Market Orientation, Organisational Learning, Strategic Planning, and Performance Effectiveness

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Keywords

Market orientation, organisational learning, strategic planning, performance effectiveness, non-profit, structural equation modelling.

Abstract

There is little research on market orientation in nonprofit organisations of social solidarity. Besides examining the concept and its application, the authors propose a model, which relates market orientation to organisational learning and strategic planning, and studies their impacts on performance effectiveness in this type of organisations. After refinement and validation of the measurement scales of the constructs, a survey has been undertaken in these organisations, resulting in 320 valid answers, which were used for the analysis with a structural equation modeling. The model proposed shows a good global adjustment, being consistent with collected data. It confirmed the most important relationships stated in the hypotheses, namely the strong direct effect of market orientation on performance and its mediated effect between organisational learning and performance. The empirical results provide significant theoretical outcomes, which lead to practical implications that can help managers to render organisational performance more effective.

Introduction

The so called "third sector" has had more and more importance and its growth has been remarkable in the developed countries since the World War II. In modern economies, its share is expanding in the budgets of States, namely in Europe, and it has a sensible impact on employment. The need to provide support services to citizens in vulnerable situation or socially excluded is reflected in the discussions on the Charter of Social Rights in the European Union, and in present policies concerning minimum revenue, professional formation, and prevention of serious diseases resulting in disablement. All these problems, among others, create a great multiplicity of organisations, distributed among several branches of social solidarity, that have to be managed and, more than that, they shall have success, in a way that there is not a waste of resources, that are largely public in Europe.

The organisations of this sector have increasingly been an object of investigation in the last years, namely those connected to education and health, where we meet profitable and non-profitable activities. However, an area exists in which nonprofit organisations of social solidarity (NOSS) prevail. They are concerned with social work and, besides the social support, they engage bringing about behavioral changes that promote the well-being of certain more deprived, unprotected and/or discriminated segments of the population. It is in fact in this area that the management processes deserve to be examined. Capucha et al. (1996) point out that 93% of NOSS leaders in Portugal, consider a better management capacity as important or very important.

The study of the market orientation and its relationship with the organisational performance in service organisations continues to be in the present research agenda, as well as its evaluation in the nonprofit sector (Gray and Hooley 2002). Then, we intend to give continuity to a line of investigation which was established in the nineties of the century XX, enlarging the spectrum of types of organisations studied, as well as diversifying geographically and culturally such a theoretical approach. Thus, in this study we propose an original theoretical model that frames market orientation (MO) and performance effectiveness (PE) with other strategic variables: organisational learning (OL) and strategic planning (SP). The first item has already been studied in the for-profit sector, but the combination of the four latent variables does not have antecedents in the literature. We defend that an organisation to be more successful needs to have characteristics of learning with a market orientation and a strategic planning to give cohesion and focus on its objectives, achieving a better organisational performance effectiveness. The present investigation is therefore an important theoretical contribution to the market orientation approach in the third sector. The paper has the following sections: conceptual framework and definitions of all constructs, investigation hypotheses and proposed model, methodology, measurement model assessment, model estimation, validation and hypothesis evaluation, discussion, theoretical and management implications, and limitations and suggestions for future research.

Conceptual Framework and Definitions

Non-profit Organisations of Social Solidarity

There are many definitions of nonprofit organisations in the literature (e. g., Kotler 1979; Weisbrod 1988; Giunipero, Crittenden and Crittenden 1990; Sargeant 1999; Morris 2000). We emphasize the approach of Salamon and Anheier (1992, 1997), which allows identifying five key characteristics that these organisations shall share: to be organised, private, non-profit-distributing, self-governing, and voluntary. We therefore define non-profit organisations as private institutions that provide goods, services, and ideas to improve the quality of life in society, and where there can be voluntary work, and that do not remunerate the owners and providers of capital.

In Portugal, NOSS have social security objectives, and are defined statutorily as private nonprofit organisations, offering goods and services with the following purposes: support to children and adolescents; support to families; support to social integration; protection to old or disable people, and to those who are poor or unemployed; promotion and protection of health, namely through the provision of preventive, curative and rehabilitation medical care; education and professional formation of the citizens; and resolution of housing problems. Therefore, NOSS are characterized by practicing social intervention, aiming to protect people and the most vulnerable social groups, and to fight the causes that are at the origin of poverty and social exclusion.

Market Orientation

The majority of research on market orientation has been undertaken in the for-profit sector. However, nonprofit organisations have likewise been examined (e. g., Hayden, 1993; Wood and Bhuian 1993; Kotler and Andreasen 1996; Laing and Galbraith 1996; Balabanis, Stables and Phillips 1997; Caruana, Ramaseshan and Ewing 1998, 1999; Kumar, Subramanian and Yauger 1998; Bennett 1998a; Wood, Bhuian and Kiecker 2000; Cervera, Mollá and Sanchéz 2001; Gainer and Padanyi 2002; Vázquez, Álvarez and Santos 2002 – , showing that there is a positive relationship between this type of orientation and several measures of performance.

In the nonprofit sector, there are the same problems as in the other sectors in terms of management: there is a need of financing the activities, joining human and material resources, studying markets, preparing offers adapted to the different demands, planning strategically the organisational actions, implementing operations, evaluating the evolution of the relational transactions, evaluating the outcomes, taking corrective measures, and being proactive with regard to the future. All these activities may be incorporated into a global strategic planning of the organisation. However, in their particular relationships with the markets, they present specific questions related to the issue of marketing. Yet, marketing has, still today, a negative connotation to people in the nonprofit sector. It is only seen in the context of its strategies of manipulation and publicity. This means, there is not enough knowledge about marketing, and its real potentialities for the success of these organisations.

The market orientation concept has developed from a marketing orientation concept. It was first proposed by Shapiro (1988) and later turned operative by Day (1990), Narver and Slater (1990), Kohli and Jaworski (1990), Ruekert (1992), Kohli, Jaworski and Kumar (1993) and Lambin (1996), among other researchers. Kohli and Jaworski (1990) suggest that market orientation is a specific set of behaviors and activities. Thus, this type of orientation has been approached in the literature by two basic perspectives: as an organisational philosophy/culture and as a type of behavior. However, theses two visions or schools of thought are complementary, that is, the marketing concept, internalized in the organisational culture or philosophy, has a market orientation as behavioral manifestation (Gray et al. 1998), which can also be seen as an intangible resource contributing to the making an offer adapted to the market (Hunt and Morgan 1995). We consider three main streams of operating and measuring market orientation in the behavioral viewpoint:

- Narver and Slater (1990) – they present three behavioral components: customer orientation, competitor orientation, and interfunctional coordination; and two decision criteria: long-term focus, and profitability. The customer and competitor orientations include all the activities that involve the acquisition of information and its dissemination through the organisation. The interfunctional coordination is based on this information and comprises the coordinated efforts to create a superior value to the client.
- Kohli and Jaworski (1990) and Kohli, Jaworski and Kumar (1993) – market orientation has a behavioral dimension, which can be structured and defined by three types of initiatives: generation of market intelligence by formal and informal means; internal dissemination of market intelligence, by formal and informal methods, vertically and horizontally; and responsiveness to market intelligence, developing and implementing actions to satisfy the market needs.
- Lambin (1996) – he presents nine behavioral components: analysis of end-customers, distributor-customers, competitors, and socio-economic climate; strategic actions towards end-customers, distributor-customers, competitors, and socio-economic climate; and interfunctional coordination.

The differences between the three operational conceptions are, essentially, in the cultural or behavioral perspective of market orientation. However, under a management perspective it is more important to focus on the real behaviors, rather than on ideas that managers feel to be ideal, important or politically correct. Many managers claim to be market-oriented, but the majority does not reflect this in their actions.

The existing consensus about the operative way of the concept on the basis of behavioral aspects, also looks evident, by the wider and more recent definitions (e. g., Lambin, 1996; Greenley and Foxall 1998), according to which market orientation must involve all organisational stakeholders. We therefore define market orientation as the planning and implementation of activities and offers that can satisfy the present and latent needs and wishes of all organisational stakeholders. This assumes the existence of processes of generation, dissemination, and analysis of market intelligence, with an effective coordination of all functions and activities.

Organisational Learning

Organisational learning was referred to, by Cyert and March (1963), as a process by which organisations learn through interaction with their environments. There are different perspectives, some more behavioral and others more cultural.

At its lower level, organisational learning means the development of new knowledge, which has the potential of influencing organisational behavior (Fiol and Lyles 1985; Huber 1991; Sinkula 1994). Deshpandé and Webster (1989) propose a view of the organisations as cognitive entities, centered in the concept of organisational memory, which is the basis for the preservation of knowledge in the organisational learning. Also Sinkula (1994) presents an organisational cognitive perspective of the processing of market information, framed in the organisational learning theory. To Slater and Narver (1995), the cultural values of a market orientation are necessary, but not sufficient, for the creation of a learning organisation. These authors (1995, 1999) consider that the levels of organisational learning are: the adaptive, which reflects the organisational assumptions about its environment and itself; and the generative, which happens when an organisation wishes to question its usual beliefs about its mission, clients, capacities, or strategy. In this case, we have a higher level of organisational learning (Argyris 1977; Senge 1990), which meets a more proactive market orientation. Accordingly, a market-oriented organisation is definitely a learning organisation, but the opposite may not be true. For example, a product-oriented organisation can have sharp learning characteristics, looking internally and externally for all practical and theoretical knowledge that may contribute to develop the competences, which allow improving the product. Baker and Sinkula (1999b) point out that a strong learning orientation will be a prerequisite for the formation of superior processes of market orientation, contributing to the creation and maintenance of a competitive advantage that improves organisational performance. However, a market-oriented organisation may exist, that limits itself to attempt to satisfy the present needs and wishes of its target publics, configuring an adaptive learning, and not having attention to the latent needs and wishes, which would lead the organisation to a generative learning (Slater and Narver 1995; Bennett 1998b). That is, the organisation adopts a narrow vision of the markets, ignoring opportunities or potential threats. In this case, we have an undeveloped market orientation.

We can now establish a theoretical model, which predicts that it is the market orientation that mediates the relationship between organisational learning and performance effectiveness, and not the contrary. This assumption may be implicit in the approaches of other researchers, who refer to the existence of positive and constructive learning activities, which are combined with the processes and practices of market orientation (market-based organisational learning), occurring strategic changes and the improvement of organisational performance (Menon and Varadarajan 1992; Sujan, Weitz and Kumar 1994; Hunt and Morgan 1997; Sinkula, Baker and Noordewier 1997; Li and Calantone 1998). When we talk about market-based organisational learning, we are assuming that there is also non-market-based organisational learning. The learning orientation (Sinkula, Baker and

Noordewier 1997), based on the organisational values of commitment to learning, shared vision, and open-mindedness, seems to us an important variable of organisational learning, to which we associate the general processing of information (generation, dissemination, and analysis – we include these in the manifest variable called “knowledge”), that is, not specifically related to the stakeholders and the macroenvironment as it must be a real market orientation. Therefore, one assumes that there are information systems that are not oriented towards the satisfaction of needs and wishes of target publics, but instead to the own needs and wishes of the organisation, configuring an autistic and manipulative orientation, focusing on production, product, sales, or legal-normative aspects.

We prefer to keep learning and market orientations separated, contrary to those streams of investigation that attempt to create a single concept involving both orientations. We consider that organisational learning is a necessary but not sufficient condition, for the existence of market orientation, and that this orientation is a sufficient but not necessary condition for the existence of organisational learning.

Thus, we define organisational learning as the process of creating a capital of knowledge, implicating a constant challenge to the organisational practices and beliefs, reflected in an attitude of open mind, formal and informal commitment to learning and formation, shared vision in relation to its mission, and behaviors of information research, experimentation, and innovation, allowing to improve the individual and collective performances.

Strategic Planning

Strategic planning is fundamental for the development of adaptive processes between the objectives, capacities, and resources of the organisation and its market opportunities (Kotler 1997; Avlonitis, Gounaris and Papavasiliou 1999). The process of strategic planning is similar in nonprofit organisations, as several authors explain (e. g., Bryce 2000). It seems that the most market-oriented organisations put more emphasis on marketing strategic planning (Avlonitis, Gounaris and Papavasiliou 1999). Some researchers identify and explain the importance of strategic planning as a process and predictor of organisational performance (e. g., Dyson and Foster 1982; Ramanujam, Venkatraman and Camillus 1986; Dutton and Duncan 1987; Ramanujam and Venkatraman 1987; Sinha 1990; Greenley 1994; Hart and Banbury 1994). The same happens in the nonprofit sector (Van de Ven 1980; Odom and Boxx 1988; Crittenden, Crittenden and Hunt 1988; Siciliano 1997). Being so, strategic planning is an important variable to include in our model. Webster (1992) points to the possibility of merging strategic and marketing planning in a core function responsible for maintaining the organisation focused in the permanently changing market. We, therefore, define strategic planning as a process of intelligence, systematization, and scheduling, which sets responsibilities in relation to mission, goals and objectives, resulting in a better effectiveness, efficiency and control of the organisational activities.

Performance Effectiveness

The performance of nonprofit organisations is still a polemic issue. However, as well as in other sectors, performance can be measured in terms of effectiveness or efficiency (e. g., Ditrina 1984; Kotler and Roberto 1989; Lamb and Crompton 1990; Balabanis, Stables and Phillips 1997). We choose to study only effectiveness measures, due to the large heterogeneity in terms of social intervention in each NOSS, which implicates different resources that will be difficult to compare. The performance effectiveness has to do with organisational outcomes, that is, the degree of accomplishment of its goals and objectives. In the case of NOSS, profitability is not the purpose; nevertheless, the existence of a balanced budget is necessary to maintain sustainability in the long run. The main objectives in these organisations are the achievement of a better quality of life to the target populations, as well as benefits (social, psychological, or spiritual) to all the people involved in such activities, rebounding in an improvement of the well-being of society. Thus, performance effectiveness consists in the degree to which an organisation achieves its qualitative and quantitative objectives, based on its mission, in relation with itself and all the stakeholders.

Investigation Hypotheses and Proposed Model

The proposed definition of market orientation requires questions about all the stakeholders. The missions of NOSS are consigned in the Portuguese law, helping us to identify those publics: the clients (children, adolescents, senior citizens, unemployed, disabled, sick persons, etc.); the intermediaries (decision-makers or influential – families, social technicians, reference groups); the competitors (in terms of fund raisers, or technical alternatives of social intervention); the donors (private or public, suppliers of financial, material, and technical means); the regulators (the State and other forms of corporative regulation); and internal personnel (managers, employees and volunteers). Besides these publics, we must pay attention to the interfunctional coordination in the organisation, and to the macroenvironment. This approach can be condensed in four manifest variables: intelligence generation about target publics and the macroenvironment; intelligence dissemination and analysis; action preparation and implementation, responding to the needs and wishes of those target publics; and interfunctional coordination, which involves the compromise of all in the satisfaction of those needs and wishes. Accordingly, the hypothesis is as follows:

H1a: the construct "Market Orientation" is defined by the manifest variables "generation", "dissemination", "action", and "coordination".

As to the expected relations with this construct, according to the literature and accumulated experience, the more market-oriented NOSS are, the more successfully they perform. They also have a higher degree of strategic planning procedures, which guide their action. Thus, the hypotheses are as follows:

H2a: market orientation has a positive and direct effect on performance effectiveness.

H2b: market orientation has a positive and direct effect on strategic planning.

H2c: market orientation has a positive and indirect effect on performance effectiveness, mediated by strategic planning.

The proposed definition of organisational learning points to the use of four manifest variables: an open mind to question, systematically, what is accepted as true in each moment, allowing innovation; a shared vision of the mission, goals and objectives, which allow the cohesion of the chosen orientation and team work; commitment of all to learning, that is, a will expressed in acts to improve, experiment, innovate, and to increase effectiveness in performance; and knowledge, based on its generation, dissemination, and utilization through experience and innovation, enriching the organisational memory and influencing the formal and informal behavior in internal and external relationships, irrespective of the type of strategic orientation. Accordingly, the hypothesis is as follows:

H1b: the construct "Organisational Learning" is defined by the manifest variables "open-mindedness", "shared vision", "commitment", and "knowledge".

We also predict the following effects of organisational learning:

H2d: organisational learning has a positive and direct effect on market orientation.

H2e: organisational learning has a positive and direct effect on strategic planning.

H2f: organisational learning has a positive and direct effect on performance effectiveness.

H2g: organisational learning has a positive and indirect effect on performance effectiveness, mediated by market orientation and strategic planning.

H2h: organisational learning has a positive and indirect effect on strategic planning, mediated by market orientation.

The measurement of strategic planning is based on its formal procedures. Therefore, we predict three manifest variables: formulation, in where we seek to verify if all the necessary actions for preparation and construction of a strategic planning were done; implementation, in where we attempt to measure the effective fulfillment of the plan; and evaluation, which includes a plan correction if necessary, and the evaluation of results and performances. Thus, the hypothesis is as follows:

H1c: the construct “Strategic Planning” is defined by the manifest variables “formulation”, “implementation”, and “evaluation”.

We also predict the following effect of strategic planning:

H2i: strategic planning has a positive and direct effect on performance effectiveness.

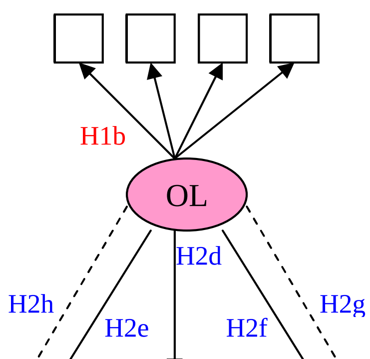
The best way to evaluate performance effectiveness will be to analyze the degree to which the organisational objectives were achieved (Kotler e Andreasen, 1996). Therefore, and according to the proposed definition, we choose qualitative and quantitative measures constituting the manifest variables of this construct. These are absolute measures, comparing with the organisational objectives, due to the incapability of NOSS managers, in Portugal, to evaluate the performance in relation to other organisations, because of a lack of data, of being a non-issue for them, or because they are small/medium organisations, without dominant ones that could be a point of reference. Thus, the hypothesis is as follows:

H1d: the construct “Performance Effectiveness” is defined by the manifest variables “quantitative analysis”, and “qualitative analysis”.

The proposed model supports the maximum links that are possible within the theoretical boundaries that we defend (figure 1). The sets of hypotheses 1 and 2 are also presented in the structural equation model (figure 1).

FIGURE 1

PROPOSED MODEL AND SETS OF HYPOTHESES 1 AND 2



Methodology

Sample

This investigation is a cross-sectional study, which allows greater external validity. We use a database from the national NOSS Association, which includes 4059 organisations in continental Portugal. The informant is the president of the organisation (principal manager), who can be replaced, at his wish, by another person more qualified to answer the questions, for example, top technical or administrative staff. The choice of the principal manager is due to the fact that, in many organisations, the leader is almost the single protagonist in strategic decision-making (Capucha et al. 1996). We chose, randomly, 406 NOSS, which is 10% of the population. The phone contact was utilized to identify the informant, to get his agreement, to recall the study to the latecomers, and to clarify any doubts raised by them. The questionnaire includes the items of all scales (45 for market orientation, 25 for organisational learning, 20 for strategic planning, and 23 for performance effectiveness) and 14 questions for the characterization of the organisations. It was pretested in 15 top managers of this kind of organisations and the questions were written in Portuguese.

We received 327 responses, out of which 320 were considered valid, that is, they had at least 95% of the 132 fundamental questions answered. Thus, the response rate was 81%, which is very good for the sector. The bias of non-responses was considered of little importance due to the high response rate and in comparison of the scores in manifest variables, between former and latter respondents (Armstrong and Overton 1977). The sample has a distribution that almost matches the regional distribution in terms of number and types of organisations. These are essentially of small and medium size. 45% of these organisations have up to 20 employees; 42.1% have between 21 and 50; and 12.9% have more than 50. 94.2% of the organisations have up to 20 volunteers; 4.5% have between 21 and 50; and 1.3% have more than 50.

Scales

To measure manifest and latent variables, we have developed multi-item scales, based on literature, and on exploratory research, with the necessary adaptation to the nonprofit sector (see measurement appendix). Scales are Likert-type, which, empirically, have been treated as interval scales (Churchill 1995). The larger the length of the scale response is, the more apparent are the properties of an interval scale (Remenyi et al. 1998), and the higher can be the measure of reliability (Churchill and Peter 1984). From there originates our choice of scales with eleven points (from 0: does not describe at all what is happening in my organisation; to 10: totally describes what is happening in my organisation, with the middle point (5) in bold), which have already precedents in literature (e. g., Lambin 1998; Lado, Maydeu-Olivares and Rivera 1998).

We only use absolute subjective measures, because there is a lack of data in this sector, and managers of NOSS neither know the performance of similar organisations, nor have specific performance indicators. However, there is consistency between objective and subjective measures, as it has been proved by several authors (e. g., Dess and Robinsson 1984; Venkatraman and Ramanujam 1986; Verhage and Waarts 1988; Hart and Banbury 1994).

Market Orientation

The initial 45 items chosen for the market orientation scale can be found explicitly or implicitly in the works of Narver and Slater (1990), Ruekert (1992), Jaworski and Kohli (1993), Kohli, Jaworski and Kumar (1993), Deshpandé, Farley and Webster (1993), Deng and Dart (1994), Lambin (1996), Pelham and Wilson (1996), Balabanis, Stables and Phillips (1997), Lado, Maydeu-Olivares and Rivera (1998), Gray et al. (1998), Bennett (1998a), Deshpandé and Farley (1998), and Matsuno and Mentzer (2000).

Organisational Learning

The 25 items selected to measure organisational learning were collected and adapted from the works of Sinkula, Baker and Noordewier (1997), Bennett (1998b), and Baker and Sinkula (1999a).

Strategic Planning

In these organisations one establishes, normally, an annual activities plan and a budget that can be confounded with strategic planning. Asking directly, whether they made a strategic planning would lead to a large number of positive answers, which would not reflect the reality. Therefore, we decided to ask several questions that provide a measure of the degree to which they accomplish the procedures related to strategic planning, even if informally. The 20 items selected were based on the nonprofit sector’s works and manuals of Smith, Bucklin & Associates (1994), Siciliano (1997), Claycomb, Germain and Droge (2000), and Bryce (2000). The total score in scale is the sum of “yes” answers to the questions presented, which can vary from 0 to 20.

Performance Effectiveness

The 23 items selected to measure performance effectiveness were based on the works of Morrell (1986), Kanter and Summers (1987), Kotler and Roberto (1989), Kaplan and Norton (1992), Jaworski and Kohli (1993), Herzlinger (1994), Pelham and Wilson (1996), Martin and Kettner (1996), Siciliano (1997), Kumar, Subramanian and Yauger (1998), and Kaplan (2001), as well as on the exploratory work done in the sector. The 15 questions, relating to the qualitative analysis, deal with the degree to which the organisation presents the proposed subjects, in a scale of 11 points. The 8 questions, relating to the quantitative analysis, present objective facts for an answer "yes-no". The score in this scale is the sum of "yes" answers, which can vary from 0 to 8.

Structural Equation Model

To study the theoretical model (figure 1) and evaluate the relationship between variables, we utilize a structural equation modeling (SEM). This method *"...provides the appropriate and most efficient estimation technique for a series of separate multiple regression equations estimated simultaneously."* (Hair et al. 1998: p. 17). We use, for the statistics analysis and model estimation, the software: SPSS 11.0 (Statistical Package for Social Sciences), and LISREL 8.52 (Linear Structural Relationships).

Measurement Model Assessment

Scale Reliability

The reliability of the measures was evaluated in several ways, one of them being the most utilized in social sciences literature – Cronbach's alpha ($\alpha > 0.7$). The adaptation of this coefficient to dichotomic items is a special case called formula 20 of Kuder-Richardson (K-R 20), being calculated in the same manner (Nunnally and Bernstein 1994: p. 235). However, we took into account the most prudent way of interpreting this coefficient (Cronbach 1990: p. 178), in which an item with poor statistics cannot be automatically withdrawn because this type of refinement can lead to an instrument that no longer represent the wanted domain. We also carried out exploratory and confirmatory factorial analysis (principal axis factoring with varimax rotation), to purify scales, verify its dimensionality, and better interpret the factors, given that it is a new approach. The number of factors was chosen on the base of a joint interpretation of Catell's Scree Plot and Kaiser's criteria. As confirmatory analysis, we used the number of components already predicted by theory. We also required, as a minimum, a value of 0.33 in factor loadings for this sample size, assuring that they have statistical significance (level of significance < 5%), and the minimum power of test of 80% (Hair et al. 1998: p. 112). Other measures of internal consistency, generally used in the literature, are the analysis of the inter-item correlations mean (M1), and the corrected item-total correlation (M2). Considered as good for these correlations are values above 0.3. However, the low correlations of an item may not reflect differences of theoretical content (Nunnally and Bernstein 1994: p. 265), hence the importance of interpreting each case. We also calculated the compositive reliability (CR) and the variance extracted (VE) for each scale construct.

Market Orientation

The factorial analysis led to the exclusion of 10 of the 45 initial items. Each of them can be excluded without affecting the cohesion and theoretical extension of the scale. This evaluation resulted in 4 underlying factors to all items, explaining 51.4% of total variance. Its theoretical interpretation does not exactly coincide with the predicted, although it is justifiable in this kind of organisations. Thus, we verified that "generation" divides itself into two factors, one being related to intelligence generation in general about all stakeholders and the macroenvironment, and the other with exclusive care on relation to the clients. We call them, respectively, "generation of information" ($\alpha = 0.80$; M1 = 0.36; M2 = 0.41) and "client orientation" ($\alpha = 0.81$; M1 = 0.53; M2 = 0.58). The factor "action" is confirmed, but with less 5 items ($\alpha = 0.84$; M1 = 0.36; M2 = 0.42). The factors "dissemination" and "coordination" present themselves merged ($\alpha = 0.92$; M1 = 0.48; M2 = 0.56), which already occurred in other investigations (e. g., Gray et al. 1998). This merger is justified, because the processes of intelligence dissemination are not independent from the processes of interfunctional coordination, namely in organisations with small dimension as the majority of NOSS. The total scale of market orientation is reliable (α = 0.94; M1 = 0.33; M2 = 0.36; CR = 0.86; VE = 60.4%).

Organisational Learning

The factorial analysis led to the exclusion of 5 of the initial 25 items. Each of them can be excluded without affecting the cohesion and theoretical extension of the scale. This evaluation resulted in 2 underlying factors to all items, explaining 45.3% of total variance. Fewer factors emerged than initially predicted, that were 4, although this result can easily be explained. One of them results from the merger of the three factors that compose the base of the concept of learning orientation (Sinkula, Baker and Noordewier 1997). Thus, in NOSS, the components “commitment”, “shared vision”, and “open-mindedness” do not appear sufficiently distinctive, and are therefore grouped in one factor called “learning orientation” (α = 0.90; M1 = 0.41; M2 = 0.48). The factor “knowledge” is confirmed with all items (α = 0.75; M1 = 0.31; M2 = 0.39). The total scale of organisational learning is reliable (α = 0.89; M1 = 0.32; M2 = 0.32; CR = 0.73; VE = 57.6%).

Strategic Planning

The factorial analysis takes into account the fact that the variables are dichotomic (polichoric correlation), and leads to the exclusion of 4 of the initial 20 items. Each of them can be excluded without affecting the cohesion and theoretical extension of the scale. The three factors are confirmed, explaining 50.6% of total variance: “formulation” (α = 0.72; M1 = 0.49; M2 = 0.46), “implementation” (α = 0.85; M1 = 0.76; M2 = 0.72) and “evaluation” (α = 0.71; M1 = 0.96; M2 = 0.92). The total scale of strategic planning is reliable (α = 0.82; M1 = 0.41; M2 = 0.33; CR = 0.70; VE = 43.8%).

Performance Effectiveness

We analyzed separately the two components, because “qualitative analysis” has a scale with 11 points, and “quantitative analysis” has a dichotomic scale. The factorial analysis with the latter scale led to the conclusion that there are three factors, but without reliability, even if combined. Then, we excluded this component from the performance scale. The factorial analysis of the other component led to the conclusion that there are two underlying factors, explaining 61.8% of total variance. One is related to human aspects, which is of the greater importance for these organisations. It has 8 items, and we call it “human component” (α = 0.92; M1 = 0.56; M2 = 0.58). The other is related to organisational “sustainability” (α = 0.87; M1 = 0.53; M2 = 0.59), with 6 items. The total scale of performance effectiveness is reliable (α = 0.93; M1 = 0.50; M2 = 0.55; CR = 0.84; VE = 72.1%).

Content Validity

We have chosen, for all scales, questions validated by experts and researchers from the different concepts, which give us a strong guarantee of content validity and reliability of the utilized measures. The items emerged from literature, from underlying theories, from presented definitions in this investigation, and from the exploratory analysis done with managers of NOSS.

Convergent and Discriminant Validity

Construct validity is viewed as the extent to which a measure truly reflects the concept under investigation. This cannot be verified directly, but inferred from the analysis of reliability, and from convergent, discriminant and nomological validity (Peter 1981). The reliability analysis has already been done, and assures excellent results after refinement of scales. Convergent validity has to do with the dimension at which a measure correlates with other measures of the same construct. There must be a high correlation, with statistical significance, between the components of the construct.

Discriminant validity is related to the dimension at which a measure shows low correlation with measures of other constructs.

To analyze such validities, we use the confirmatory factorial analysis done with all variables in LISREL. Accordingly, one verifies that the standardized parameter estimates, which relate latent and manifest variables, are all statistically significant and greater than 0.5. This proves, simultaneously, the convergent and discriminant validity of the scales:

- Market orientation – generation of information (0.72); client orientation (0.74); action (0.78); and coordination (0.86).
- Organisational learning – learning orientation (0.62); and knowledge (0.88).
- Strategic planning – formulation (0.67); implementation (0.76); and evaluation (0.53).
- Performance effectiveness – human component (0.89); and sustainability (0.80).

Predictive and Concurrent Validity

Predictive validity is determined by the degree of correspondence (correlation) between the predictor and the criterion at different moments in time. In cross-sectional studies, like the present, one utilizes, normally, the analysis of concurrent validity, which is concerned with the relation between the predictor and the criterion, measured at the same time. As assumed theoretically and confirmed empirically, we find a positive correlation between predictor variables and performance effectiveness, confirming the existence of this validity. This method has been utilized in the literature of marketing (e. g., Narver and Slater 1990; Deshpandé and Farley 1998; Kumar, Subramanian and Yauger 1998; Deng and Dart, 1999). Then, it was possible to verify that there are statistically significant correlations ($p < 0.01$), between all manifest and latent variables and performance effectiveness: generation of information (0.56); client orientation (0.56); action (0.58); coordination (0.62); market orientation (0.69) learning orientation (0.32); knowledge (0.42);

organisational learning (0.43); formulation (0.40); implementation (0.44); evaluation (0.23); strategic planning (0.47), confirming the concurrent validity of these scales.

Model Estimation and Validation

The structural equations of the proposed model, with standardized parameter estimates, are the following (in brackets are the non-significant parameters):

$$MO = 0.568\ OL + 0.677$$

$$SP = (0.154)\ OL + 0.616\ MO + 0.489$$

$$PE = (0.103)\ OL + 0.727\ MO + (0.048)\ SP + 0.319$$

The estimation method utilized is the robust maximum likelihood (Browne 1987), giving parameter estimates equal to the normal maximum likelihood estimation method, but using an asymptotic covariance matrix that implies greater standard errors, making it more difficult to get coefficient statistical significance, in correspondence with the lack of normality of variables. We found that there are some parameters without statistical significance. These direct effects are:

- Strategic Planning → Performance Effectiveness ($p = 0.778$)
- Organisational Learning → Performance Effectiveness ($p = 0.478$)
- Organisational Learning → Strategic Planning ($p = 0.168$)

The model that we call "final model" (figure 2) is obtained by elimination of the non-significant parameters in the initial model. Thus, the final model estimation gives the following structural equations with all parameters statistically significant ($p < 0.001$):

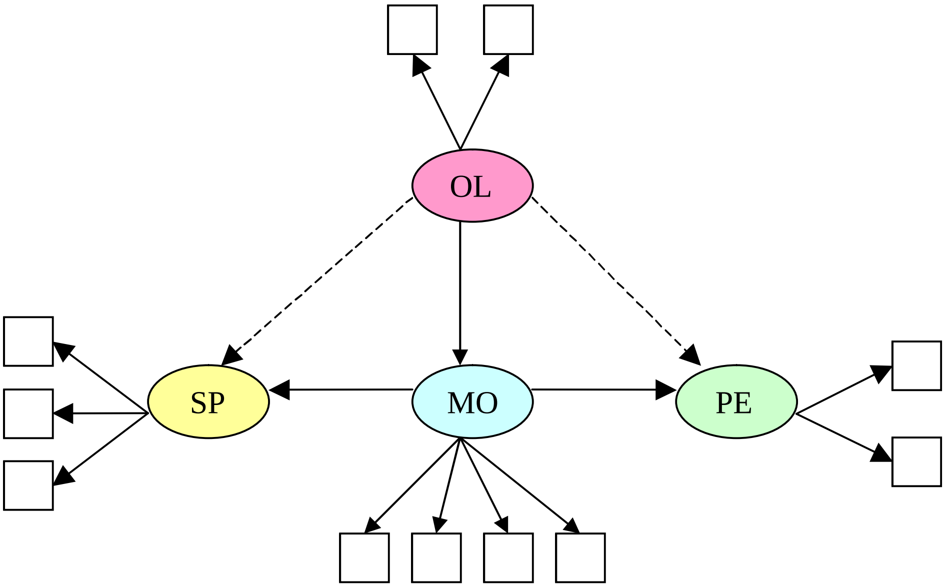
$$MO = 0.583\ OL + 0.660 \qquad R^2 = 0.340$$

$$SP = 0.718\ MO + 0.484 \qquad R^2 = 0.516$$

$$PE = 0.829\ MO + 0.313 \qquad R^2 = 0.687$$

FIGURE 2

FINAL MODEL



The final model presents a good fit, it has all parameters with positive signs as expected, explaining what happens with the included variables in this sector. We verified a good power of explanation from market orientation in relation to performance effectiveness ($R^2 = 0.687$), and to strategic planning ($R^2 = 0.516$). This power is lower, but significant, in the relation between organisational learning and market orientation ($R^2 = 0.34$), reflecting the fact that a proportion of the variance remains unexplained.

Assessing the goodness-of-fit of both models, we concluded that the final model is better than the first one, showing a good fitting in all indicators.

Goodness-of-fit measures:	(initial ; final)
• Satorra-Bentler scaled chi-square: 23.2 ; 24.7 ; ($p > 0.05$):	$p = 0.972$; $p = 0.979$
• Chi-square corrected for non-normality: 36.3 ; 38.5 ; ($p > 0.05$):	$p = 0.55$; $p = 0.58$
• NCP – Noncentrality Parameter (inferior, better adjustment):	0.0 ; 0.0
• RMSEA – Root Mean Square Error of Approximation (< 0.05, good):	≈ 0 ; ≈ 0

- GFI – Goodness-of-Fit Index (> 0.9): 0.916 ; 0.914

Comparison measures between models:

- ECVI – Expected Cross-Validation Index (inferior, better): 0.295 ; 0.285
- NFI – Normed Fit Index (> 0.9; superior, better): 0.946 ; 0.945
- NNFI – Non-normed Fit Index (> 0.9; superior, better): 0.939 ; 0.942

Parsimonious measures:

- PNFI – Parsimonious Normed Fit Index (superior, better): 0.654 ; 0.704
- PGFI – Parsimonious Goodness-of-Fit Index (superior, better): 0.527 ; 0.568
- AIC – Akaike's Information Criterion (inferior, better): 79.191 ; 74.698
- CAIC – Consistent AIC (inferior, better): 212.704 ; 193.906

The final model presents 41 degrees of freedom, and the sample with 320 valid responses exceeds the desirable minimum to assure a power of test of 80% (MacCallum, Browne and Sugawara 1996), for a SEM study: exact fit test – 273; close fit test – 248; and not-close fit test – 303.

Analyzing in more detail the final model, we can evaluate the standardized parameter estimates of the structural model, allowing measuring the relative importance of each independent variable in relation to the dependent one. Thus, we can conclude that the most important effects of causality are those of market orientation on performance effectiveness (0.829), and on strategic planning (0.718). The direct effect of organisational learning on market orientation (0.583) was confirmed as a necessary condition for its development. The organisational learning also has indirect effects on strategic planning (0.419), and on performance effectiveness (0.484), with the mediation of market orientation.

We, therefore, achieved a good model, both from empirical and theoretical viewpoint, and explicative of the existent relationships between the constructs studied on NOSS.

Hypotheses Evaluation

Hypothesis 1 – Factorial Structures

a) The manifest variables of market orientation were confirmed, although with another disposition. That is, the variable “generation” subdivides itself in “generation of information” and “client orientation”, while the variables “dissemination” and “coordination” merge, and the variable “action” remains unchanged. The loadings of the variables (generation of information – 0.71; client orientation – 0.74; action – 0.78; and coordination – 0.86) are statistically significant ($p < 0.001$).

b) The four manifest variables of organisational learning were not confirmed as initially proposed, but rather appear organised in two factors. The theoretical structure of the scale is maintained because “learning orientation” integrates the variables “shared vision”, “open-mindedness”, and “commitment”. The variable “knowledge” rests unchanged. The loadings of the variables (learning orientation – 0.61; and knowledge – 0.90) are statistically significant ($p < 0.001$).

c) The three manifest variables of strategic planning were confirmed. The loadings of the variables (formulation – 0.67; implementation – 0.76); and evaluation – 0.54) are statistically significant ($p < 0.001$).

d) The manifest variable “quantitative analysis” of performance effectiveness was not confirmed, because it was not reliable. However, the existence of two factors on “qualitative analysis”, which become the manifest variables of performance effectiveness, were confirmed. The loadings of the variables (human component – 0.89); and sustainability – 0.80) are statistically significant ($p < 0.001$).

Hypothesis 2 – Effects between Variables

a) Market Orientation → Performance Effectiveness – direct effect. The parameters (0.829 in the final model) are statistically significant ($p < 0.001$), confirming this hypothesis.

b) Market Orientation → Strategic Planning – direct effect. The parameters (0.718 in the final model) are statistically significant ($p < 0.01$), confirming this hypothesis.

c) Market Orientation → Performance Effectiveness – indirect effect mediated by Strategic Planning. This hypothesis was not confirmed, because the parameter (0.03 in the initial model) is not statistically significant ($p = 0.775$).

d) Organisational Learning → Market Orientation – direct effect. The parameters (0.583 in the final model) are statistically significant ($p < 0.015$), confirming this hypothesis.

e) Organisational Learning → Strategic Planning – direct effect. This hypothesis was not confirmed, because the parameter (0.154 in the initial model) is not statistically significant ($p = 0.168$).

f) Organisational Learning → Performance Effectiveness – direct effect. This hypothesis was not confirmed, because the parameter (0.103 in the initial model) is not statistically significant ($p = 0.478$).

g) Organisational Learning → Performance Effectiveness – indirect effect mediated by Market Orientation and Strategic Planning. The parameters (0.484 in the final model) are statistically significant ($p < 0.015$), confirming this hypothesis.

h) Organisational Learning → Strategic Planning – indirect effect mediated by Market Orientation. The parameters (0.419 in the final model) are statistically significant ($p < 0.05$), confirming this hypothesis.

i) Strategic Planning – Performance Effectiveness – direct effect. This hypothesis was not confirmed, because the parameter (0.048 in the initial model) is not statistically significant ($p = 0.778$).

Discussion and Implications

The results show that market orientation is the most important construct in relation to organisational performance. Somehow surprising may be the non-confirmation of direct effects between organisational learning and performance effectiveness, and strategic planning and performance effectiveness. As far as organisational learning is concerned, we think that this has to do mainly with the strategic orientation of the organisation. The existence of a market orientation is necessary to achieve a relevant effect on performance effectiveness, explaining the significant indirect effect. So, this confirms the importance of market orientation in relation to performance. Organisational learning is not enough to improve performance on NOSS and needs the mediation of market orientation. As for strategic planning, it is not a determinant variable of performance, because it is not effectively implemented in NOSS. Its managers believe that discussing activity plans and budgets is the only necessary planning they need. Actions are taken with great informality: 45.6% do not have a written plan, and in 99% of the cases, management is performed by volunteers. However, more market-oriented NOSS are those that use more strategic planning procedures, justifying the proposed theoretical relationships.

Analyzing more deeply the results obtained in relation to market orientation, we verified that in “generation of information” less attention is given to certain external stakeholders, namely donors and other organisations. This kind of behavior would have been expected, because these organisations, in general, do not consider themselves as being in competition, the cooperation is marginal, the information about what they do in which manner is scarce, and they always look for more support from public entities, due to the difficulties in organising themselves to achieve more private support or other own revenues.

The comparative evaluation, between the means of each component of “Market Orientation”, shows that there is, by decreasing order, more “generation of information” (8.00) than “coordination” (7.69), “client orientation” (7.46) and “action” (7.05), all these differences (t tests) being statistically significant ($p < 0.01$). There is a perception that information about the stakeholders is collected, that a good team work exists, but that attention is not continuous, namely in relation to the clients, nor does apply with the same intensity in the preparation and implementation of responses according to the intelligence analysis, which will render the market-based organisational learning processes as well as the formalization and implementation of strategic planning, difficult.

In the questions about organisational learning, we note, clearly, a perception of sufficient open-mindedness, shared vision, and commitment to learning, but thereafter, in its application in terms of knowledge, new competences, and innovation, does no longer have the same intensity. The means differences between “learning orientation” (7.06), and “knowledge” (5.52) are statistically significant ($p < 0.001$), confirming this fact. This problem of application, already referred to in the context of market orientation, demonstrates that managers of NOSS do not benefit completely from existing capacities and competencies, because their positive ideas and attitudes have no concrete reflex in reality.

In questions about strategic planning, we verified the incidence percentages of processes of “formulation” (88%), “implementation” (66%) and “evaluation” (49%), whose differences are statistically significant ($p < 0.001$). The perception of a good strategic planning formulation is notorious, that is, managers recognize the importance of thinking about these questions. Afterwards, its implementation has a lower incidence tax. Little attention is given to the strategic planning formalization, confirming that there is no high consistency in this fundamental activity for the organisations, but only a minimum planning, necessary to maintain in practice, and juridically, their activities. As for the evaluation, the problems are yet bigger, because in many organisations it is not undertaken at all. Besides, it is considered unreasonable to evaluate people’s voluntary work.

Analyzing the scores in the performance effectiveness scale, we verified that there are statistically significant differences ($p < 0.01$) between the organisations, which say that they formalize in writing their strategic planning (15.93) in relation to those that do not do this (15.03), confirming the advantage of the former group. These results show that strategic planning, if it is taken seriously, and performed with quality, can contribute to more effectiveness of NOSS.

As for performance effectiveness, it was possible to distinguish two groups of objectives: those related to human aspects and others concerned with the sustainability of the organisations. NOSS managers have a perception of great success in activities related to the clients and their families, while at the same time, they have difficulties in management activities. In fact, the component of "sustainability" (7.42) presents results clearly inferior to the "human component" (8.10), with the difference between the means being statistically significant ($p < 0.001$).

There is a pattern in all latent variables. It seems that there is a lack of responsiveness and proactive behavior. The concepts are well accepted, but their implementation is weak. This model proves to be a good framework for interpreting the main questions in this sector.

Theoretical Implications

The theoretical implications have to do with the extension given to the concepts, studied here, either in application to a sector where there is little investigation – nonprofit of social solidarity – or in a particular culture, such as the Portuguese. It was verified that market orientation can be evaluated in this context, including explicitly all the stakeholders and the macroenvironment, which are, frequently, forgotten in the scales. We, therefore, integrate the three "schools" of Narver and Slater (1990), Kohli and Jaworski (1990), and Lambin (1996).

The adaptation of the measure of organisational learning was confirmed with two factors. One is the merger of the three components of learning orientation, predicted by Sinkula, Baker and Noordewier (1997), and the other is related to information and accumulation of knowledge. However, it is neutral in relation to market orientation. This research has also shown that organisational learning has a positive effect on market orientation, but not directly on performance effectiveness, which proves that the mediation of market orientation is necessary.

Strategic planning seems to have little impact on performance effectiveness, because there is a deficient application of this management process in this sector. However, it is obvious that NOSS with high market orientation show a higher degree of strategic planning procedures.

Performance effectiveness, measured by the degree to which an organisation achieves its objectives in relation to all stakeholders, is strongly influenced by market orientation. Accordingly, also in this sector, this orientation must be implemented to achieve better individual, collective and organisational performance. It has been demonstrated that these concepts are useful, and the proposed model is able to explain the reality of NOSS in Portugal, which has important implications for management.

Management Implications

This research proves that market-oriented management in NOSS has great advantages. This reflects a recognition of the fact that they also work with markets, and they need marketing to improve their efficiency and effectiveness. In this case, their individual and collective objectives can be achieved more easily, allowing accomplishing in fact their mission. This new approach needs to involve all stakeholders, directly or indirectly linked to the organisation, and must not forget the issues of competition, cooperation, and the macroenvironment.

Another fundamental aspect is that market orientation enables the promotion of ideas, attitudes, and behaviors that favor a generative organisational learning, and not only an adaptive one. That is, one must pay attention to the actual reality, but also to the latent needs and wishes of each relevant stakeholder. When these organisational characteristics are achieved, not only in terms of culture, but also in behavior, the need for a formal strategic planning will be a logical consequence. Thus, we can, in an organised way, prepare and motivate all the collaborators in the organisation to achieve effectively the common goals and objectives.

Limitations and Suggestions for Future Research

As in any research, there are some limitations like those related to a cross-sectional study, the use of only one informant, the preponderance of socially desirable answers, and the utilization of a mail survey.

We suggest, for future investigations, to undertake more empirical research extending the utilization of these concepts, measure scales, and theoretical model to different national cultures, to the other two sectors (profit and State), and to other kind of non-profit organisations. It is possible to study other mediator and moderator effects in the relationships among main variables, namely by environmental variables. It is crucial to do longitudinal and experimental research strengthening the confirmation of causality relationships that have been proved in cross-sectional studies. It is also necessary deepening the study of the indicators, allowing a quantitative analysis of performance efficiency and effectiveness in NOSS.

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