This chapter intends to provide a general introduction to the topic of this research. The chapter attempts to bring out the importance of nonprofit sector in society so as to present the rationale for the study. The general trends in the nonprofit sector leading to need for the present research are discussed. The potential and expected contributions of the study are also included in the chapter. Finally, the organisation of the thesis is given.
“The invasion of marketing into the non-commercial arena has been a drama laden with setbacks, oppositions, and victories, but the general consensus is that broadening marketing has been good for marketing and good for the areas that marketing has invaded”

(Kotler, 2005, p.115)

1.1 Introduction

Marketing has a legitimate role in all sectors of a modern society. Marketing’s journey from a function strictly belonging to only market transactions to a technology useful in any context that involves exchanges of any nature, economic or otherwise, has been long. Pervasiveness of marketing within business sector, reflected by its influence in all aspects of business is widely acknowledged (McKenna, 1991). Marketing is founded on the tenets of market orientation, i.e., viewing customers as the central focus of the organisation, aligning all organisational activities around satisfying customers needs, and achieving long-term profitability through customer satisfaction (Kohli and Jaworski, 1990). Market orientation is what separates genuine marketing from a host of selling and promotional activities. Literature in marketing has long argued that market orientation is applicable not only to commercial exchanges but also to exchanges in non-business sectors, paving the way for the use and application of marketing concepts and techniques by nonprofit organisations (Kotler & Levy, 1969a; Kotler & Zaltman, 1971).

Nonprofit marketing rests on the presumed ability of market orientation to create satisfying exchanges with different constituent groups of nonprofit organisations. Experts in both marketing and nonprofit sector have long debated the question of validity and desirability of applying marketing concepts and approaches in the nonprofit field (Hutton, 2002). Arguments for
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and against it are available aplenty in literature. But it is recognised widely that nonprofit organisations do face challenges in the course of their operations which are quite similar to those in the business sector where marketing has been eminently successful in equipping organisations to perform well. Ever since Wiebe’s article and the question it raised (“why can’t you sell brotherhood like you sell soap?”), the number of organisations seeking to use marketing for enhancing the effectiveness and efficiency in service delivery and resource attraction has been on the rise (Wiebe, 1951). If the number of studies in nonprofit marketing and nonprofit management is anything to go by, nonprofit marketing is mostly a developed-economy phenomenon. Most studies are set against the background of nonprofit sectors in developed countries, largely in North America. Realities and challenges in the nonprofit sectors of the developed world are bound to be different from those in the sectors of developing economies such as India.

Studies on the nature and practice of marketing and/or marketing concept by nonprofit organisations are still a rarity in India. Limited research in Indian context indicates that market orientation can contribute to organisational performance of nonprofit organisations. However more research is needed in the area considering the complexity of the construct of market orientation in nonprofit sector and also, the spread and scale of nonprofit sector in a country like India. The impact of market orientation in various market-constituents of nonprofit organisations on different dimensions of organisational performance has not been fully explored in research in Indian context. This research-gap is a glaring one, viewed from the perspective of the crucial importance of the nonprofit sector in the country. The sector in India handles some of the most pressing economic and social issues involving a large number of people and expends huge amounts of financial and manpower
resources. The vastness of the sector and the crucial role it plays in socio-economic well-being of the country warrants greater research-attention in the field of nonprofit marketing in the country, especially in the light of the giant strides marketing has made in nonprofit sector in other countries and the contribution it has reportedly made in improving the efficiency of organisations. Another factor which necessitates more research in the area is the sheer size and diversity of the sector in the country. Generalisation of research-findings to the entire sector may prove wrong in India, considering the different operating environments for various states in the country, characterised by density of organisations, support from the government, organised-nature of the sector, and nature of financing.

Apparently ironic, in view of the thin research volume on nonprofit marketing in the country, the first field project of nonprofit marketing acknowledged in literature was the social marketing campaign for family planning project of 1964 in India (Harvey, 1999, as cited in Andreasen, 2003). However, most of the early marketing interventions in India and abroad were limited to initiatives in social marketing, mostly those involving physical products and thus, marketing was basically confined to distribution and promotion. In scholarly literature, the first call for extending marketing concept to nonprofit organisations came in 1969 with the Kotler and Levy article in which the authors propounded the theory of ‘broadening the marketing concept’ for enhancing the effectiveness of nonprofit operations and service delivery. Many scholars consider this as the formal heralding of the era of nonprofit marketing (Andreasen, 2003). The foundation of the argument rests on the definition of marketing as a ‘need satisfying processes’. Thus it can be seen that market orientation is intrinsic to the application of marketing in nonprofit sector.
The present research is an attempt to investigate the relationship between market orientation and organisational performance of nonprofit organisations in Kerala. Market orientation is one of the strategic-orientation alternatives for an organisation, and not the only or automatic choice for organisations. Product orientation, production orientation and selling orientation are the other competing organisational orientations that can be pursued by organisations in for-profit or nonprofit domains. In strategic orientation decision making, like in any other organisational decision context, the alternatives must be weighed against their potential benefits and drawbacks so as to maximise the intended benefits. Marketing literature generally projects market orientation as the best orientation for the long term success and survival of organisations (Noble, Sinha & Kumar, 2002). However, literature indicates that external task-environment can affect the efficacy and the relevance of market orientation in organisations (Gounaris, Avlonitis, & Papastathopoulou, 2004). Thus, in spite of the general trend of positive findings in research on the relationship between market orientation and performance, the efficacy of market orientation in enhancing organisational performance of nonprofit organisations cannot be taken as a given in the specific context of Kerala. Therefore, this research attempts to explore the relationship between market orientation and performance in the nonprofit sector in Kerala, in terms of the specific objectives set in consideration of the research problem and the gap in literature which will be discussed later in appropriate sections of the thesis.

1.2 Nonprofit Landscape – Emerging Prospects for Market Orientation

1.2.1 Relevance and Significance of Nonprofit Sector

Nonprofit organisations are generally understood as those entities whose organisational objectives are not profit-related. This ‘not for profit’ nature of
organisational objective is the common feature of almost all approaches to defining nonprofit organisations. Fundamental difference between for-profit and nonprofit organisations is the above dissimilarity in objectives. For-profit organisations operating in diverse industrial or service sectors share the common goal of profit making. Nonprofit organisations operating in different sub-sectors have social objectives related to their fields of nonprofit activities. This does not imply that financial considerations are completely absent in nonprofit sector; financial matters are important for nonprofit organisations to the extent that it supports mission-oriented or beneficiary-related activities.

The scope and role of nonprofit sectors in all countries have expanded considerably over the years. What was once seen as unorganised efforts for humanitarian and relief works is now generally recognised as an important participant in the socio-economic development of countries. The number of nonprofit organisations has increased tremendously world over. Salamon (1994) calls this growth in size and scope of the sector as “global associational revolution”. Nonprofit sector usually emerges to fill the void in public-service provision created by government and market failure (Weisbrod, 1975). For-profit or business sector is governed by profit motives and therefore its resources are channelled strictly to profitable avenues. This leaves a gap in provisions of certain public or collective services where returns are either nil or sub-optimal. Therefore, these segments in most societies are serviced entirely by government. However, governments too face constraints in several situations because of the problems inherent to government machinery such as bureaucracy. Diversity in needs of different sections of society is another challenge faced by governments. Government action is often designed for majority groups, leaving many sections of the population under-serviced or unsatisfied with the existing services provided by the government sector.
Nonprofit plays a constructive role in this context by providing services to the marginalised sections, making valuable contribution towards ensuring a stable society.

The unique advantage of nonprofit organisations comes from its features such as flexibility, capacity to use private initiative, smaller scale, grass-root existence which connects them closely to people, and the ability to contribute to social capital (Salamon et al., 1999). The factors cited above make nonprofit sector better positioned than governments in delivering quality services in many social and economic spheres. Nonprofit organisations, mostly founded on private individual initiative, suffer less from organisational rigidity and centralised-functioning. Therefore nonprofit organisations are likely to show more openness to innovate in service design and delivery than governmental agencies. Their close proximity to beneficiaries and ground-realities also make these organisations more effective in tackling certain social issues.

Merits of nonprofit sector compared to for-profit sector in social arena are rather obvious and largely uncontested. For-profit sector is scarcely considered appropriate and effective in social sector. For-profit sector organisations are invariably profit-driven and therefore its services and products are designed and marketed for segments that are commercially attractive to them. A major comparative advantage of nonprofit sector in social terms is the inclusive nature of the client base. Billis and Glennerster (1998) observes that providing services for groups which are disadvantaged financially, socially or politically is a crucial social role performed by the sector. Though business organisations are also expected to display social responsibility in its conduct, even the most ardent supporters of corporate social responsibility would not call for sacrificing business interests for
societal needs. This natural and justifiable overriding concern for commercial gains is the most important reason why for-profit enterprise is not considered a proper mechanism for providing public and social goods.

Thus, as a third sector, outside of the state and business, nonprofit is important and relevant for any society. In a country like India, the sector is an indispensable part of the socio-economic system without which a well-balanced and all-round development of the society is likely to be a moving target. Creation of social capital is another important function carried out by nonprofit sector in society (Alexander & Stivers, 1999). Nonprofit literature in India projects nonprofit organisations as effective players in some important fields of public service in India such as primary education and public health (Jaganathan, 2000; Baru & Nundy, 2008). Nonprofit sector provides a long range of services benefitting millions in the country. Nonprofit organisations in India are also vital partners of government in extending the reach of government machinery in effectively delivering public services at lower costs (Kuduva, 2005). Gravity and urgency of some of the problems facing the country render the role of nonprofit sector crucial and extremely consequential. Therefore, a well-functioning and effective nonprofit sector is an economic and social necessity in the country.

1.2.2 Commercialism in Nonprofit Sector

Trend towards the adoption of business practices by nonprofit organisations is an active research stream in the nonprofit literature. Factors leading to these trends, and the potential benefits and adverse impacts are some of the prominent topics of discussions in the field (Froelich, 1999; Hodgkinson & Nelson; 2001; James, 2003). Commercialism is often pointed out as the major contributory factor for the recent trend towards the adoption
of business practices by nonprofit organisations (Tuckman, 1998). Commercialism in the sector is passionately followed by the sector experts as many associate it with loss of the unique identity of the sector, something which differentiates the sector from the for-profit world and its values. The term commercialisation is used in the non-profit management literature to denote the complex whole of interactions between for-profit and non-profit sectors and the use of commercial practices to seek more revenue or to face competition effectively. Commercialisation and growing competition due to the expanding size and scope of the sector are believed to have contributed to the relevance of marketing in the nonprofit sector (Helmig & Thaler, 2010).

Though commercialism is not a recent development in the sector, its extent has increased considerably in recent times (Weisbrod, 1997). Commercialism in nonprofit sector is manifested in forms such as collaboration, competition and cross subsidisation (James, 2003). Eiekenberry and Kluver (2004) identify commercial generation of revenue, contract competition, influence of new donors, and social entrepreneurship as the commercialism-trends of nonprofit sector. Financial constraints, decreased government funding, and increased interactions with the for-profit sector are often cited as the reasons for the growth in commercialism in the sector (Froelich, 1999; Hodgkinson & Nelson; 2001; James, 2003). Young and Salamon (2002) presents six factors that have led to more commercialisation in the sector, namely fiscal squeeze, expanded demand, increased for-profit competition, growing competition among nonprofits, broader availability of corporate partners and increased demand for accountability. Weisbrod (1998) also cites finance pressures as one of the reasons for increased commercialisation.
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Competition is a recurrent theme in discussions on commercialism of nonprofit sector (Tuckman, 1998; Weisbrod, 1998; Young & Salamon, 2002; Eiekenberry & Kluver, 2004). Competition is said to arise when two or more nonprofit organisations pursue the same objectives and vie for capital, labour, customers and revenues (Tuckman, 1998). Competition acts as a catalyst in promoting the ways and methods of the commercial world. When nonprofit organisations encounter competitive pressures similar to a commercial market, they tend to adopt the time-tested commercial practices to meet the challenges. Weisbrod (1997) says that the expansion of the sector, whether in terms of size or scope, has consequences on competition within the sector and competition between nonprofit and other sectors. The increase in the number of organisations in the sector puts an upward pressure on competition within the sector. Expansion of nonprofit and for-profit sector into each other’s domain causes competition between sectors to increase.

In an exclusively-nonprofit market, competition is based on the quality of service, reputation and the ability to meet constituent needs. Nonprofit organisations compete with each other for revenues, board members, customers, contracts and grants, donation, gifts, bequests, prestige, political power and volunteers (Brody, 1996). Competition from other nonprofit organisations is mostly felt in fundraising and in the markets for contracts and grants. Within the sector, Weisbrod (1998) also notes competition for partnerships with corporate sector and government. Tuckman (1998) identifies quality of services, ability to meet constituent needs and reputation as the important bases for competition in the sector.

Competition can arise between nonprofit and for-profit if both happen to be operating in the same service provision. There are at least three market
settings in which for-profit organisations do not normally operate and nonprofits have sole presence (Tuckman, 1998). These ‘exclusive’ nonprofit domains are production of ‘public’ or ‘collective’ goods, goods and services directed at individuals or groups who cannot pay, and services where nonprofits have competitive advantage because of preferential legal and/or public policy treatment and volunteer efforts at the nonprofits’ disposal. Competition need not result in commercialisation in sectors occupied by only nonprofits whereas there is a distinct possibility for commercialisation in ‘mixed-mode’. For example, both for-profit and nonprofit organisations offer services such as elderly-care in healthcare sector. In these subsectors, there is direct competition between for-profit and nonprofit organisations and competition of this nature is likely to increase as for-profit organisations continue to enter more domains previously serviced exclusively by just nonprofit entities. Micro-credit is a case in point. Another field where for-profit and nonprofit vie with each other is the market for government contracts for project implementation and research. Competition between for-profit and nonprofit is likely to increase as governments stop preferential treatment to the nonprofit sector.

Commercial generation of revenue is perhaps the most visible forms of commercialism in nonprofit sector. The above route to raising finance is chiefly used to cross-subsidise the unprofitable public services by income-generating commercial activities. Financial constraints are the major reasons for most nonprofit organisations to explore the commercial sources of revenue generation. The commercial activities may be related or unrelated to the mission. Commercial revenue makes the nonprofit organisation more sustainable in the long run and less dependent on donors (Froelich, 1999; James, 2003). This commercialisation even prompted some to predict the
emergence of two nonprofit halves of the nonprofit world, namely the philanthropic and the commercial nonprofit (Hansman, 1980). Some organisations offer products and services which are related to the mission of the organisations for a fee from the clients. The income from this source are then used to subsidise the nonprofit activities or for service delivery to those who cannot pay. Aravind Eye Hospitals charge full fee from those who can pay and use this revenue to subsidise the free service to the poor who constitute 60% of their clients (Rangan & Thulasiraj, 2007). Another way followed by nonprofit organisations is selling goods and services unrelated to their mission for generating revenue for core services for beneficiaries. These commercial activities for generating funds just like the more traditional ways of financing such as donations and grants have an impact on the structure and behaviour of the nonprofit organisations (Salamon and Anheier, 1997). A study on nonprofit sectors of several countries by the above-mentioned authors suggest that self generation of income is one of the principal sources of income for the sector in many countries. This fact points to the direction of the possibility of these organisations coming under market-like pressures of commercial entities.

Despite the visible signs of commercialism in nonprofit sector all around the world, it has a stigma attached to it in the sector. Many believe the nonprofit sector should distance itself from the commercial sector and the compulsions that come with it. The likely effect of commercialisation includes likelihood of dilution in missions and the taking over of commercial interests in programme and beneficiary selection. Eikenberry and Kluver (2004) warn against the long term adverse impacts of marketisation. Notwithstanding this, there exists a widespread belief among the thinkers in the field that commercialisation in one form or the other, has come to stay in the sector.
1.2.3 Market Orientation and Nonprofit Sector

Despite the blurring lines between for-profit and nonprofit organisations and the emerging manifestations of commercialism in the nonprofit sector, there are significant differences between commercial marketing and nonprofit marketing. These differences are what necessitate special treatment to nonprofit market orientation in research and practice.

Nature of exchange relationship that forms the crux of marketing is different in commercial and nonprofit markets. In for-profit exchanges, customers pay for the services they receive from the firms and this exchange of economic values is the source of revenue for commercial firms. Nonprofit sector is characterised by the absence of economic exchanges with the beneficiaries of services in most cases. Even in cases where beneficiaries are required to pay, total cost is rarely recovered by the price. Nonprofit sector is mostly dependent on external sources for finances in the form of donations, grants etc. However, it must be noted that exchanges do happen in nonprofit marketing. But nonprofit exchanges are non-economic in nature (Kotler and Levy, 1969b). In a purely nonprofit setting, services or products are provided in the beneficiaries market and the revenue is mobilised from the market for donors.

Another characteristic difference between marketing as practiced by for-profit organisations and their nonprofit counterparts has to do with the awareness about marketing. Nonprofit organisations engage in marketing activities without even being aware that they do. Also, those nonprofit organisations who claim to be doing marketing, equate marketing with promotional activities (Andreasan & Kotler, 2003). The prevailing perception in the sector towards marketing as undesirable for a nonprofit organisation is another roadblock for nonprofit marketing in the nonprofit sector.
Marketing practiced by nonprofit organisations is more likely to be organisation-centred than customer-centred. Most nonprofit organisations are founded on passion and ideals of founding members. Thus, they are guided by preconceived notions of what is good for their beneficiaries and rarely do they consider market inputs for design and delivery of services. Some other organisations may be guided by the desire to make their services available to as many beneficiaries as possible and therefore the focus will be on what is possible at minimum cost than what is really needed by the beneficiaries. The nature of client satisfaction is also a factor in decisions involving strategic orientations. Garland and Westbrook (1989) has argued that client satisfaction is a different concept in a nonprofit context because unlike commercial markets, clients/beneficiaries seldom evaluate the service provided by nonprofit organisations. Standards for benchmarking for service-evaluations are also not readily available to clients in many nonprofit markets as there may not any similar service offers from other organisations.

1.2.4 Market Orientation Trends in Indian Nonprofit Sector

The nonprofit landscape in India today is similar to what Sheth observed about the US nonprofit sector in the late 80’s, i.e., cooperation and competition with the for-profit sector in an increasingly market-economy oriented society promotes market orientation among nonprofit organisations (Sheth, 1989). India, after more than two decades of liberalisation and globalisation of the economy, can be likened to a market-economy oriented society. As the clout of market-economy grows, its influence is sure to percolate into other sectors of the society like the nonprofit. Thus, the general trends in the economy and the society in India can be considered as more conducive than ever for concepts like market orientation and other management techniques.
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Prevalence of management techniques and concepts in nonprofit sector as a natural result of the growing influence of market-economy has its parallel in public policy. Scholars view ‘New Public Management’, the reform movements visible in several countries directed at improving efficiency and accountability in public policy and governance as an upshot of market and private sector (Nagel, 1997). Market orientation is an important part or an underlying concept of this movement (Kaboolian, 1998). Within the nonprofit sector in India, there is an increased awareness about what management techniques and practices can do in improving efficiency of the sector (Almeida, 2009).

Nonprofit sector has been undergoing changes all over the world. Shifts in socio-economic and political environment present several challenges to nonprofit sector. Experts observe that these challenges have resulted in trends leading to what some reckon as ‘blurring of the lines’ between for-profit and nonprofit sector (Weisbrod, 1997). Increased adoption of market orientation in nonprofit sector can be regarded as a feature characterising such trends. Sheth lists privatisation, competition, public opinion, and technological advances as the trends pushing nonprofit organisations towards market orientation (Sheth, 1989). Despite the not-for profit nature of organisational mission and activities, nonprofit organisations are increasingly exposed to market pressures and challenges (Salamon, 1993). This changing face of the sector has even prompted some observers to remark that the real difference between non-profit and for-profit sectors is only in degree and not in kind (Brody, 1996). Traditionally, nonprofit organisations establish their institutional identity by distancing themselves from the ways of the commercial world (Drucker, 1989). This attitude of the sector is often reflected in its cautious approach towards the adoption of many management techniques and practices. But as
pressure on organisations increases due to accountability-demands and competition, several organisations have opened up to the potential benefits of for-profit sector solutions for countering operational and market problems. But as Andreasen and Kotler (2003) noted, marketing was one of the last of business practices to be embraced by the sector. Project and financial management techniques found acceptance in the sector rather quickly compared to marketing. Nevertheless, rising competition for funds, the escalating complexity of tasks with the expanding scope of operations, increased globalisation trends etc have contributed to a perceptible change in global nonprofit sector in its approach towards marketing. India, with an active nonprofit sector, is an interesting case for nonprofit marketing given the transitional phase the sector is going through.

1.3 Potential Contributions of the Study

The study, by analysing the nature of nonprofit market orientation and its impact on organisational performance, hopes to make significant contributions to the body of knowledge in nonprofit market orientation in the context of Kerala’s nonprofit sector. By analysing nonprofit market orientation and its variations based on important organisational characteristics, the research will be able to provide insights into the nature of market orientation in a developing economy context. This research can also prove beneficial for nonprofit practitioners in the state as it sheds light on a hitherto unexplored area of nonprofit management in Kerala.

1.4 Organisation of the Thesis.

Market orientation of nonprofit organisations in Kerala and its potential impact on various dimensions of organisational performance form the subject matter of this thesis. The basic premise of the thesis is that market orientation
enhances organisational performance of nonprofit organisations in Kerala. Conceptualisation of market orientation and organisational performance in a nonprofit context is derived from extant research and modified to suit the research context. The conceptual model thus developed is empirically tested by the statistical method PLS-Structural Equation Modelling.

The thesis is organised into 8 chapters. The current chapter is chapter 1-Introduction. This chapter is intended to introduce the research topic and the chapter-scheme of the thesis.

Chapter 2, An Overview of the Nonprofit Sector in India and Kerala, provides a detailed description of various approaches to defining nonprofit organisations; theories regarding the emergence of the sector; history and legal framework of nonprofit sector; and size and scope of the sector in India with a special focus on Kerala.

Chapter 3 is Review of Literature. Existing literature on market orientation, nonprofit marketing, organisational performance and innovativeness are reviewed and discussed in detail in this chapter.

Chapter 4 is Research Methodology. The chapter begins with the statement of the problem, followed by relevance and scope of the study. The conceptual framework of the research is also presented in this chapter. Objectives and hypotheses are also given in the same chapter. Next, the chapter briefs the methods used for the present research such as measurement-instruments used, methods for data collection, sample selection and so on. Presentation of data analysis and interpretation is divided into two chapters – chapter 5 and chapter 6. Chapter 5 is Data Collection, Reliability, and Validity. The objective of the chapter is to report the details of data collection,
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the profile of samples and the check for reliability and validity of measures used in the study. Data-distribution characteristics are also reported in this chapter.

Chapter 6 is Tests of Hypotheses and Analysis of Conceptual Model. The tests of hypotheses and statistical analysis of the conceptual model are reported in this chapter.

Chapter 7, Discussion of Findings, gives the summary of findings and a detailed discussion of the findings of the study.

Chapter 8, Conclusion, the final chapter of the thesis, provides the summary of the research, theoretical and practical implications of the study, and scope for future research. The chapter concludes with a conclusion to the study.