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# A Stakeholder Perspective on the Market Orientation of Swiss Nonprofit Organizations

Sophie Hersberger-Langloh 

Center for Philanthropy Studies (CEPS), University of Basel, Basel, Switzerland

## ABSTRACT

The adoption of business-like practices by nonprofit organizations (NPOs) has often been associated with focusing too much on markets, rather than mission. Yet, the concept of market orientation does not view profits as the goal, but rather as a consequence. This makes it highly relevant for NPOs. We argue that identifying, monitoring, and managing the relevant stakeholder groups through a market-orientation approach can enhance both the economic and social performance of NPOs. We do so by developing a preliminary scale of stakeholder-based market orientation based on survey data from Swiss NPOs and show that components of such a scale need to include stakeholder groups other than those found in the business literature. The effect of these components on organizational growth and mission achievement are examined using a structural equation model. The results suggest that adopting a stakeholder-based market orientation concept can have positive effects on organizational growth and mission achievement.

## KEYWORDS

Market orientation;  
stakeholder perspective;  
nonprofit marketing;  
nonprofit organizations;  
organizational performance;  
marketization

## Introduction

NPOs, like for-profit entities, have to identify their markets, develop relationships with actors in these markets, monitor changes, and analyze the behavior of their current and potential stakeholder groups to achieve their social mission (Devece et al., 2017). As NPOs cover a wide range of organizations (different legal forms, funding sources, mission, etc.), their stakeholder groups are equally widely spread. All of these stakeholders, as a source of both legitimacy and resources, need to be monitored and managed (Balsler & McClusky, 2005), as their expectations and how these are met greatly influence the value creation and effectiveness of an organization (Best et al., 2019; Wright et al., 2012). This is especially important since the nonprofit sector has been under much pressure to balance economic and social performance due to increased competition (Polonsky & Grau, 2011) and media scrutiny (Gallagher & Weinberg, 1991) over the last decades. In many Western countries, the number of nonprofit organizations (NPOs) has grown substantially across all sectors (Salamon et al., 2017). As a result of this growth period and

**CONTACT** Sophie Hersberger-Langloh  [sophie.hersberger@unibas.ch](mailto:sophie.hersberger@unibas.ch)  Center for Philanthropy Studies (CEPS), University of Basel, Basel 4051, Switzerland.

simultaneously stagnant or even decreasing government spending and donations, many NPOs are forced to acquire new funding sources or to generate earned income (Yu & Chen, 2018). In addition to increasing competition, the public's expectation of NPOs to improve performance (Polonsky & Grau, 2011) is pushing organizations away from the classical model of a donation-based charity (Toepler, 2004). They are becoming and behaving more like for-profit organizations (Froelich, 1999; Moeller & Valentinov, 2012; Yu & Chen, 2018); commercial activities, dues and fees are gaining greater importance (Chetkovich & Frumkin, 2003; McKeever, 2015; Salamon et al., 2017). NPOs are increasingly adopting management strategies from for-profit organizations to gain legitimacy and improve their operations, therefore bending and blurring the lines between the two sectors (Dees & Anderson, 2003; Maier et al., 2016; Suykens et al., 2019).

This *marketization* of NPOs is seen as a critical development by many researchers (Eikenberry, 2009; Frumkin & Andre-Clark, 2000), because it implies inter alia an increasing focus of NPOs on the market(s) and on the corresponding stakeholder groups. They fear that the adoption of for-profit practices, a process called *managerialization* (Maier et al., 2016), may lead to “aggressive profit-seeking behavior” (Guo, 2006, p. 124) whereby they “compromise their underlying ethos” (Chad, 2013, p. 10) and lose sight of their mission. Correspondingly, nonprofit marketing activities are perceived as “undesirable, too expensive, and a waste of stakeholders’ money” (Helmig et al., 2004, p. 108). Money spent on anything else than service delivery is still often viewed as unnecessary expense by funders. This perception is reinforced by regulations for NPOs (e.g., a maximum administrative ratio allowed by watchdog organizations or quality seals) and the views of the media and the general public (Chad et al., 2013).

There are also researchers and practitioners who emphasize the positive aspects of marketization. Adopting a business-like mind-set and practices can help NPOs to improve their programs and services (Von Schnurbein, 2014). The focus of these studies is often the positive effect on financial performance (Shirinashihama, 2018) by being cost-efficient (Ni et al., 2017). In the non-profit-context, however, performance is not unidimensional, but encompasses more than financial success (Kaplan, 2001; Padanyi & Gainer, 2004). On this basis, it makes sense to take a closer look at concepts from the business world whose goal is not primarily to increase profits: market orientation, for example, is the idea that organizations can increase profits by focusing on market demands. Profits are therefore not the *goal*, but rather an *effect* of market orientation (Kohli & Jaworski, 1990; Narver & Slater, 1990), which is largely compatible with the subjective performance measure – mission fulfillment – that NPOs aim for.

Admittedly, as researchers have pointed out, the mission objective and complex stakeholder structures of NPOs make it difficult to transfer some

business concepts as they are on to NPOs (Beck et al., 2008; Chad et al., 2014; Eikenberry, 2009), especially in the context of the heated debate about mission versus money (Dolnicar et al., 2008). But incorporating stakeholders' expectations to increase value creation and performance of an organization is something that the business sector has been trying to do for a while (Donaldson & Preston, 1995). This makes the applicability of a market orientation concept to NPOs much more feasible and researchers have called for a nonprofit scale of market orientation (Kara et al., 2004). Attempts to establish such a scale have been made (e.g., Balabanis et al., 1997; Choi, 2014; Modi, 2012; Padanyi & Gainer, 2004; Voss & Voss, 2000; Wood et al., 2000) and some have already analyzed how their scale affects performance (see Shoham et al. (2006) for an overview). However, the debate around marketization has largely been internally oriented, putting the NPO in the center and taking external influences as given and therefore unmanageable. This study contributes to this existing research by drawing on the theory of stakeholder management *and* on findings from the market orientation literature to include those external influences, framing them as management tasks, which organizations can handle.

The paper aims to establish a preliminary stakeholder-based market orientation scale of Swiss NPOs, to see a) which stakeholder groups are relevant for a market orientation concept in a Western country, which is characterized by increased regulatory and competitive pressure on the nonprofit sector, and b) how these stakeholder groups affect an organization's economic and social performance. Switzerland offers an interesting case because the number of NPOs have been increasing over the last couple of years (Hengevoss & Berger, 2018), its nonprofit sector is a hybrid between the liberal, welfare, and social-democratic model (Helmig et al., 2011), and almost two-third of nonprofit financing comes from fees and sales (Helmig et al., 2017). The paper therefore also contributes to the debate on the effects of marketization by showing that adopting for-profit practices does not simply impact economic measures, but can also serve an organization's mission.

The paper begins with a review of the literature and theory that this research is based on to develop the hypotheses. The following section on the methodology describes the context and process of the data collection, the questionnaire design, and the process of the data analysis. It is followed by a presentation and discussion of the results, before ending with some concluding remarks.

## **Theoretical background**

### ***Market orientation and stakeholder orientation***

Market orientation is based on the idea that organizations can maximize profit by focusing on market demands. Market-oriented NPOs can react to their stakeholder groups and satisfy their needs more appropriately to achieve better

performance (Shoham et al., 2006). In for-profit literature, the concept of market orientation as part of strategic marketing has been thoroughly explored and applied (see Lafferty et al. (2001) for an overview of the five most recognized market orientation conceptualizations). The two most prominent schools of thoughts, on which most business research is built upon, are MARKOR (Kohli & Jaworski, 1990) and MKTOR (Narver & Slater, 1990). MARKOR proposes a behavioral view of market orientation and suggests that organizations therefore implement market orientation through marketing activities. The MARKOR scale measures how an organization generates, disseminates, and responds to intelligence by developing and implementing its marketing activities (Kohli et al., 1993). MKTOR argues that market orientation is an organizational trait or culture. This culture moves the organization to conduct business in a certain way (Brady et al., 2011). MKTOR measures market orientation by analyzing customer orientation, competitor orientation, and interfunctional coordination (Narver & Slater, 1990; Slater & Narver, 1995). Some researchers argue that there is considerable overlap between the two concepts (e.g., Cadogan and Diamantopoulos (1995) or Lafferty et al. (2001)). Both MARKOR and MKTOR hold that the main objective of market orientation is not profitability, but rather that profitability is a consequence of market orientation with profits simply one element of this.

The concept of market orientation has been applied in the nonprofit context both conceptually and empirically (Modi & Gurjeet, 2018). Existing research on the market orientation of NPOs largely assumes that concepts from the private sector can be applied to the nonprofit sector (Chad, 2013; Shoham et al., 2006). Few authors argue that this is not the case, or at least only to some extent (Choi, 2014; González et al., 2001; Liao et al., 2001; Sargeant et al., 2002), and try to propose frameworks to measure the market orientation of NPOs. Some researchers use a modification of the MARKOR scale, including Vázquez et al. (2002), who expand the concept to include beneficiaries, donors, competitive alternatives, and potential collaborators. Others (although fewer) modify MKTOR, for example, Duque-Zuluaga and Schneider (2008), who split customers into three subgroups: beneficiary/recipient, donor, and volunteer/employee. They further add learning and social entrepreneurship to the scale. Choi (2014) also uses a MKTOR-based scale, but does not include collaboration as an option for NPOs. Some authors combine the two scales, for instance, Sargeant et al. (2002), who measure five components of nonprofit market orientation: stakeholder focus, competitor focus, collaboration, interfunctional coordination, and responsiveness. Modi (2012) has developed and tested a market orientation scale for NPOs in India, which comprises donor orientation, peer orientation, beneficiary orientation, and interfunctional coordination. Liao et al. (2001) suggest abandoning the term market orientation in a nonprofit context entirely and instead use “societal orientation”, since this term does not imply orientation toward a market in a literal, economic

sense. Similarly, Wymer et al. (2015) argue that one should use the term “nonprofit marketing orientation”, since market orientation only refers to customers or markets in a classical sense.

Classic market orientation concepts focus primarily two stakeholder groups, namely customers and competitors (Greenley et al., 2005). Stakeholder orientation, on the other hand, does not see a specific stakeholder group as more important than others, but acknowledges that some stakeholders need to be prioritized in some situations, depending on the issue, the country, industry, or strategic group within an organization (Ferrell et al., 2010). This view is based on stakeholder theory (Freeman, 1984), which states that every organization has obligations and relationships to a variety of stakeholders, and that the development of the organization depends on the management of these stakeholder groups (Wellens & Jegers, 2014). Stakeholders of an NPO are all individuals or groups who can influence organizational goals or are affected by the achievement of organizational goals (Theuvsen, 2001). Stakeholder theory takes into account that each stakeholder group might have differing or even clashing interests and that they therefore need to be dealt with individually, with a different weight on each relationship (Mitchell et al., 1997). This makes the management of stakeholders a strategic issue, especially since this relationship management is resource-intensive (Theuvsen, 2001), and different stakeholders control different resources that are of various importance for the organization’s survival (Pfeffer & Salancik, 1978). Organizations can be oriented to a smaller or larger extent to the different stakeholder groups (Greenley et al., 2005).

### ***Nonprofit stakeholders***

Nonprofit sectors worldwide are characterized by an organizational diversity (Salamon & Sokolowski, 2016). Common for all types of NPOs however, is that they do not have shareholders who directly benefit from the organization’s activities, but must cater to the needs of a variety of stakeholders and market their services and products to all of them (Chad et al., 2013). This can foster the prioritization of one stakeholder group over the others, due to a lack of resources to respond to all needs equally (Leroux, 2009; Theuvsen, 2001). For-profit organizations also deal with the challenges of multiple markets, but can usually put their customers first, because the profit made from successful marketing in that area benefits all other stakeholders (Helmig et al., 2004). NPOs have a responsibility toward a more diverse range of stakeholders with differing or even competing expectations and to their core mission to serve society rather than investors or proprietors (Morris et al., 2007). The stakeholder groups as such are much more diverse and complex than is the case for most for-profit organizations. Accordingly, their information requirements – a key factor in the MARKOR scale – are equally diverse and intricate. Due to

this complex stakeholder structure, only some of the for-profit components of a market-orientation concept are applicable to (certain) NPOs, e.g., those that operate in a competitive environment such as health care (Shoham et al., 2006).

In view of the diversity of NPOs and the decisions to be taken within them, any list of possible stakeholders of an NPO is not conclusive. **Beneficiaries** are traditionally considered one of the main stakeholder groups of an NPO (Shapiro, 1973) and most often the reason an organization exists (Hansmann, 1980). Beneficiary orientation therefore is the equivalent of “customer orientation” in for-profit market-orientation measurement (Narver & Slater, 1990). **Donors** constitute the second “customer” group in Shapiro’s model (1973) of a dual target-customer perspective. NPOs have to acquire resources (financial and non-financial, such as in-kind donations) from a variety of donors, including individuals, corporations, and grant-making foundations. They often depend on them, because they do not have access to capital markets for funding (Helmig et al., 2004). Narver and Slater’s model (1990) captures many aspects of donor orientation, but following Shapiro’s (1973) dual target-customer perspective, a stakeholder-based non-profit market-orientation scale needs both a beneficiary *and* a donor orientation component, since they constitute two separate customer groups. Many other authors follow this dual perspective in their conceptualization of non-profit market orientation and incorporate both a beneficiary and a donor component (Macedo & Carlos Pinho, 2006; Modi & Mishra, 2010; Morris et al., 2007; Vázquez et al., 2002; inter alia).

**NPO members** fall somewhere between the categories of donors and beneficiaries. Member-based organizations rely on membership fees for funding. However, member-based organizations also have a clear mission to serve their members in return, making them their primary beneficiaries. Based on the financial relevance of membership dues and fees, which are usually referred to as earned income (Anheier, 2014) or commercial income (Guo, 2006), members are considered donors of an organization in this study.

Another main resource of many NPOs is a **volunteer workforce** (Guo, 2006) and their **employees**. Social service or health care NPOs are very labor-intensive (Salamon & Dewees, 2002) and the motivation and job satisfaction of both the volunteers (incl. the **board** of an organization) and the paid staff is crucial for the success of an organization (Duque-Zuluaga & Schneider, 2008).

**Competitors** are a relevant stakeholder group for NPOs because they can be in competition both for resources and service delivery (Bilodeau & Slivinski, 1997; Thornton, 2006), including the attention and loyalty of both donors and/or beneficiaries (González et al., 2001). Yet, organizations working in the same field are often **collaborators**, rather than competitors when it comes to serving their beneficiaries better (Huxham & Vangen, 1996). Modi and Mishra (2010) call this relationship “peer orientation” in their concept of nonprofit market



orientation. NPOs can choose to compete or collaborate with each other (Sharp, 2018), with for-profit businesses (Austin, 2000), and/or with the government (Salamon & Toepler, 2015).

The component of **internal orientation**, e.g., interfunctional coordination, in an NPO is at least as important as it is in for-profit companies, due to the potential conflicts that arise from lack of ownership and a separation of decision-making power and executive power that can often be observed in NPOs (Van Puyvelde et al., 2012). Just as NPOs have multiple organizational stakeholders, they also have multiple principals. Several of these are internal such as the board, paid staff, and operational volunteers (Stone & Ostrower, 2007). Governance mechanisms need to be put into place to coordinate and monitor these internal principals to ensure orientation toward a common goal. Internal orientation includes the coordination between various strategic units or functions to meet common organizational goals (Narver & Slater, 1990). NPOs have to coordinate projects and activities between their employees, volunteers, and collaborators (Duque-Zuluaga & Schneider, 2008).

Lastly, orientation toward the **public sector** as a regulatory agency and major donor is a stakeholder group that is given little consideration in existing NPO market-orientation concepts, in spite of some early suggestion by researchers to include such a component in an NPO market-orientation concept (Balabanis et al., 1997). Where authors of previous studies have dealt with the public sector, they have included it in their donor/funder component: for example, Padanyi and Gainer (2004) use the term “government-funder-related culture and activities”. Yet, the public sector is an important shaper of the nonprofit sector, as institutional theory states (Frumkin & Galaskiewicz, 2004), and worth seeing as a separate stakeholder group.

The various stakeholders group mentioned make it eminent that NPOs operate in very complex environments. They serve as platforms for a number of different market actors (Hersberger-Langloh, 2019). The first hypothesis is therefore as follows:

H1: Nonprofit stakeholder groups can clearly be differentiated in a stakeholder-based market orientation concept.

### ***The effect on performance***

Studies on market orientation of for-profit organizations and its effect on the performance of an organization mostly conclude that the more market-oriented an organization, the more profitable it is (see Kara et al.,



2005; Narver & Slater, 1990; Pelham & Wilson, 1996). These studies use a wide range of performance measurement variables, e.g., return on investment (ROI) or return on assets (ROA), the growth of sales, or market share. Even in a nonprofit context, market orientation can serve as a self-assessment tool to determine whether the organization is doing well. It becomes especially relevant when linked to performance variables (Duque-Zuluaga & Schneider, 2008). Most studies that look at market orientation in the nonprofit sector find a positive link between market orientation and performance (see Modi and Mishra (2010) or Shoham et al. (2006) for a comprehensive overview), although with high deviation. Shoham et al. (2006) identify the location of an NPO, the market orientation operationalization, and the performance measure used in the study as three potential moderators of this relationship. They find that studies using a MARKOR scale show a stronger relationship between market orientation and performance of NPOs.

Besides the positive link that has been found in for-profit literature (Greenley, 1995; Kirca et al., 2005; Morgan et al., 2009; Narver & Slater, 1990; inter alia) and nonprofit research (Modi & Mishra, 2010; Shoham et al., 2006), industrial organization theory predicts a positive effect of managing relationships with the relevant stakeholder groups on performance (Shoham et al., 2006). NPOs have to manage relationships within their stakeholder environment in order to increase performance by creating market orientation and encouraging market-oriented behavior. By doing so, NPOs can also ensure alignment of their stakeholders with the mission and values of the organization (Balser & McClusky, 2005).

The performance of an NPO can be measured in objective or subjective dimensions and is multidimensional (Padanyi & Gainer, 2004). A single overall performance construct might not always be the best choice to differentiate the duality of the nature of success for NPOs (Kanter & Summers, 1986; Sowa et al., 2004). Camarero and Garrido (2009) suggest breaking down performance into social and economic components, to measure the performance of an NPO. A separation of social and economic performance measurement is especially useful in view of the fact that the application of a marketing concept is not primarily aimed at increasing profits.

The second and third hypotheses are therefore formulated as follows:

H2: Stakeholder-based market orientation components have a positive effect on the economic performance of an organization.

H3: Stakeholder-based market orientation components have a positive effect on the social performance of an organization.

## Methodology

The data collection was part of a larger research project regarding management challenges, financial competencies, and command structures in NPOs. The data was collected from Swiss NPOs.

The Swiss nonprofit sector consists of approximately 80,000 associations (Helmig et al., 2017) and over 13'000 charitable foundations (Von Schnurbein & Perez, 2018). Both of these legal forms can be either grant-making or operational (i.e. managing their own projects to achieve their mission), or both (Von Schnurbein, 2013). Only operational foundations were included in the sample, as they fulfil very similar functions as associations and cannot be differentiated easily from an outside perspective. Most Swiss NPOs operate in the areas of social and health services, education and research, or culture and leisure. When looking at the workforce active in the nonprofit sector, Switzerland has a comparatively large nonprofit sector in relation to other countries (Helmig et al., 2011). Having four national languages, Switzerland presents an interesting case when looking at any management dimension of NPOs, as it encompasses more than one cultural space in which NPOs operate (Ritz & Brewer, 2013).

### Questionnaire design

The questionnaire consisted of 132 questions covering several research projects and was available in German and French. Dillman et al.'s (2014) suggestions were followed when designing and composing the questionnaire. Each question had response options using a five-point Likert-scale format, with answers ranging from 1 = "to no extent" to 5 = "to a large extent". The cover letter enclosed to the survey explained the significance of the study: participants were told that the research project addresses managerial challenges that NPOs face, but did not reveal or mention the underlying constructs so as not to influence any answers and avoid over-justification effects. To avoid consistency effects, the questions were presented in no particular order and with equal importance (Podsakoff & Organ, 1986). Several rounds of pretesting were conducted to reduce the number of items and assess how each of the items was understood in a field setting, following the recommendations of Hak et al. (2008). According to Burns and Bush (2014), five to ten representative respondents are sufficient to point out flaws in a questionnaire. Eleven pretest interviews for the German version of the questionnaire and, after the final version of the questionnaire was translated by a professional translator, an additional two for the French version were conducted with bilingual native speakers.

## **Measures**

### ***Independent variables: stakeholder orientation***

As NPOs usually have relationships to several stakeholder groups at once, defining a specific “market” (e.g., donors, beneficiaries, collaborators) to which an organization is oriented toward is difficult (Padanyi & Gainer, 2004). Organizations have to be aware of all relevant stakeholder groups and develop their strategies accordingly (Bhattarai et al., 2019). As organizations differ in terms of their activities, funding sources, and organizational structures, their stakeholder groups might differ accordingly. Measures for the different stakeholder orientations were extracted both from business and nonprofit literature and focus on the largest, most common stakeholder groups in the nonprofit sector. Narver and Slater (1990) and Kohli et al. (1993), with their well-known market orientation scales, offered a template for the beneficiaries and internal orientation items. Items from Balabanis et al. (1997), Duque-Zuluaga and Schneider (2008), and Modi and Mishra (2010) were partially adapted and used for items concerning donors, peer organizations, and also internal orientation. Wymer et al. (2015) served as reference for items concerning public image and the relationship to the public sector.

### ***Dependent variables: social and economic performance***

A combination of subjective and objective dimensions can give a more comprehensive view of performance (Sowa et al., 2004). As Kanter and Summers (1986) argue, one should view these dimensions as separate variables, since they show the varying priorities of different stakeholder groups. Various studies (Bennett, 2005; Padanyi & Gainer, 2004; Sargeant et al., 2002; Vázquez et al., 2002) have assessed the degree of mission achievement by asking organizations to evaluate the extent to which they believed they have fulfilled their mission using survey items based on Brown (2005). Two items of this item battery were used to measure the degree to which an organization has reached its goals or achieved its mission, making it a proxy for social performance. Social performance refers to creating social value by catering to the needs of beneficiaries (Bhattarai et al., 2019). Another one of these items asked respondents whether an organization had expanded their programs or services over recent years; this was used as a proxy for economic performance. It can be assumed that service recipients are more satisfied if there are more programs and services for them, which is why the model allows for the influence of organizational growth (economic performance) on mission achievement (social performance).

### ***Data collection***

The German and French questionnaire was sent to 3,053 Swiss NPOs, following a key informant approach. As the cover letter explained what type of

questions are included in the survey and what kind of knowledge of the organization would be required to be able to answer them, we left it to the organization to decide who should fill out the questionnaire, but recommended senior management staff. At the beginning of the questionnaire, we asked respondents to fill out their job title and number of years they had been working with the organization, to ensure it would be someone with enough knowledge and experience for the questions asked.

Since there is no central register that lists the population of NPOs and charities in Switzerland, a non-probability sample of operational organizations was chosen. Typical case sampling was applied, consisting of cases from charities bearing a quality seal, NPOs with a focus on environmental issues, and a sample of NPOs from the trade register. For the latter, selection criteria using keywords from the health and housing sector were applied. This over-coverage allowed us to have typical cases from important nonprofit sectors with large organizations in the dataset.

All organizations in the sample were sent the questionnaire, a cover letter with the institute's letterhead, and a stamped return envelope by mail in mid-April 2018. We ultimately received questionnaires from 626 organizations (20.5% response rate). The average age of respondent organization is 49 years, the average size is 56 full-time equivalents, and the average number of board members is seven. After listwise deletion of cases with missing data, 533 organizations were analyzed in the factor analysis, and 528 cases using the structural equation model. Non-respondent bias was checked by comparing the responses from early respondents with those of later respondents through t-tests (Armstrong & Overton, 1977), and non-respondent bias was not problematic, as the results showed no significant difference.

### **Data analysis**

Listwise deletion of missing cases resulted in 528 responses that could be analyzed further. We conducted exploratory factor analysis in R (psych package version 1.8.12) to analyze the underlying structure of the data and used principal axis factoring (PAF) with oblique rotation (Oblimin with Kaiser Normalization) to generate a factor structure, following Conway and Huffcutt (2003). Unlike principal component analysis, PAF focuses on the common variance among items and detects underlying or latent factors in the data (Fabrigar et al., 1999). The oblique rotation allows for some correlation among the factors, which is a realistic assumption for a scale with some overlap between the components (Conway & Huffcutt, 2003). The corresponding confirmatory factor analysis and finally the structural equation model were calculated using Lavaan 0.6–3 in R. Since the distribution of the data did not allow multivariate normal distribution to be assumed, we chose a maximum likelihood estimation with robust (Huber-White) standard errors.

## Results

Items with factor loadings lower than 0.3 were eliminated from the further analysis, as factor loadings in the range of  $\pm.30$  to  $\pm.40$  are considered the minimal level to be able to interpret the structure (Hair et al., 2014, p. 115). Discriminant validity was ensured by eliminating items with substantial cross-loadings (Anderson & Gerbing, 1988). Parallel analysis of the remaining items (Lim & Jahng, 2019) resulted in a five-factor structure, consisting of 18 items and explaining 50.1% of the total variation. All standardized factor loadings are above 0.4, with the majority of the items loading above 0.7 (see Table 1). The average variance extracted (AVE) of each latent construct for the stakeholder orientation components is above 0.4 and below the composite reliability, which supports the convergent validity of all constructs (Fornell & Larcker, 1981; Hair et al., 2014). The Kaiser-Meyer-Olkin (KMO) statistic was 0.82, which is sufficient for an exploratory scale (Denis, 2015, p. 612). Bartlett's test of sphericity was statistically significant at  $p < .0001$ . All stakeholder orientation factors have a Cronbach's alpha of at least 0.68 and a composite reliability (CR) above 0.66, which is still in the acceptable range for good internal consistency of the scale (Hair et al., 2014).

Construct validity was tested through confirmatory factor analysis (Jöreskog, 1969). The goodness-of-fit statistic show an adequate model fit with the data (chi square ( $\chi^2$ ) = 290.2 (df = 125), robust comparative fit index (CFI) = .946, robust root mean square error of approximation (RMSEA) = .052).

Table 1 provides an overview of the measurements, the descriptive statistics for the items, and the goodness-of-fit-indices.

Figure 1 displays the structural equation model, including the paths between the five factors, the mission achievement construct, and organizational factor, and the responding standardized coefficients. Statistically significant relationships are indicated by an arrow in bold and asterisks to mark the significance level. The model showed an adequate fit ( $\chi^2 = 375.3$ , df = 169,  $p < .001$ , Robust RMSEA = .050, Robust CFI = .938).

## Discussion

The goal of this research project was to establish a stakeholder-based market-orientation scale for NPOs that considers NPO-specific characteristics and includes relevant stakeholder groups of NPOs. This scale was then used to test the relationship between these stakeholder components and the economic and social performance of an organization.

The results of the exploratory and confirmatory factor analysis support the hypothesis that stakeholder groups are clearly distinguishable in a stakeholder-based market orientation scale. Factor analysis produced five factors

**Table 1.** Measurements (n = 528).

	Internal Orientation	Competitor Orientation	Public Sector Orientation	Beneficiary Orientation	Donor Orientation	Mission Achievement	Organizational Growth	M	SD	α	CR	% of Variance	AVE
We meet regularly with our beneficiaries to find out what products and services they will need in the future.				.523				3.45	1.21	.68	.66	6.9%	.43
We regularly survey our beneficiaries to assess the quality of our projects and services.				.818				3.49	1.27				
Feedback from beneficiaries is disseminated throughout our organization.				.531				3.77	1.08				
We regularly review the impact of changes affecting our major donors.					.757			3.60	1.21	.77	.76	9%	.55
We constantly strive to understand the expectations of our donors.					.887			3.90	1.09				
We are open to suggestions from donors regarding the development of new projects and services.					.479			3.65	1.18				
In our organization, the degree of coordination between the various functions is high.	.716							3.90	1.05	.81	.8	12%	.51
All our functions are actively involved in the planning of projects and services.	.715							3.87	1.01				
Information and resources are regularly shared between our functions.	.836							4.03	0.94				
We organize regular meetings between our function heads to plan and develop strategies and projects.	.612							4.08	1.11				
We actively inform the public offices about our activities.			.441					3.81	1.35	.82	.8	11.9%	.6
In recent years, we have adapted our projects and services to increase the chances of public funding.			.833					2.80	1.37				
We participate in public sector programs to raise additional funds.			.778					2.38	1.36				
We seek to acquire public funding.			.727					3.28	1.62				

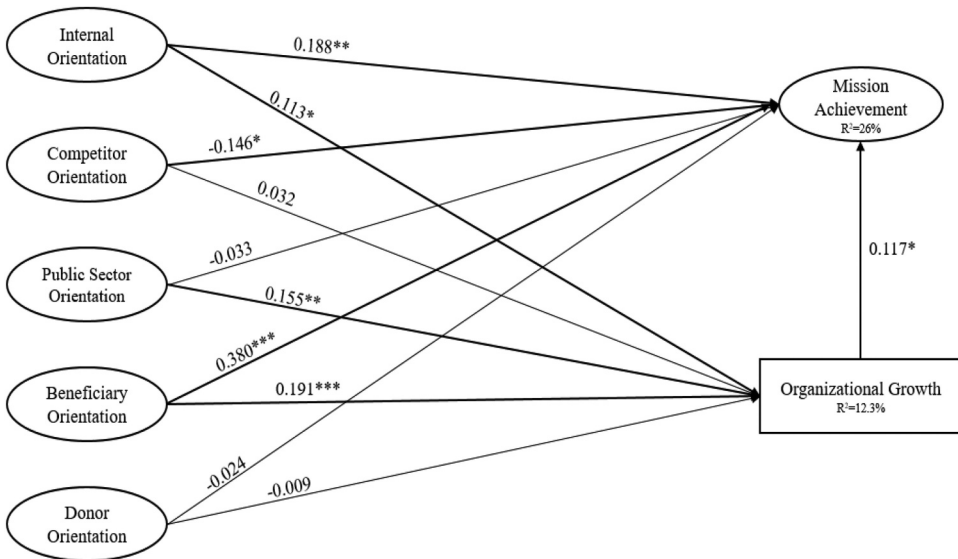
(Continued)



Table 1. (Continued).

	Internal Orientation	Competitor Orientation	Public Sector Orientation	Beneficiary Orientation	Donor Orientation	Mission Achievement	Organizational Growth	M	SD	$\alpha$	CR	% of Variance	AVE
We regard some nonprofit organizations as competitors in the procurement of resources.		.507						2.45	1.37	.79	.76	10.3%	.49
We regard some nonprofit organizations as competitors in the provision of services.		.865						2.28	1.28				
We regard some profit-oriented companies as competitors in the provision of services.		.591						2.13	1.34				
We regard some public institutions as competition in the provision of services.		.687						2.01	1.21				
Generally, clients, members, or consumers are satisfied with the services provided						.841		4.43	0.63	.57	.65	22.1%	.49
Overall, the organization has been successful in meeting its goals or objectives.						.528		4.28	0.76				
The number of programs and services offered has increased during recent years.								3.73	1.24				





**Figure 1.** Structural equation model (n = 528). \*p < .1. \*\*p < .05. \*\*\*p < .01.

explaining 50.1% of the variance; namely, beneficiary orientation, donor orientation, internal orientation, public sector orientation, and competitor orientation. Of the initial survey items, 18 items were retained. This makes the scale similar in length to other previously developed scales (Modi & Mishra, 2010). When looking at the effects of the stakeholder components on the two performance measurements, mission achievement and organizational growth, it becomes clear that not all components have a statistically significant and positive effect on organizational performance and, thus, hypotheses 2 and 3 are not fully supported. Some of the market-orientation components can be found in a similar format in the for-profit concepts they are rooted in; however, as the following discussion shows, some elements are still unique to NPOs.

Internal orientation explains 12% of the variance and has a statistically significant and positive effect on both organizational performance measures. Interfunctional coordination, which includes this internal orientation, is an important aspect of many for-profit market orientation concepts (Narver & Slater, 1990). The results of this study confirm findings by authors such as González et al. (2001), who state that NPOs have a strong internal orientation, but do not support the findings of Modi and Mishra (2010), who found that market orientation in a nonprofit context is more outward focused, as opposed to a more internal orientation. Due to the lack of benchmarking instruments in the Swiss nonprofit sector, NPOs seem to have a strong inward focus. The positive effect on organizational performance shows that this kind of capacity building strengthens NPOs sustainably, although they often face pressure from

donors to direct all organizational or managerial efforts toward their service delivery (Chad et al., 2013).

Donor orientation comprises three items and explains 9% of the variance. While many NPOs still depend on donations (Helmig et al., 2004), they increasingly play a subordinate role in the financing of Swiss NPOs (Helmig et al., 2009). Earned income, such as fee-based programs, are gaining importance due to greater competition for donations and government funding (Chetkovich & Frumkin, 2003). Donor orientation also does not significantly affect the sense of mission achievement or the growth in the number of services or programs that an organization offers. The lack of a significant effect on organizational growth in particular might seem counterintuitive, since donor orientation might be expected to be a key component of nonprofit market orientation because they provide financial resources that allow an organization to operate. Although a previous study of nonprofit market orientation has shown a positive relationship between donor orientation and organizational performance (Vázquez et al., 2002), the results of the structural equation model imply that an orientation toward beneficiaries, their social value, is more central to NPOs than financial values (Padanyi & Gainer, 2004). Donor orientation therefore seems to be more of a constraint that NPOs must fulfil. It is decisive in *whether* they can achieve their mission, but not to *what extent* they do so.

Beneficiary orientation significantly and positively affects both performance measurements used in this study. Since market orientation is a concept from for-profit literature and management, it is often associated with a loss of idealism and mission drift (Maier et al., 2016). However, this study shows that market orientation in a nonprofit context is much more focused on beneficiaries as a component of such a scale and, subsequently, on the positive influence on mission achievement and organizational growth. Beneficiaries remain one of the most important stakeholders of NPOs. This confirms the argument by Wymer et al. (2015) that NPOs should orient themselves toward the society they serve, rather than simply implement existing market-orientation strategies from the private sector without adaptation.

Public sector orientation is a factor that has not been previously included in research about nonprofit market orientation. The items relating to this factor (see Table 1) describe the relationship with the public sector as a funder, yet it is a distinctively different factor than the donor component of market orientation. The public-sector orientation items clearly load onto one factor, explaining 11.9% of the total variance, and positively influence organizational growth. This could be due to the significance of government funding for Swiss NPOs, which is the second largest stream of income for Swiss NPOs, accounting for 45% of income for health and social service organizations (Helmig et al., 2011).

Competitor orientation is a main component in for-profit concepts and is also represented in market orientation of NPOs, as González et al. (2001)

predict in their theoretical framework. Modi and Mishra (2010) include competitor orientation in their peer orientation construct, but do not examine how it relates to organizational performance when analyzing overall nonprofit market orientation. In this study, the factor loads significantly negatively onto mission achievement, implying that organizations that focus more on competitors are more prone to have a lower degree of mission achievement. A possible explanation is that this is a strong outward perspective of NPOs (toward their peers/competitors), but with no imminent financial reward, therefore diverting resources from their primary social value goal of serving their beneficiaries.

Some limitations regarding the chosen method and sample have to be addressed here. First, the results have to be generalized with caution. Due to the limited availability of the data on Swiss NPOs, the data had to be collected via survey and the sample consists of large organizations from important organizational fields in Switzerland. It is therefore not representative of the total population of Swiss NPOs – which is unknown – and the results are not applicable to the nonprofit sectors of other countries without some adaptation, due to the different legal forms and requirements for nonprofits and different cultural factors influencing the management of organizations. Second, as pointed out, all the groups surveyed consist of quite large organizations. The results do not let us draw conclusions about the market orientation of smaller organizations. However, one could argue that the concept of market orientation is less relevant for smaller organizations, since a certain organizational size is required in order to even have the resources to implement a marketing concept. Third, there is a social desirability bias that may distort the results and threaten the validity of any survey (Malhotra, 1988). We tried to avoid this as far as possible by pretesting extensively, formulating items appropriately, and giving organizations the option to remain anonymous. The fact that there is variance in the data shows that this bias is quite small, but further research should include a social desirability marker, as exemplified by Modi (2012). Further research should also make sure that there is no common source bias that can arise when the dependent and independent variables are measured through the same instrument.

## Conclusion

Although marketization is a contested concept in the nonprofit literature, with researchers arguing that it has to be “either mission or money” (Dolnicar et al., 2008; Eikenberry & Kluver, 2004; Frumkin & Andre-Clark, 2000), the results presented in this paper show that it can be both. It thereby answers the call for “more comprehensive and evidence-based understanding of the effects of becoming business-like (...), because currently the field is characterized by polarized and inconclusive findings” (Maier et al., 2016, p. 79). The paper

contributes to existing literature by showing that the adoption of business-like practices, such as market orientation, does not necessarily have to lead to mission drift, or only be achieved through aggressive profit-seeking behavior. On the contrary, by identifying the relevant stakeholder groups, and monitoring and managing relationships with them, organizations can achieve more both socially *and* economically. This confirms the original concept of market orientation, in which profits are not the goal, but rather a consequence thereof (Kohli & Jaworski, 1990; Narver & Slater, 1990), but extends it by taking a stakeholder-based approach. The results presented in this paper show that a systematic alignment with and of relevant stakeholder groups in a nonprofit context need not have only economic advantages in the form of organizational growth, but can also bring benefits to society through higher degrees of mission achievement. This is especially relevant, since researchers believe that this tension between market and mission has become an inherent characteristic of NPOs (Sanders, 2015).

The results of this paper show that an orientation toward competitors, the public sector, beneficiaries, donors, and the internal functions are components of a stakeholder-based nonprofit market-orientation scale in a sample of more than 500 Swiss NPOs. By collecting data on Swiss NPOs, the paper therefore also contributes to the knowledge of the Swiss nonprofit sector, as data on organizations is scarce. To test how these stakeholder groups affect economic and social performance of NPOs, a structural equation model was used to link the stakeholder components and two performance measurements, mission achievement and organizational growth. The paper thereby contributes to the literature on stakeholder management of NPOs by demonstrating that an orientation toward different stakeholder groups have different effects on the performance of an organization. The results show that internal orientation and beneficiary orientation are components that positively affect both performance measurements. Public sector orientation also has a positive effect on growth, which is an important finding for NPOs in countries where the state is the major funder of NPOs. A higher orientation toward competitors would seem to lead to a lower degree of mission achievement. Finally, donor orientation does not have any significant effects on either performance measure.

Further research should explore the antecedents and moderators of nonprofit market orientation. A better understanding of the relationship between market orientation, the stakeholder management, and other characteristics of an NPO may help NPOs to concentrate their strategies on measures that improve their efficiency and effectiveness. The measurement model should also be applied to the nonprofit sector of other countries to understand which components of this model (e.g., public sector orientation) might be context-specific. Lastly, as our survey addressed senior management of larger organizations, their view of the market orientation or performance of their organization might differ from those on the frontline of an organization's work.

Further research could include more in-depth analysis of differences in perception of these concepts within an organization or even add external stakeholders' views.

The findings from the study at hand confirm that the adoption of for-profit management concepts, such as market orientation, can be adapted and applied to NPOs. Furthermore, they may even have a positive impact on the economic and social performance of an organization, if done well. However, nonprofit managers need to be aware of their key stakeholder groups and their significance for the organization. As every organization slightly differs with regard to their most important stakeholder groups, the process of identifying these stakeholders and then managing them well is a time-consuming activity for any NPO; especially given that strategic management of stakeholders requires not just responding to stakeholders' needs, but also guiding their expectations as well as their evaluations of the organization (Oliver, 1991). When entering this resource-intensive process, the results presented in this paper should serve as encouragement for nonprofit practitioners. These results show that marketization is not something that NPOs need shy away from; on the contrary, being aware of the presence and expectations of several stakeholder groups as important market actors can help NPOs to achieve their mission and serve their beneficiaries with greater success.

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### **ORCID**

Sophie Hersberger-Langloh  <http://orcid.org/0000-0002-4727-8494>

### **Data availability**

The data that support the findings of this study are available from the corresponding author, upon reasonable request.

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