This chapter on research methodology describes the various methods used in the study. Relevance of the study is elaborated first so as to set the background of the research. Research problem is discussed in the next section. Research objectives are also specified in this chapter. Conceptual framework containing the key variables under study and their hypothesised relationships are also presented. The chapter then proceeds to discuss the research methods.
4.1 Relevance of the study

Nonprofit sector has a crucial role to play in India’s economic and social development. India, with one-fifth of humanity, faces a myriad of challenges in its march towards economic and social progress. The country is home to 33% percent of world’s poor. A culturally and religiously diverse population with huge disparities in economic and social status and varying rates of economic progress complicates the task of addressing the issue of poverty alleviation and overall development. Enormous stress on natural resources and fragile environment is a cause for great concern in the country. It is against this background that the role of nonprofit sector in the country must be discussed. Nonprofit organisations are generally perceived as effective mechanism in many social fields because of their close proximity to the local community, better operational cost efficiency and organisational flexibility. Government alone cannot effectively address the complex economic, social, and environmental issues begging for solutions in the country. An active and efficient nonprofit sector is thus an absolute necessity in this scenario. The sector in India has a proud history of active contribution in the field of social reforms, public charity, and national integration in the pre and post independence days. Present day challenges in economic and social fields, however, call for greater skills and resources if the sector is to effectively meet the demands placed on it. The other two sectors of the society - business and government - also stand to benefit from an efficient nonprofit sector. Economic and social progress of the society is a necessary condition for long term success of the business sector. Thus, better understanding of the requisites for performance of organisations in the nonprofit sector has great economic social and relevance in India.
The Indian nonprofit sector is considered to be huge in terms of both the number of organisations and the total revenue generated in the sector. There are 31,74,420 registered non-profit organisations in the country (CSO, 2009). The sector also employs (paid and volunteer) around 12% of the total non-agricultural workforce in the country. The total revenue generated in the sector in the year 1999-2000 was projected to be around Rs.17, 922 Crs (PRIA, 2003). In the year 2009-10, the sector received Rs.10337.59 crore in foreign contributions alone (Government of India, 2012). The above statistics amply demonstrates the importance of the sector to the country. Capacity building and performance enhancement of a sector that handles such substantial amounts of man power and financial resources will have positive impact on the socio-economic scene in the country.

The sector in India is largely unorganised. Many organisations work without even legal incorporation. A large majority of organisations are founded by individuals or small groups of individuals driven by passion for social causes. Increased interaction with the business sector and international funding agencies as well as growing competition for funds have pushed Indian nonprofit sector into a transitional phase where many organisations are forced to adopt commercial management practices to improve performance. However, professional management practices as recommended and practised in nonprofit sector of the developed world might have limitations in Indian context. Blind replication of the success-models of the developed world cannot be expected to be suitable and effective in Indian context. Therefore, efficacy of modern management concepts in improving organisational performance of Indian nonprofit organisations deserves extensive research attention.
Despite this fact, academic research in this field has been sparse. Lack of research efforts are more glaring in the area of use and application of nonprofit marketing in the sector. Literature from other countries points to the positive impact of marketing and market orientation on performance of nonprofit organisations. However, no research on market orientation has been carried out in the specific context of Kerala’s nonprofit sector. Therefore it is imperative that this relationship is empirically established in Kerala context. Exploring the relationship between market orientation and organisational performance will greatly enhance the present body of knowledge in the field of nonprofit marketing and market orientation in an emerging economy context.

4.2 Statement of the Problem

Kerala has a unique place in Indian nonprofit sector. Kerala’s progress on the human development front is well known and has been a subject of rigorous academic research and discourse. Human development Index (HDI) of the state is the highest in India. Nonprofit sector in Kerala is also believed to have contributed considerably to the social development of the state together with various other factors. Experts on Kerala model of development point out that the state’s achievement on social front was made possible by actions from state, civil society and political activism (Veron, 2001).

The nonprofit sector in the state is to be seen against this background of high level of public action by the state and the high level of political mobilisation that ensures people’s participation in development and governance. Therefore the emergence and the development of the sector cannot be taken as a demand-gap filling mechanism as in other parts of the country where filling the vacuum in public and social service provision is the
primary role of nonprofit organisations. Nonprofit sector in the state, active as it is, operates within a larger framework of organised movements under political leadership and proactive state action. This distinguishes Kerala’s nonprofit sector from that in other parts of India.

More recently, some of the government policies in decentralisation have had a direct impact on the nonprofit sector of the state. People’s Plan Campaign (PPC) has resulted in a large number of nonprofit organisations with active financial and policy support from the government (Chathukulam & John, 2002). A large majority of them are SHGs which are mutual benefit organisations. Developmental plans of the government at local level envisage crucial participatory roles for these organisations. Thus, traditional nonprofit organisations face competitive threats from those nonprofit agencies which have access to financial and institutional support from various governmental agencies, especially at the grass root level. It will be interesting to see how nonprofit sector has responded to this development. Ramakumar and Nair (2009) observe that PPC has influenced even the developmental stance of many civil-society organisations in the state. Post- PPC, erosion of legitimacy of existence is also a genuine threat for many nonprofit organisations in the state (Ramakumar & Nair, 2009). Role of building ‘Social capital’, typically associated with nonprofit civil-society organisations is also assumed successfully by the organisations supported by PPC in Kerala (Harriss, 2001; Chathukulam & John, 2002).

Similar competitive pressures on nonprofit sector of the state from the organisations formed under the aegis of PPC have found mention in another study too (Thomas, et al., 2010). This study reports the case of an NPO which successfully repositioned itself by altering its service-focus in response to
beneficiary-defection due to competition. This high density of organisations also has a mounting effect on competition, especially in the fundraising market. Kerala has ten nonprofit organisations per thousand of population as against the national average of three per thousand (CSO, 2009). On the beneficiaries side too, large number of organisations results in increased competition.

Thus the task of the nonprofit sector in the state is very different. Strong social welfare measures initiated by the government in some spheres can call into question the legitimacy of nonprofit organisation in those spheres. Kerala presents a peculiar situation where one has a vibrant nonprofit sector with one of the highest densities of organisations in the country coexisting with one of the highest social sector-spending by the government. Government failure theory predicts that nonprofit sector tends to emerge where the government fails to deliver on public services. Failure to provide social services by the government is not a factor which contributed to the emergence of nonprofit sector in the state.

In global nonprofit sector, competition is often associated with trends towards commercialisation of the sector which is manifested in ways such as contract competition, collaboration, influence of new and emerging donors, commercial generation of revenue, and social entrepreneurship (Eikenberry & Kluver, 2004; Toepler, 2004). Enhancement of organisational performance assumes greater relevance in such a scenario. Management practices in financial, HR and operational management are found to have wide acceptance in the nonprofit sector (Alexander, 2000). These techniques with suitable sector-adaptations are thought to enhance efficiency. But as Kotler observed for nonprofit organisations in the international arena; marketing was the last of
the commercial practices to be embraced by non-profit sector here (Andreasen & Kotler, 2003).

From the illustrations of the present trends in the nonprofit sector in Kerala, the sector appears to be a fit case for market orientation. Literature predicts nonprofit organisations with similar competitive pressures to respond by adopting business-like practices such as market orientation for survival (Eikenberry & Kluver, 2004; Toepler, 2004). Although there is literature support for the positive impact of market orientation on organisational performance in international context (mostly in developed-country settings), practically nothing is known about the incidence, nature, or impact of market orientation of nonprofit organisations in Kerala. Scant literature available in the broader context of Indian nonprofit sector is inadequate to throw light on the exact nature of nonprofit market orientation in Kerala as the relevant dynamics of the sector in the state is vastly different as pointed out earlier. Thus, efficacy of market orientation in enhancing organisational performance of nonprofit organisations is an open question in the context of Kerala’s nonprofit sector. Given the importance and relevance of the sector, the topic deserves immediate research attention.

Thus, the present research attempts to address the question of whether market orientation has positive impact on organisational performance of nonprofit organisations in Kerala and to analyse the nature of market orientation as practiced in these organisations.

4.3 Objectives of the Study

Market orientation of nonprofit organisations in Kerala and its impact on organisational performance is the central focus of the study. The nature of market orientation in terms of its priority towards donors and beneficiaries,
and the variations in market orientation levels in the organisations of the sector in Kerala with respect to select organisational characteristics are also sought to be examined by the study. Specific objectives of the study based on the above broad purpose are identified as follows:

**Objectives Related to Market Orientation and Performance**

1) To ascertain whether market orientation has a positive impact on organisational performance of nonprofit organisations in Kerala.

2) To examine whether innovativeness plays a mediating role in the relationship between market orientation and performance.

**Objectives Related to the Nature of Market Orientation**

1) To find out whether nonprofit organisations in Kerala exhibit different market orientation levels towards donors and beneficiaries.

2) To analyse whether market orientation levels in nonprofit organisations vary based on organisational characteristics such as funding-source, organisational size, financial resources and presence/absence of separate marketing personnel/dept.

### 4.4 Conceptual Framework

The conceptual framework is guided by the research objectives outlined above. Market orientation, as discussed at length in the chapter on literature review, can be described as the implementation of marketing concept (Kohli and Jaworski, 1990). Marketing concept, which is widely held as the foundation of marketing thought and discipline, is one of the strategic orientation–options available to an organisation. The concept of organisational orientation relates to the nature of an organisation’s adaptation to a specific situation. It reflects the degree to which one accommodates the surrounding
environment in order to achieve its objectives. Other common strategic organisational orientations include production concept, product concept and selling concept. These orientations basically sum up the various guiding philosophies adopted by organisations to allot and align their resources so as to achieve the organisational objectives effectively and efficiently. Marketing concept holds that the organisational objective of long term profitability is best achieved by focussing the entire activities of the organisation on satisfying the customers. On the basis of an extensive literature review Kohli and Jaworski (1990) identify customer focus, coordinated marketing and long term profitability as the elements of marketing concept. Customer focus means that a market-oriented organisation considers customers as the centre of the organisation and therefore the organisation constantly monitors customers’ needs and preferences and every other factor that might influence the customers’ current or future needs. The centrality of the market is the basic idea of marketing concept. Coordinated marketing is a corollary to the first element of marketing concept, customer focus. It implies that all organisational activities are integrated for the purpose of serving the customers or the market. Thus, marketing concept or market orientation is not the orientation of the marketing department alone; it is the orientation of the whole organisation. Long term profitability indicates the long-term focus of the organisation as opposed to the short term goals focussed on sales maximisation of selling concept. (For a more elaborate discussion on marketing concept, refer section 3.1 of Chapter 3 of the thesis).

Narver and Slater (1990) view market orientation as composed of three behavioural components, namely competitor orientation, customer orientation and interfunctional coordination which are guided by long-term focus and profitability (growth and survival for a nonprofit entity). Therefore, analysing
the above two approaches to market orientation, which are by far the two most influential conceptualisations of the construct, one can say that both approaches make similar conclusions on the content of market orientation. But the two approaches are based on different assumptions about the nature of the construct. Kohli and Jaworski approach is based on behavioural perspective of market orientation and Narver and Slater approach treats market orientation as a property of organisational culture (See section 3.1.1 in chapter 3 for a more detailed discussion). In nonprofit marketing also, market orientation has been approached as an aspect of culture, as a set of organisational behaviours and as both (Padanyi & Gainer, 2004). Market orientation as a cultural variable views itself as a set of organisational values shared across an organisation, prompting the organisation members to treat customers as most important and customer satisfaction as the end objective of organisational activities. This market oriented culture will give rise to necessary behaviours targeted at customer satisfaction and this behaviour works as the source of competitive advantage for the organisation in the market place leading to higher performance. Narver and Slater (1990) who operationalised market orientation in culture mould explained the effect of market orientation on business performance in the same manner.

In the context of the present research, the market orientation of nonprofit organisations in Kerala’s nonprofit sector, behavioural approach to measuring market orientation can be considered more appropriate in the light of the following reasons. One, market oriented behaviours are more amenable to measurement in nonprofit sector than market oriented culture (Padanyi, 2008). Market oriented activities have been shown to precede market oriented culture in the specific context of nonprofit organisations (Gainer & Padanyi, 2005). In a nonprofit context it is difficult to conceive market oriented culture leading to
market oriented behaviours. The sector is traditionally known not to think in market terms, as beneficiaries are at a disadvantageous position compared to the nonprofit organisations; and aggressively seeking donors by nonprofit organisations is considered distasteful (Bruce, 1995). Mission is thought to override other concerns in a nonprofit organisation. Thus in a nonprofit organisation market orientation is more likely to be a conscious decision than something which naturally emerges from the organisational culture. So it is reasonable to assume that in a nonprofit context market oriented activities precede culture. Gainer and Padanyi (2005) has demonstrated this effect empirically. The conceptual framework for the present study is therefore based on the behavioural conceptualisation of market orientation.

Market orientation simply refers to the implementation of marketing concept; or in other words, one can say that market orientation is applied-marketing concept. Following a behavioural perspective, market orientation can be assessed in terms of the behaviours or activities of an organisation intended to ensure customer focus through well-coordinated organisational activities with the end objective of long-term growth and survival. Market oriented behaviours are in terms of market intelligence gathering, dissemination throughout the organisation and the organisational responsiveness to the market data.

4.4.1 Market Orientation in the Specific Context of Nonprofit Organisations

Desirability of adoption of market orientation in nonprofit sector and the attempts to link market orientation and performance of organisations in the nonprofit sector must be viewed in the larger context of extension of marketing to nonprofit settings. It was only logical for researchers to speculate the effectiveness of market orientation in nonprofit context since marketing
was thought to be a valid concept in nonprofit sector. Kotler and Levy (1969) was the first to propose the application of marketing and market orientation in nonprofit sector. Since nonprofit organisations have products in the form of services or programmes, these organisations are also faced with the challenges of marketing their products or services to donors and beneficiaries much like commercial organisations. Going by this perspective, the authors argue that nonprofit organisations need to understand their markets and coordinate the organisational efforts to effectively satisfy the customers (Kotler & Levy, 1969). Marketing helps nonprofit organisations to achieve their organisational objectives effectively through improved target market satisfaction and improved efficiency in marketing (Kotler & Murray, 1975).

Market orientation in a nonprofit context is the adoption of marketing concept by nonprofit organisations. Going by the behavioural approach to market orientation, a nonprofit organisation can be said to be market oriented when there is market information gathering and organisation-wide dissemination and responsiveness to it (Kohli & Jaworski, 1990). Conceptualising market in a nonprofit context is a crucial step in deciphering nonprofit market orientation. Unlike for-profit sectors, defining the scope of an organisation’s market is not easy because of the social nature of organisational objectives and the nonmonetary exchange relationships between a nonprofit organisation and the other party in a nonprofit exchange. Multiple market-constituents have far more significance in the special context of nonprofit sector. Existence of multiple market orientations of nonprofit organisation is an accepted concept in nonprofit marketing literature. Kotler lists market constituents for nonprofit organisations under four publics: input publics, internal publics, intermediary publics and consuming publics (Kotler, 1982). According to Gwin (1990), resource generators, service users and regulators constitute the customer
groups in a nonprofit market. Helmig and Thaler (2010) include direct customers, indirect customers, internal customers and donors as customers of a nonprofit organisation. Therefore, one can conclude that the concept of multiple markets for nonprofit organisations is generally well-recognised in literature.

Researchers in nonprofit market orientation have acknowledged the need to consider multiple market-components in estimating nonprofit market orientation (Padanyi & Gainer, 2004) and a small minority of them have tried to incorporate this concept into their market orientation models (Padanyi & Gainer, 2004; Morris, et al., 2007). Since donors and beneficiaries are considered as the target markets for nonprofit organisations (Shapiro, 1973), nonprofit market orientation will consist of two components – market orientation towards donors and market orientation towards beneficiaries (Balabanis, et al., 1997). Since these two nonprofit market components are separate and consist of different entities, they are likely to behave and respond differently to organisation’s actions. Therefore, impact of market orientation is also likely to be manifested differently in these two market-groups (Padanyi & Gainer, 2004). This forms the argument for treating market orientations of a nonprofit organisation towards the markets for donors and beneficiaries as separate and independent and also for the separate assessment of their impacts on performance of nonprofit organisations.

For most part in empirical studies in nonprofit market orientation, market orientation construct has only limited scope owing to the solitary focus on either donor groups or beneficiary-groups. Limited number of studies that followed multiple market orientations approach has also shied away from exploring it fully. Padanyi and Gainer (2004), the first research to use multiple
market orientations as independent and separate variables, include only government funders for assessing donor orientation. Modi and Mishra (2010) and Modi (2012) while recognising the need for multiple market orientations in nonprofit organisations, consider only overall market orientation score in empirical testing and therefore fail to capture the individual and specific consequences of donor market orientation and beneficiary market orientation on different dimensions of organisational performance. Morris et al., (2007) also consider donors and clients as separate markets for assessing market orientation. However, only revenue related performance measures are used to evaluate performance and hence falls short in exploring the impact of market orientation on noneconomic performance of nonprofit organisations.

Therefore, following a multiple constituency approach to nonprofit market orientation, the present study proposes to explore market orientation in both donor market and beneficiary market separately. This approach is not only beneficial but also essential in view of the research problem. Increasing competition for donor-funds can increase the possibility of nonprofit organisations shifting their priorities for managing stakeholder expectations. A difference in market orientation levels in donor market and beneficiary-market can indicate the trend of shifting priorities and thus throw light on the nature of market orientation in nonprofit sector characterised by financial constraints.

4.4.2 Performance of Nonprofit Organisations

Since the two types of market orientations are conceived as independent and separate, their impacts on performance are also likely to be different. Choice of performance measures is therefore important in the context of the study. Many researchers agree on the need to have a multidimensional approach to measurement of nonprofit performance (Kaplan, 2001; Seldon &
Sowa, 2004). Social nature of nonprofit objectives makes measurement difficult. In organisational effectiveness of NPOs, existence of multiple constituencies, their differing performance expectations and their strategic importance for the survival and successful functioning of the NPO are the most important factors which necessitate a multidimensional framework for assessing nonprofit performance (Herman & Renz, 1999; Sowa, Seldon & Standfort, 2004; Kaplan, 2001; Sawhill & Williamson, 2001). The multidimensional framework should preferably encompass all possible performance dimensions with regard to mission accomplishment, resource acquisition or capacity building, stakeholder performance criteria etc. Performance measures should reflect the complexities of the tasks before nonprofit organisations and the multiplicity of markets and the organisations’ performance in these market-constituents.

Studies linking market orientation and organisational performance in nonprofit sector have used various measures for assessing performance of nonprofit organisations. The choice of measures is predictably affected by the conceptualisation of market orientation and whether multiple market orientations are considered or not. Generally, market orientation studies have used multiple dimensions for assessing organisational performance. One of the most comprehensive performance measurement frameworks seems to be the one used in Padanyi and Gainer (2004) which is based on the performance conceptualization of Herman (1990). The dimensions of performance are client satisfaction, resource acquisition and peer reputation. The authors comment that these dimensions are likely to reflect the impact of the organisation’s marketing efforts and hence these measures are better suited for studies on market orientation-Performance. Gainer and Padanyi (2002), observe that complex and multiple measures are appropriate for research based on models that treat
organizational performance as dependent variable. So they approach nonprofit organizational performance as multidimensional, but these dimensions are treated as separate rather than components of an aggregate performance measure. Thus in their study, performance is operationalised as having three dimensions, namely client satisfaction, peer reputation and resource acquisition. These dimensions are feasible across all subsectors of nonprofit sector.

However, peer reputation is not likely to be a relevant dimension of performance in sectors where frequent interactions among peers are not common and common networking platforms are rare as in the case of nonprofit sector in Kerala. Nevertheless, considering the resource dependence on external source for revenue and volunteer efforts, reputation is still a valid concept for the sector. Public reputation is deemed important when the constituency it deals with does not have enough knowledge about the quality and dependability of the organisations. In such cases, reputation is known to function as an indirect measure of an organisation’s capability (Vendelo, 1998). In nonprofit sector, donors and volunteers and even beneficiaries may find it difficult to evaluate nonprofit organisations as outcome measurement is not often possible considering the intangible nature of mission and the long time horizon required for any perceptible progress in mission accomplishment. Hence the general reputation held by an organisation in the public is an asset in winning the confidence of donors and other resource providers. Therefore, the present study proposes to use a broader framework for reputation construct incorporating all relevant publics termed as ‘Public reputation’ to denote the general reputation enjoyed by an organisation among community, regulators, peers, beneficiaries etc. Thus, in the study, nonprofit performance is conceptualised as having three dimensions – beneficiary satisfaction, resource attraction and public reputation.
4.4.3 Relationship between Market Orientation and Organisational Performance – Development of Hypotheses

4.4.3.1 Market Orientation towards Beneficiaries and Beneficiary Satisfaction

In the for-profit sector, positive contribution of market orientation to performance-improvement has been analysed extensively and empirically established for different markets and organisational contexts and generally, extant research supports the positive impact of market orientation on organisational performance (Kirca, Jayachandran & Bearden, 2005). In for-profit business sector, market orientation is expected to enhance performance of firms in different ways. Superior competitive advantage is one such route to better performance facilitated by market orientation. By creating necessary organisational behaviours for superior value creation for customers, market orientation ensures superior competitive advantage leading to better performance of the organisation (Day, 1994; Narver and Slater, 1990). Enhanced customer satisfaction is another mechanism through which market orientation impacts the marketing performance of firms (Kohli, Jaworski & Kumar, 1993; Narver & Slater, 1994). It may be noted here that customer satisfaction is the ultimate objective for market oriented firms (Levitt, 1960). Another possibility for market oriented firms is the improved efficiency of marketing programmes as a result of superior market knowledge. Well-targeted and well-suited marketing techniques greatly enhance the marketing efficiency thereby contributing to overall firm performance.

Empirical research studies in for-profit literature generally points to a positive impact on organisational performance although some inconsistencies in findings are also reported. Empirical research on market orientation of nonprofit organisations is scantier compared to that in the business sector. The limited research in the field suggests a positive impact of market orientation...
on nonprofit organisational performance, indicating the validity of market orientation concept in nonprofit settings. Extensive review of market orientation-performance studies in nonprofit sector reveals that all studies except one reports positive relationship between market orientation and some performance dimension. Hence it can be concluded that market orientation does impact performance of nonprofit organisations positively.

Constituent-specific market orientation and its impact can be felt on constituent appropriate-performance dimensions (Padanyi & Gainer, 2004). Therefore, market orientation in beneficiaries-market should enhance the performance of the nonprofit organisation in that particular market-component. Since this market-component consists of beneficiaries of the services of the organisation, beneficiary satisfaction is a likely outcome of market orientation in the beneficiaries- market. Past studies support the positive relationship between market orientation and beneficiary satisfaction (Modi & Misra, 2010; Modi, 2012; Padanyi & Gainer, 2004). Therefore, it is reasonable to assume a similar relationship in the context of nonprofit organisations of Kerala. This leads the researcher to the following hypothesis;

*Market orientation towards beneficiaries will directly and positively affect beneficiary satisfaction*

### 4.4.3.2 Beneficiary Satisfaction and Public Reputation

The importance of public reputation has already been discussed in the section 4.4.2 on organisational performance of nonprofit organisations. It is reasonable to assume a positive relationship between beneficiary satisfaction and public reputation where beneficiary satisfaction acts as the antecedent to public reputation. Earlier studies hint at this ordering of effects in the performance dimensions of nonprofit organisations between beneficiary
satisfaction and peer reputation (Modi, 2012, and Padanyi & Gainer, 2004). The above studies show that market orientation for beneficiaries is expected to positively enhance beneficiary satisfaction, which in turn leads to higher peer reputation. Considering the relevance of public reputation in Kerala’s nonprofit sector (discussed in detail in section 4.4.2), the study assumes a similar role for public reputation in the present model. Therefore, the following hypothesis is offered:

Beneficiary satisfaction positively impacts public reputation of nonprofit organisations.

4.4.3.3 Public Reputation and Resource Attraction

Marketing literature generally holds that reputation of an organisation positively affects customer choice (Yoon et al., 1993, as cited in Helm, Eggert & Garnefeld, 2010) and loyalty (Selnes, 1993), especially in decision making scenarios where customers do not possess enough information for making rational decisions in product/service evaluation. Therefore, it is reasonable to assume that public reputation positively influence potential donors leading them to respond favourably to the fund-raising activities of nonprofit organisations. Hence, the following hypothesis is proposed;

Public reputation positively influences resource attraction.

4.4.3.4 Market Orientation towards donors and Resource attraction

Market orientation for donors should enhance performance measure related to donor-market, i.e., resource attraction. A market oriented nonprofit organisation, by staying close to the donor publics, will be able to build and nurture donor patronage and hence, show superior performance in attracting resources. In other words, donor market orientation is assumed to directly affect resource attraction. Morris, et al (2007) has reported that market
orientation towards donors leads to better financial performance of nonprofit organisations. Therefore, it is hypothesised that;

*Market orientation towards donors has a direct and positive impact on resource attraction*

### 4.4.3.5 Mediating Role of Innovativeness

In spite of wide-spread support in literature for the positive influence of market orientation on performance, inconsistent results on direct relationship between market orientation and performance have been noted in the for-profit sector. From a review of for-profit market orientation studies, Langerak (2003) observes that direct impact of market orientation on business performance has not been conclusively established in empirical research and that the effect of mediators is well-supported. Customer relationship indicators, product quality, firm effectiveness and innovation have been shown to mediate the relationship between market orientation and performance (Langerak, 2003). Of the above mentioned mediators, innovation related constructs are the most common mediating variables in empirical studies.

Market orientation results in superior organisational performance in the market place because the deep knowledge of customers and environmental variables equips the organisation to anticipate changes in market place and respond to these more quickly and more effectively than competitors. This seemingly logical argument does not always work in predicted ways. In business, fierce competition forces companies to be alert to every opportunity that can offer competitive advantage. However, in markets where all firms are market oriented, market orientation is bound to cease to be a source of competitive advantage. Market knowledge in such situations is shared by all and no one has an edge. Such markets naturally do not reward market orientation. But does it mean that it is an irrelevant concept in those markets?
Slater and Narver (1995) argue that market orientation is a necessary but insufficient condition for success. This indicates the possibility of a mediating influence of some variable in the relationship between market orientation and performance. Because market orientation is kind of ‘hygiene’ factor that every firm is supposed to possess, a minimum to be maintained by all. In that case, competitive advantage will come from some other source. Empirical studies in for-profit organisations support innovation as the ‘missing link’ in the models on market orientation and performance (Han et al., 1998).

Possible mediators in the relationship between market orientation and organisational performance have not been explored much in nonprofit sector research. Gainer and Padanyi (2005) argue that market oriented culture mediates the relationship between market oriented behaviours and performance. The study assumes that market orientation is both a cultural and behavioural variable. The above study shows that, in nonprofit context, market oriented activities precede a market oriented culture which in turn leads to performance. This implies a direct relationship between market orientation and performance. The only market orientation study in nonprofit context to have considered the influence of mediators is Modi (2012). The study reports that innovativeness fully mediates the relationship between market orientation and effectiveness and partially mediates the link between market orientation and beneficiary satisfaction. So it is reasonable to expect a similar relationship in the present study. Introducing innovation related constructs in nonprofit market orientation models has the potential to throw more light into the working of the relationship between market orientation and performance in nonprofit organisational context especially in the view of the positive results for the mediational impact of innovation in for-profit sector. Hurley and Hult (1998) projected innovativeness as the variable mediating the relationship.
Innovativeness was defined as openness to new ideas. But the mediational influence of innovativeness on the relationship is not empirically investigated in the study. Innovation related concepts are of special significance to nonprofit sector. Nonprofit organisations make a difference in managing social causes because they are known to be innovative because of their flexibility and adaptability. Garrido and Camarero (2010) is one of the few studies on innovation in a nonprofit context. The study finds evidence for the relationship between innovation and performance of NPOs.

Hence, considering the general indication in the literature for the mediational impact of innovativeness on the market orientation-performance relationship, it is considered meaningful to assess the mediating influence of innovativeness. Extant literature points to the possibility of innovativeness in nonprofit organisations being focussed more on beneficiaries-market owing to the importance of this component in mission-achievement. Therefore, it is posited that innovativeness acts as a mediator between market orientation towards beneficiaries and beneficiary satisfaction. Beneficiary orientation enhances the nonprofit organisations’ innovativeness, i.e., its openness to new ideas and this innovativeness equips the organisations to design and implement innovative beneficiary-targeted solutions, thereby improving beneficiary satisfaction. This is the rationale behind the next hypothesis which is stated as:

Innovativeness mediates the link between market orientation towards beneficiaries and beneficiary satisfaction.

Integrating all hypotheses on the relationship between two components of nonprofit market orientation and the various dimensions of organisational performance, the following conceptual framework is proposed for empirical testing.
4.4.4 Organisational Characteristics and Variations in levels of Market Orientation.

Nature of market orientation is sought to be explained in terms of differences between the levels of market orientation in donors and beneficiaries markets and variations in market orientation levels in both markets based on important organisational characteristics such as source of funding, presence of separate department/personnel for marketing function, organisational size in terms of the number of employees and the size of operating budget.

4.4.4.1 Market Orientation and Source of Funding

Source of funding is an important characteristic of a nonprofit organisation as most nonprofit organisations are dependent on external sources of income. This external dependence in financing of organisational operations is one of the major
differences between non-profit and for-profit sectors. Generating revenue is a critical factor in ensuring the success and even survival of nonprofit organisations. Nonprofit organisations typically depend on three broad sources of income, namely public payments, private giving, and private fees and charges (Anheier, 2005). Public payments include all financial support and contract fees from government or governmental agencies. Private giving refers to contributions from private individuals and private institutional donors. Private fees and charges include all commercially-generated income from various sources such as fees, service-charges, sales proceeds etc. Nonprofit organisations are believed to be susceptible to external influence of stakeholders. A study conducted in German nonprofit sector supports the impact of source of funding on organisational orientation (Anheier, Toepler, & Sokolowski, 1997). The study concludes that “The difference between predominant public sector funding and majority private sector funding emerges as the most important distinction to understand how organisational orientations differ” (P- 212).

Thus it is hypothesised that;

There exists a difference in market orientation between predominantly private-funded nonprofit organisations and predominantly government funded nonprofit organisations.

4.4.4.2 Market Orientation and Marketing Department/personnel

A separate functional department or personnel for marketing in a nonprofit organisation is not likely to be common occurrence in Kerala’s nonprofit sector. But intuitively, the presence of separate marketing department/personnel should enhance the organisation’s market orientation by sensitising the organisations to the need for market orientation and facilitating interdepartmental coordination. In other words, a marketing department can ‘champion the cause’ of market
orientation in an organisation and thus help enhance the level of market orientation. Therefore, it is posited that,

*Nonprofit organisations show variations in market orientation depending on the presence/absence of separate marketing personnel/department.*

### 4.4.4.3 Market Orientation and Organisational Size

Organisational size has been shown to negatively affect market orientation of nonprofit organisations (Balabanis, et al., 1997). Large nonprofit organisations appear to be more reluctant adopt market orientation. This leads the present study to its next hypothesis;

*There exists a difference in market orientation between small-sized and large-sized nonprofit organisations, where the organisational size is defined in terms of the number of paid-employees in the organisation.*

### 4.4.4.4 Market Orientation and Financial Resources

Market orientation involves gathering of market information, dissemination, and responsiveness to the market information. This requires spending money and other resources like organisational time to support market oriented behaviours in the organisation. Thus the availability of these resources can therefore affect market orientation of an organisation. Results from for-profit sector point towards this direction (Liu, 1995). Therefore it is posited that,

*There exists a difference in market orientation levels according to the size of financial resources at the disposal of the nonprofit organisations.*
4.5 Hypotheses of the Study

The hypotheses developed from the discussions on the conceptual framework are listed below.

1) Market orientation towards beneficiaries will directly and positively affect beneficiary satisfaction
2) Beneficiary satisfaction positively impacts public reputation of nonprofit organisations.
3) Market orientation towards donors positively affects resource attraction
4) Public reputation positively influences resource attraction.
5) Innovativeness mediates the link between market orientation towards beneficiaries and beneficiary satisfaction.
6) There exists a difference in market orientation level towards donors and beneficiaries in nonprofit organisations in Kerala.
7) There exists a difference in market orientation between predominantly private-funded nonprofit organisations and predominantly government funded nonprofit organisations.
8) Nonprofit organisations show variations in market orientation depending on the presence/absence of separate marketing personnel/department.
9) There exists a difference in market orientation between small-sized and large-sized nonprofit organisations, where the organisational size is defined in terms of the number of paid-employees.
10) There exists a difference in market orientation levels among nonprofit organisations of varying sizes of financial resources.
4.6 Variables and Definitions

The following is the list of variables used in the study.

1) Market Orientation (Donors)
2) Market Orientation (Beneficiaries)
3) Innovativeness.
4) Resource attraction.
5) Beneficiary satisfaction.
6) Public reputation

4.6.1 Market Orientation (Donors) and Market Orientation (Beneficiaries)

Market Orientation means the implementation of marketing concept. Marketing concept is conceived as having three core themes- customer focus, coordinated marketing and profitability. Thus a market oriented organisation is one in which the three pillars of marketing concepts are operationally manifest. (Kohli & Jaworski, 1990).

Following the behavioural perspective based on market intelligence of Kohli and Jaworski (1990), market orientation is defined as the organisation-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organisation-wide responsiveness to it.

As explained in conceptual framework in section 4.4 of this chapter and also in chapter 3, market orientation in nonprofit organisations is conceptualised as simultaneous orientations towards beneficiaries and donors. Market Orientation (Beneficiaries) is the market orientation exhibited by a nonprofit organisation in the market consisting of beneficiaries and Market orientation (Donors) is the market orientation
exhibited by a nonprofit organisation in the market consisting of donors. Therefore, following Kohli and Jaworski (1990), the two variables are operationally defined as follows.

1. **Market orientation (Donors)**

   It is the organization-wide generation of market intelligence pertaining to current and future donor needs, dissemination of the intelligence across departments, and organization-wide responsiveness to it.

2. **Market orientation (Beneficiaries)**

   Market orientation (Beneficiaries) is the market orientation exhibited by the organisation with respect to the market consisting of beneficiaries. Operationally, it is defined as the organization-wide generation of market intelligence pertaining to current and future beneficiaries needs, dissemination of the intelligence across departments, and organization-wide responsiveness to it.

4.6.2 **Innovativeness**

   Innovativeness stands for the organisation’s propensity to adopt new and innovative ways in its conduct of operations. Following Hurley and Hult (1998), innovativeness is defined as openness to new ideas.

4.6.3 **Beneficiary Satisfaction**

   Beneficiary satisfaction is the feeling of satisfaction of beneficiaries with the programmes, activities and services offered by an organisation.

4.6.4 **Resource Attraction**

   It is defined as the resources generated by the organisation for financing its operations.
Public Reputation

Public reputation is the general estimation in which the organisation is held by the public in terms of how well the organisation is doing in accomplishing its mission and in ensuring growth by attracting resources.

4.7 Scope of the Study.

Scope of the study is defined by the following elements.

4.7.1 Population

All nonprofit organisations registered anywhere in Kerala under Travancore-Cochin Literary, Scientific and Charitable Societies Act, 1955 or Societies Registration Act, 1860, before the year 2006 with a minimum annual operating budget of Rs. 10 lakhs, constitute the population of the study, with the following exclusions: 1) Those organisations with self generated income as the sole source of revenue, 2) Membership organisations and self-help groups, and 3) Mainstream medical care, educational establishments such as schools and colleges.

The above-mentioned exclusion rules were applied to ensure that market orientation in selected organisations has all the complexities of typical nonprofit market settings so as to keep the theoretical framework valid. Organisations with only self generated income as the sole source of revenue were excluded from the study for the following reason. Although nonprofit in legal terms, those entities are not any different from commercial organisations when it comes to the task of marketing. Revenue generation and revenue allocation happens in the same market which consists of clients or users who pay for the services received. This also means that these organisations are not required to show simultaneous orientations towards two markets - donors and
beneficiaries. Thus multiple market orientations, a distinguishing feature of nonprofit marketing, is not seen in nonprofit organisations which run only on self generated income. Hence their exclusion from the study.

Two, membership organisations and self-help groups are not included in the scope of the study. SHG organisations are formed for the sole benefit of their members. Professional associations and trade unions are also avoided for the same reason. Precisely for the reason cited above, these organisations are not considered part of nonprofit sector in Indian context.

Mainstream medical care, educational establishments such as schools and colleges are also not considered for the study as they are not regarded as part of nonprofit or civil society in India (Sen, 1993).

Only those organisations, 5 years or older as of November, 2011 with an annual operating budget of Rs. 10 lakhs were considered for the study. This was done to ensure that the organisations were sufficiently large enough to adopt market orientation and to facilitate the comparison of performance over a five year horizon.

4.7.2 Place of study

The area of study is Kerala. The area was divided into three regions, south, central and north. Two districts from each region (having the highest number of nonprofit registrations in the respective region) were selected for data collection.

4.7.3 Data Sources

Data for analysis was the primary data collected through a questionnaire survey conducted among the chief functionaries of NPOs based in Kerala.
4.7.4 Period of study

The data was collected during the period September 2012 to November 2012.

4.8 Research Design

The study is both descriptive and explanatory in nature. The study analyses and reports on the level and type of market orientation of nonprofit organisations. Therefore the study can be termed as descriptive. The study also tries to bring out the relationship among the various variables of interest. Thus, the study can be described explanatory too.

4.9 Sample Design

The population consists of nonprofit organisations registered anywhere in Kerala under Travancore-Cochin Literary, Scientific and Charitable Societies Act, 1955 or Societies Registration Act, 1860, before the year 2006 with a minimum annual operating budget of Rs. 10 lakhs, with the following exclusions: 1) Those with self generated income as the sole source of revenue, 2) Membership organisations and self-help groups and 3) Mainstream medical care, educational establishments such as schools and colleges.

4.9.1 Sample Selection Procedure

Area of study (Kerala) was divided into three regions - south, central and north. Two districts having the highest number of registered nonprofit organisations were selected from each region (Thiruvananthapuram, Kollam, Kottayam, Ernakulam, Kannur, and Kasargod). Directory of nonprofit registrations in Kerala prepared as part of phase I of the Nonprofit Institutions Survey (2009) by CSO served as the reference for identifying the districts with highest number of nonprofit registrations. Sampling frame was the combined
list of NPOs listed in two directories (Directory for NPIs by Planning Commission of India & the member directory of Indian Council for Social Welfare). NPOs for the survey were randomly selected from each district from the sampling frame.

4.10 Analysis Design

Nonparametric tests Mann-Whitney U test, Wilcoxon signed Ranks test and Kruskal-Wallis were used wherever appropriate for testing the hypotheses on variations in market orientation with respect to select organisational characteristics and the difference in market orientation levels in donors and beneficiaries markets. The conceptual model comprising of the hypothesised linkages among the variables of the study was tested using PLS-based Structural Equation Modelling. The statistical procedures were performed using statistical software packages SPSS 16 and Smart PLS (beta 2.0).

4.11 Data Collection Method

Questionnaire survey method was used for collecting the data required for the study. Respondents were the chief functionaries of the sample organisations and the questionnaires were delivered directly to the respondents. An official letter of introduction accompanied the survey form. The questionnaire had a total of 65 response items divided into 6 sections. Single informant self reporting method was the approach used for data collection. Despite the limitations of reporting bias, the method has been used widely in market orientation studies both in for-profit and non-profit sectors. In fact, all except one market orientation study reported in literature have used single informant-self reporting method for measuring the independent construct of market orientation and the dependent construct of performance (see Table 3.3 of chapter 3). In the for-profit literature also, self-reporting is
the most preferred method for measuring market orientation. Some for-profit studies have used objective measures of performance since measurable objective yardsticks like sales, ROI etc are readily available for for-profit organisations. But the inappropriateness of such measures in nonprofit sector makes their use limited in nonprofit research. Though objective measures are undoubtedly free from bias and therefore more reliable, literature still offers considerable support for the use of subjective measures when objective measures are unavailable. Dess and Robinson (1984) report strong correlation between objective and subjective measures hinting at the suitability of subjective measures if objective measures are not available. Similar finding was also noted in Pearce, Robbin and Robbinson (1987). The major issue associated with subjective measures of performance through self reporting is common method bias (Andrews, Boyne & Walker, 2006) and the above issue is revisited in section 6.5 of chapter 6.

4.12. Measures of the Constructs

1. Market Orientation

Market orientation is measured using an adapted version of MARKOR scale developed by Kohli, Jaworski, and Kumar, 1993. MARKOR scale is a widely used scale in market orientation studies in both for-profit and nonprofit settings. The scale is based on behavioural approach, i.e., market orientation is measured in terms of organisational activities or behaviours exhibited by the organisations. This approach has certain well-documented advantages in nonprofit context over the competing alternative, the cultural approach to measuring market orientation by MKTOR of Narver and Slater, 1990.
Measuring market orientation in terms of organisational activities is relatively more meaningful than measuring the construct in terms of culture in the specific context of nonprofit settings. Market Orientation as a behaviour implies that it can be implemented by a management writ and therefore lends itself to be introduced or changed in response to any compelling environmental change. This makes more sense in nonprofit especially in the context of the research problem which deals with the adoption of market orientation as a result of rising competition and other environmental changes prompting the management to look at market orientation as an adaptive strategy for growth and survival. Another factor in favour of behavioural measurement is to be found in the general culture of the nonprofit sector where nonprofit organisations take pride in being different from business organisations. Therefore, market oriented behaviour seems more likely to be acceptable in the sector.

Original MARKOR by Kohli, et al (1993) is a 20-items scale. Since no Indian study has reported the use of MARKOR in nonprofit sector, it was considered necessary to check the suitability of the scale by subjecting it to an expert review. The scale was first reviewed by a panel of experts consisting of 5 senior nonprofit managers in Kerala. The experts were asked to review each item in the scale for the suitability of item-wordings and appropriateness in an Indian nonprofit context. Review was done independently by each expert. Based on the inputs from the review panel, adaptations were made in the original 20-items scale to suit the nonprofit context in India. Adaptations were in the form of change in wordings and deletion of 4 items. The deleted 4 items were statements about competitive pricing and campaigning. These were considered inappropriate for nonprofit sector in India, by all experts. The
resultant scale had 16 Likert type statements on a 1 to 5 scale, ranging from ‘Not at All’ to ‘To a Great Extent’.

2. Organisational Performance
Organisational performance of nonprofit organisations is conceptualised as a multi-dimensional construct with three separate dimensions, namely beneficiary satisfaction, public reputation, and resource attraction. This conceptualisation of nonprofit performance is similar to that of Padanyi and Gainer (2004). The measures for beneficiary satisfaction and resource attraction were measured using Padanyi and Gainer (2004) scales. For the present study, the term client satisfaction is replaced by the term ‘beneficiary’. Minor changes in wordings were effected in the scale for resource attraction too. No further changes were recommended by the experts after the review of the scale. The scales for beneficiary satisfaction and resource attraction have 5 and 4 items respectively measured on a 1 to 5 scale with the anchor points ‘Declined Significantly’ and ‘Increased Significantly’.

Scale for Public reputation is modelled after the peer reputation scale of Padanyi and Gainer (2004). The original scale was meant for measuring the reputation of a nonprofit organisation among its peer organisations. Therefore, the adopted scale for measuring public reputation was content-checked with practicing nonprofit managers to ensure face and content validities. Based on inputs from the expert review, item wording were changed for certain items. The scale approved for administration had 4 items.

All performance measures were measured in comparative terms i.e., in terms of changes over a 5 year time period.
4.13 Instrument for Data Collection

The final instrument has 65 items. These are arranged into 6 different sections (sections A to F). The first section deals with the relevant organisational data. The section had both open ended and multiple choice questions. The total number of items in section A is 10.

The next two sections (B and C) are the market orientation scales. The scales consists of 5 point (‘Not at all’ to ‘To a great extent’) Likert type items. Section B, with 16 items, measures market orientation (Donors). Section C also has 16 items for measuring market orientation (Beneficiaries). These items were Likert type statements about organisational activities or behaviours, on a 5 point scale. The respondents were asked to indicate their response by checking the number that best describes their organisation for each statement. (1-Not at all 2-To a small extent 3-To a moderate extent 4-To considerable extent 5-To a great extent).

Section D had 13 items for measuring the different dimensions of organisational performance. Respondents were asked to indicate how their organisation has performed over the past five years in terms of the criterion mentioned in each Likert type statement on a five point scale. (1. Declined significantly 2. Declined somewhat 3. Been Stable 4. Increased somewhat 5. Increased significantly)

Section E measures innovativeness. The statements are about a variety of activities of the organisation. Respondents indicate the degree to which the statement best describes their organisation. (1 Strongly Agree, 2 Agree, 3 Neither Agree or Disagree, 4 Disagree, 5 Strongly Disagree)
The last section collects the basic details of the respondent to ensure that the respondent is the chief functionary and has been in the organisation for long enough.

### 4.14 Limitations of the Study

The major limitation of the study is that it is cross-sectional rather than longitudinal in design. Ideally, longitudinal studies are considered the best method for prediction studies. Another drawback is the use of self-reporting method for measuring the constructs which makes the study prone to biased response. In order to check for the adverse effect of self-reporting, statistical tests were applied to rule out common method variance.

### 4.15 Conclusion

The chapter dealt with the various research methods used for conducting the present research. Relevance, research problem and scope of the study were explained so as to place the study in the extant research in nonprofit marketing. Conceptual framework was also discussed. The chapter then proceeded to explain the research design, sample and analysis design. Data collection method and measures of constructs were also given in detail.