in terms of social benefit or improvement, etc.

3.3.2.6 Another dimension, linked to the previous one, refers to the assessment of specific programs. We will call this dimension Program Outputs and Intermediate Outcomes. It could measure several objectives of specific programs: different kinds of outputs and intermediate outcomes. This dimension will offer relevant information to be compared to the previous one (long-term outcomes) in order to assess if a NPO

is doing well where it is supposed to do it. NPOs might be doing well in terms of program performance but less well in long-term performance, which constitutes a strategic gap. In measuring this dimension the number and variety of programs developed for a NPO need to be taken into account. If the number of programs is high, the most relevant could be chosen. This dimension should be composite, i.e. different facets of programs must be considered. The program logic model (Poister, 2003) as well as the field-by-field list of output-measures in the United Nation's Handbook on Nonprofit Institutions (UN, 2003; p.79) both constitute helpful tool for developing these programs' measures.

3.3.2.7 Torres & Pina (2003) point out that for obtaining complete performance information of NPOs it is necessary to develop measures that relate effort (inputs or financial and non-financial resources) to accomplishments (outputs and outcomes). This performance dimension will be called Organizational Efficiency. The efficiency concept underlying benchmarking models posits that an organization or program is efficient if it achieves to generate at least as many units of output with the same or a lower amount of resources than other, comparable decision making units. Determining efficiency with a benchmark model allows simultaneous consideration of multiple inputs and outputs. However, formalizing the benchmarking, as in the Data Envelopment Analysis (DEA) (see e.g. Vakkuri 2003) requires an appropriate data base. Therefore, (changes in) efficiency is (are) usually measured as (the changes over time) the relationship between outputs/outcomes and inputs. Because it should cover different organizational aspects, organizational efficiency must be a composite dimension. It can contain a complete combination of ratios that facilitate obtaining a proxy of internal operations quality and good management of resources. Implicitly, it captures management performance as well. Ritchie & Kolodinsky (2003) identified three NPO financial categories of measures that can be used in efficiency measurement: fundraising efficiency (total public support/fundraising expenses; total revenue/fundraising expenses), public support (total contributions/total revenue; direct public support/total assets), and fiscal performance (total revenue/total expenses; total contributions/total expenses). In the non-financial side could be: administration/costs ratio, variation rates in some categories like volunteers, time spent in achieving a unit of output, etc.

4 Societal Orientation and Nonprofit Organizational Performance

4.1 Relationship between SO and NPOP

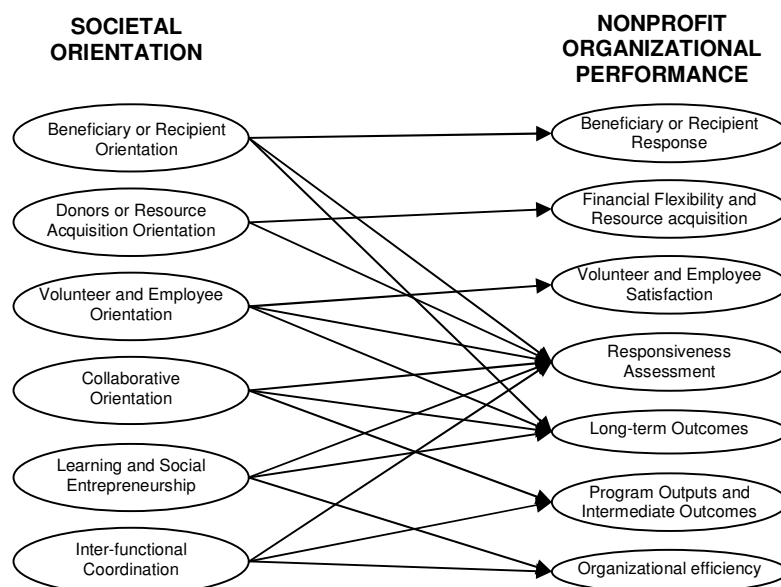
Sargeant et al. (2002) suggest that societally oriented organizations will achieve significantly higher performance in terms of mission achievement and efficiency than those without such an orientation. From our SO and NPOP definitions we can posit similarly that societally oriented NPOs (i.e. organizations behaving in a coordinated and proactive way to offer/deliver services that are worthy for society) will obtain better results in various organizational aspects (in line with criteria previously set) than those NPOs non-societally oriented. Going into more detail, we can state as well that some SO components (specific kinds of orientations, learning and social entrepreneurship and inter-functional coordination) will be directly and indirectly affecting some of the seven nonprofit organizational performance dimensions.

In practice, some NPOs may be more focused on just one or two components of societal orientation and perform better in just some dimensions of organizational efficiency. As an example, some NPOs could be focused just on donors or resource acquisition which could lead to a growth in resources or financial flexibility, but would not necessarily ensure that the NPO is offering better services to its clients, or that it is doing extraordinarily well in motivating and retaining employees and volunteers. We state, that those NPOs societally oriented are those taking care of beneficiaries, donors, volunteers and employees, searching for convenient partnerships, learning from experience, and working in a coordinated way at the same time. These NPOs are expected to be more efficient and effective in various organizational aspects.

4.2 Research Propositions

Figure 1 is a conceptual framework that relates the two concepts of interest. The framework comprises the two sets of factors. On the left hand side there are the Societal Orientation components, and on the right hand side there are the nonprofit organizational performance dimensions. Next, we will postulate the main research propositions derived from the literature and the discussion in previous sections.

Figure 1: Conceptual framework that relates SO and NPOP



P1: The greater the beneficiary or recipient orientation, the higher the (1) beneficiary or recipient response, (2) the responsiveness assessment, and (3) the long-term outcomes.

P2: The greater the donors or resource acquisition orientation, the higher the (1) financial flexibility and resource acquisition, and (2) the responsiveness assessment.

P3: The greater the volunteers and employees orientation, the higher the (1) volunteers and employees satisfaction, and (2) the responsiveness assessment, and (3) the long-term outcomes.

P4: The greater the collaborative orientation, the higher the (1) responsiveness assessment, (2) the long-term outcomes, and (3) the program outputs and intermediate outcomes.

P5: The greater the learning and social entrepreneurship, the higher the (1) responsiveness assessment, (2) the long-term outcomes, and (3) the organizational efficiency.

P6: The greater the inter-functional coordination, the higher the (1) responsiveness assessment, (2) the program outputs and intermediate outcomes, and (3) the organizational efficiency.

4.3 Notes for an empirical work

Testing the framework. In line with Padanyi & Gainer (2004), attempts to collapse data of constituent orientations should be avoided because each one has a distinct impact on organizational performance. Then, it would be very insightful to study each SO component in a separate way (not as one unique factor) because it could offer more detailed information. When relating SO components to performance dimensions, it is important to study if the former are independent, if not, then multicollinearity must be checked, for example using the VIF (variance inflation factor). In this line, it is useful to contrast the relationships with stepwise regression and OLS in order to avoid multicollinearity among the SO components and control variables. An alternative approach consists in using structural equation modeling (given the complexity of the model, the PLS methodology would be a good candidate for testing the framework). Among the control variables and/or moderating variables to be used in the analysis could be: environment turbulence, competition for resources, NPO size, type of NPO (activity), belongingness to networks, professionalism or formalization, funding structure (public, contracts, donations, etc), ideology of the NPO (social or economic), scope of activities (national or international), and number of institutions delivering the service. Going into the operationalization of each SO component and performance dimension, most of them seem to be reflective in nature, but performance dimension such as program outputs/outcomes and organizational efficiency must be modeled as composite constructs if it is desirable to capture complete information about them.

Questionnaire. Some of the items must be reverse-scored in order to minimize response set bias (Jaworski & Kohli, 1993). Using objective and subjective measures is important given that they provide different kinds of information. There are mixed results in the literature, thus it will be insightful using both kinds of measures in a separated way. Following the suggestions of Slater & Narver (2000), to avoid the problem of common response bias, SO items should be answered by one person in the NPO, while the performance items should be answered by another person. If possible, it would be better to obtain answers from the person most in contact with the specific dimension being measured, e.g. asking about job satisfaction directly to employees and volunteers or the human resources manager. To complete this approach the inter-rater reliability must be checked. When the questionnaire be ready, at least two pretests need to be conducted with practioners from the NPO context and academic experts.

Alternative analyses. Similar to the approach used by Harris & Piercy (1999), it would be interesting to identify various NPO clusters by main orientation. This analysis would help to know if there exists a special combination of orientations for a NPO to perform better. Because of the lagged effect found and suggested in some studies, it would be intriguing to conduct the same study at least in two points of time. Based on longitudinal data, the future mid- and long-term performance of organizations with different degrees of social orientation could then be predicted.

5 Discussion

Recently, the market orientation concept has attracted the interest of NPO researchers and practitioners. This concept comes from marketing management and some studies have shown that market oriented organizations achieve better performance. The interest for this approach in the NPO sector goes beyond financial performance, given that it constitutes a way for building up a good reputation and for maintaining or obtaining new resources for service provision. In this paper we followed suggestions of relevant authors who point out the importance of developing an appropriate adaptation of both, the Market Orientation (MO) and the Organizational Performance (OP) concepts to NPO particularities.

We first reviewed six empirical studies which applied both concepts to NPOs. We found that there is not a clear agreement in terms of concepts, terminology or methods for neither concept. From the review we noted that MO and OP offer very interesting approaches to be applied in the nonprofit context, even more when NPO realize the current changes in their environment. Those studies suggest key aspects to look at when adapting both concepts to the nonprofit context in an appropriate manner. Among others we highlight the importance of (1) studying a wider range of OP dimensions (the financial dimension is not sufficient for NPOs), (2) using objective and subjective measures to obtain complementary information about the organizational state, and (3) developing separate scales or measures for MO components and OP dimensions as they seem to be independent and because more detailed information can be provided for organizational decision making.

The MO philosophy adapted to the nonprofit context is called Societal Orientation (SO). This name was suggested by Liao, Foreman & Sargeant (2001). Our contribution in this matter was to advance the general and more specific MO and OP literatures by way of accounting for particularities of the NPO context, integrating authors' efforts, and proposing the following formal definition of the SO concept and its components: SO is the organizational belief and culture that create and align behaviors for offering/delivering services that are worthy for society, thus fulfilling the nonprofit organizational mission (focus). Then, we suggest six behavioral components SO can comprise, namely: social entrepreneurship and learning, inter-functional coordination and attitudes and behaviors geared to meeting the interests of beneficiaries, donors, volunteers and employees, and collaborators.

Developing and using correct performance indicators can help NPOs to improve their programs and to innovate in order to obtain results worthy for society. Therefore, we also discussed organizational performance measurement in the nonprofit context. We made a wide review of theories, models, and

frameworks used to measure organizational or program performance. In line with Herman & Renz (1998) and other authors we defined Nonprofit Organizational Performance (NPOP) as a social construction that takes into account stakeholders' expectations, organizational values and mission to define the bases or criteria that will guide organizational assessment. As Ritchie and Kolodinsky (2003) note, there is no agreement in the specific performance dimension or measures for nonprofit organizations. We made an attempt to integrate research efforts and proposed seven NPOP dimensions that can offer a rounded picture for assessing competent work in a NPO. Again, criteria for measuring each one can be developed considering the multiple constituencies' interests and the particular NPO context. They are: Beneficiary or Recipient Response, Financial Flexibility and Resource acquisition, Volunteer and Employee satisfaction, Responsiveness Assessment, Long-term outcomes, Program outputs and intermediate outcomes, and Organizational efficiency.

The last purpose of this paper was to propose a framework that relates Social Orientation and Organizational Performance. Figure 1 summarizes the postulated relationships between societal orientation components and nonprofit organizational performance dimensions. According to some researchers these components and dimensions must be studied individually. This responds to the multiple constituencies and their variety of interests. We do not suggest any hierarchy among the various SO components or NPOP dimensions since such a hierarchy can hardly be deduced from theory but would rather constitute a value judgment. Yet, we assume that the components and dimensions suggested interact with each other so that organizations should pay attention to all of them. In practice; NPOs usually are strongly working in some of the SO components and performing better in some NPOP dimensions. We sketched out some plausible relationships between societal orientation and nonprofit organizational performance in this conceptual framework, yet it is left to future research to identify the most relevant (or critical) interrelationships between particular components of SO and NPOP dimensions.

Future research could thus be focused on testing empirically this framework. Work on the SO components measurement is in a more advanced state than empirical work on NPO performance. We encourage researchers to work in the development of measures for each of the proposed NPOP dimensions. In particular, the two dimensions we suggested are composite; they are organizational efficiency and program outputs/outcomes. In testing the framework researchers could focus on specific activities or sub-sectors, allowing for the refinement of the framework and suggesting suitable control variables for each one. Another interesting line of research is to study causal relationships between the various SO components and NPOP dimensions. Interrelationships are very likely to occur among performance dimensions.

6 Notes

1. Market orientation (MO) and Marketing orientation are slightly different concepts. Initially MO was conceptualized as the marketing concept application. Later authors made clear that MO is a philosophy that involves the whole organization. Chan & Chau (1998), reviewed in the first section, are the only authors to study the adaptation of the marketing concept to NPOs, all others study market orientation.

2. A recent empirical study for Austrian NPO in the nursing home and hospital sectors shows that NPO managers held that while outcomes were more important for the success of their organization, they still need to advance the use of appropriate outcome measures. Overall, input-related measures and output measures still dominate the picture in performance assessments (Speckbacher & Wolfbauer, 2005).

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