



# Antecedents and consequences of market orientation in public organisations

Market  
orientation

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**Abstract** *The aim of this article is to link research on market orientation in the field of marketing with the proposals of reform and modernisation made in the administrative and political field. Market orientation in business organisations is a highly topical issue, or even more, it is considered by some academicians as the new marketing paradigm. Following these studies and their proposals of application in other sectors, a market orientation model is developed, from a public management perspective, in the setting of local governments through testing a set of hypotheses about the construct and its antecedents and consequences. Antecedents explaining why some local governments are more market oriented than others are identified. Moreover, market orientation is shown to influence public organisation performance.*

## Introduction

Research in the field of market orientation and the analysis of variables connected, has almost entirely been developed in the field of private owned organisations. This issue has led researchers to recognise the convenience of expanding research to different scopes. In this way, Narver and Slater (1990, p. 34) propose research answering to their conclusions in other environments, in order to give more support to their theory and test if market orientation is still a main mainstay in the profitability of the organisation. Moreover, they consider other notions of benefit that include social dimensions. Kohli *et al.* (1993, p. 475) suggest applying and adapting their measurement instrument, Markor, to other non-traditional organisational forms – such as states. They expect that “the component perspective and many of the scale items can be transferred directly to those mainstream areas”. Also Lambin (1995, p. 36) calls for studies “in other industrial sector and other countries”. In their analysis of innovation in a public organisation, Hurley and Hult (1998) point out the need to investigate market orientation in public organisations to determine how they should adapt to those changes that are supposed to grasp.

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On the premise of the adoption of the marketing concept, several definitions of market orientation have been derived emphasising its philosophical, cultural, behavioural or strategic components. As Ruekert indicates (1992), differences among these approaches are produced more in terms of emphasis than in terms of real substratum, what suggests that they are not mutually exclusive but different forms to focus on a same reality. Table I contains a list of the main theoretical approaches to market orientation.

Study	Definition of market orientation
<i>Cognitive approach: market orientation as a philosophy/culture</i>	
Kasper (1997)	The degree, by which an organisation is guided and committed in all its thinking and behaviour (internally and externally) to those factors that guide the organisation's behaviour in the market and its costumers
Brown (1987), Shapiro (1988), Hooley <i>et al.</i> (1990), Narver and Slater (1990) in their theoretical approach, Sharp (1991), Deshpandé <i>et al.</i> (1993), Avlonitis <i>et al.</i> (1993), Dreher (1993), Liu (1995), Kasper (1997)	
<i>Behaviour approach: market orientation as market information processing</i>	
Kohli and Jaworski (1990) Jaworski and Kohli (1993)	It is a mix of three activities: Organisation of market intelligence pertaining to current and future needs of customers, dissemination of intelligence within the organisation and responsiveness to it
Ruekert (1992)	The degree, by which an SBU obtains and uses information about its customers, develops a strategy to satisfy their needs and implements that strategy answering to those needs and wants
Deng and Dart (1994)	Market intelligence generation about current and future needs of customers and competitors for their satisfaction; integration and dissemination of market intelligence and co-ordinated design and execution of the strategic organisational response to market opportunities
Diamantopoulos and Hart (1993), Cadogan and Diamantopoulos (1995), Anttila <i>et al.</i> (1995), Pelham and Wilson (1996)	
<i>Behavioural approach: market orientation as customer orientation, competitor orientation and interfunctional coordination</i>	
Narver and Slater (1990)	Organisation culture that consists of three behavioural components and two decision criteria (profitability and long range)
Slater and Narver (1994a, b, 1995), Siguaw <i>et al.</i> (1994), Greenley (1995a), Han <i>et al.</i> (1998)	
<i>Market orientation in the theory of resources and capabilities</i>	
Day (1994a, b), Slater and Narver (1995), Hunt and Morgan (1995), Tuominen and Möller (1996), Lado <i>et al.</i> (1998)	

**Table I.**  
Main theoretical  
approaches to market  
orientation

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In the field of local government management, some experiences show the application of several marketing tools as a result of the adoption of a philosophy of rapprochement to the public to satisfy more effectively their needs, which is called a public service orientation. Features of public service organisations, far from preventing them from a market orientation, must be considered as arguments that make it necessary (Hayden, 1993) in order to improve their mission to serve the public which legitimated them.

Research on market orientation in public management[1] is clearly justified. On one hand, researchers in the field of marketing have claimed the need to expand the construct to new areas; on the other hand, public organisations are becoming market oriented, requiring theoretical frames and empirical analysis. Moreover, the explanation of factors promoting a market orientation and its consequences may better explain the dynamics of the construct in the field under research.

In order to achieve these objectives, the theoretical model of market orientation in the field of public organisations will be identified from the premise of the revision of the market orientation literature. Hypotheses about antecedents and consequences of market orientation will then be formulated. These will configure the proposed causal model to be tested.

### **Background and definition of market orientation**

First, different aspects of the market orientation construct will be revised. Starting from an almost general agreement that market orientation is the result of the adoption of the marketing concept, first measures grew from particular definitions of this concept (McNamara, 1972). Two contributions have been fundamental leading to later studies (Kohli and Jaworski (1990); Jaworski and Kohli (1993) approach on the one hand, and Narver and Slater (1990), Slater and Narver (1994a, b) on the other). Cadogan and Diamantopoulos (1995) compared the two previous models analysing its convergences and divergences for each of the dimensions proposed, both conceptual and operatively. They concluded that they must be considered complementary and not mutually exclusive. Accepting their importance, however, both of them must be subject to revision.

Narver and Slater (1990) and Slater and Narver (1994a), define market orientation simultaneously as a culture, as a behaviour, as a decision criteria and as a way to conceive management (Dreher, 1993). Furthermore, they do not specify the chosen paradigm to conceptualise culture, and they do not operationalise market orientation as a culture (Dreher, 1993). From our point of view, Narver and Slater adopt intuitively the contingent approach pointed out by Smircich's (1983) and Deshpande and Webster's (1989) in which culture is considered an endogenous variable. Kohli *et al.* (1993) themselves criticise Narver and Slater's (1990) operationalisation in three concrete points: first, it reduces the market to costumers and competitors without considering those factors which affect them (environmental factors); second, it does not consider the speed in market information generation and dissemination; third, their scale items do not reflect specific activities and behaviours of a market orientation.

With regard to Kohli and Jaworski's (1990) conceptualisation, Pelham (1993) indicates that it is possibly too limited to embrace all dimensions of the construct market orientation, as market intelligence generation (formal and informal), recognised as a key element of a market orientation, does not guarantee the comprehension of customers' needs, the response to those needs, and the capability of the organisation to provide value to its customers. In relation to Kohli's *et al.* (1993) operationalisation, called Markor, it has also been criticised. Gabel's (1995) review has provided Oczkowski and Farrell (1997) with the following critiques: first, market orientation scope is based on an ambiguous and inconsistent conceptualisation of both market orientation and the marketing concept; second, the scale did not include consumer and intermediaries perceptions; third, reliability and validity of the scale are questionable.

#### *Market orientation and local governments*

Although marketing expansion to public organisations may still be questioned or considered as "peripheral" (Walsh, 1994), that expansion is something almost generally accepted. In fact, numerous works have been presented dealing with diverse applications of marketing in this field. In early interactions between marketing and public organisations, there are two patterns shaping its present configuration: an excessive preference for governmental regulatory aspects of commercial activities, forgetting other more functional approaches (Ritchie and Labr que, 1975) and the difficulty to integrate marketing information in public management decision processes (Dyer and Shimp, 1977). Regarding local public organisations, marketing has historically paid little attention to marketing applications or potential applications in this field. Nevertheless, it is in the local level where applying marketing abilities is endemic (Stearns *et al.*, 1979). However, it must be accepted that this application is viable with its particular features (see Ritchie and LaBr que, 1975; Lamb, 1987; Snavely, 1991; Cowell, 1989) although the application of isolated and not integrated marketing skills does not guarantee the application of the marketing concept (Trustum, 1989). Accepting these particular features that determine the application of marketing in public organisations, those basically referred to supply environment, government-citizens relationships and goods and services themselves, marketing must assume that its functioning is conditioned by political goals and democratic mechanisms (Walsh, 1994). The heterogeneity that characterises the market of public services consumers has as a unifying element – they are all citizens (Butler and Collins, 1995). Citizens cannot be treated as consumers, given that they hold individual and collective interests and governments should continuously balance among these interests to preserve general interest (Forbes, 1987)[2].

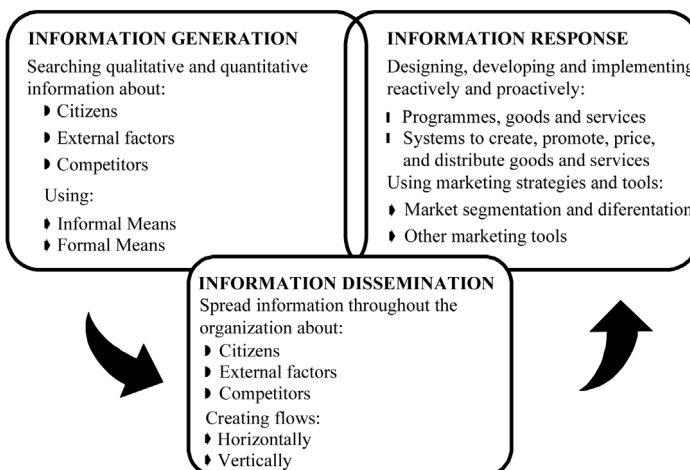
In this sense, this study is a further step in the analysis and comprehension of the construct market orientation. It joins Bergada  and Nyeck's (1992) proposal of importing theories, concepts and principles from connected disciplines and analyses them with a marketing perspective. In the field of local

public organisations several experiences show the application of certain marketing tools as a result of the adoption of a philosophy of getting closer to the citizen for a more effective satisfaction of his/her needs. This has been called market orientation or public service orientation (Clarke and Stewart, 1994; Walsh, 1994). As Wanna *et al.* (1992) assert, the adoption of the marketing concept by public organisations may facilitate the provision of services suitable to citizens' demands and more carefully guided to those that need them most. For Cowell (1989), the mentioned adoption will provide public organisations with suitable instruments in order to reduce criticism from interest groups or media, as the knowledge of public needs will help them to organise their supply for better satisfying public needs. Moreover, marketing tools will also improve relationships with these groups.

It is a basic premise of this work that market information generation, its dissemination and market information response (to satisfy market needs), constitute the nuclear essence of a market orientation, not only in profit, but also in non profit sectors, private and public fields. This approach has been stated following Kohli and Jaworski's (1990) basic model, reconceptualised by Cadogan and Diamantopoulos (1995), found more valid by Siguaw and Diamantopoulos (1995) and tested in different political, economic and cultural environments (Wood and Bhuian, 1993; Selnes *et al.* 1996). Furthermore, this model turns out to be, according to Siguaw *et al.* (1998), the most comprehensive conceptualisation of the market orientation construct. This conceptual model is depicted in Figure 1.

### Conceptual framework and hypothesis

There have been numerous aspects analysed in the literature regarding market orientation antecedents and consequences. Table II provides a list of main studies relating to antecedents of market orientation.



Source: adapted from Wood and Bhuian (1993)

**Figure 1.**  
Theoretical market orientation model in local governments

Antecedents	Authors
<i>Senior management characteristics</i>	
Emphasis on market orientation	Kohli and Jaworski (1990); Jaworski and Kohli (1993); Slater and Narver (1994b); Pulendran and Speed (1996a)
Risk aversion	Kohli and Jaworski (1990); Jaworski and Kohli (1993); Gounaris and Avlonitis (1997)
Professional attitude	Bhuian (1992); Wood and Bhuian (1993)
Attitude towards marketing	Mokwa (1981); Bhuian (1992); Wood and Bhuian (1993)
Importance given to success factors	Gounaris and Avlonitis (1997)
Interactions with customers	Harris and Piercy (1997)
<i>Organisational features</i>	
Organisational size	McNamara (1972); Miles and Arnold (1991); Liu (1995); Llonch and Waliño (1996)
Resources and capabilities	Tuominen <i>et al.</i> (1997)
Organisational culture	Wong <i>et al.</i> (1989); Dunn <i>et al.</i> (1994); Harris and Piercy (1997)
Entrepreneurship	Morris and Paul (1987); Miles and Arnold (1991); Bhuian (1992)
<i>Organisational structure</i>	
Centralisation, formalisation, departmentalisation	Kohli and Jaworski (1990); Jaworski and Kohli (1993); Liu (1995); Gounaris and Avlonitis (1997); Harris and Piercy (1997)
Marketing planning	Pulendran and Speed, (1996a, b)
Control	Jaworski and Kohli, (1993); Liu, (1995); Pelham and Wilson (1996); Borghgraef and Verbeke (1997)
<i>Interdepartmental dynamics</i>	
Conflict	Kohli and Jaworski (1990); Jaworski and Kohli (1993); Harris and Piercy (1997).
Connectedness	Wong <i>et al.</i> (1989); Kohli and Jaworski (1990); Jaworski and Kohli (1993); Harris and Piercy (1997).
Recruiting	Kohli and Jaworski, (1990); Jaworski and Kohli, (1993); Ruekert (1992)
Training	Kohli and Jaworski (1990); Ruekert (1992); Jaworski and Kohli (1993)
Reward system	Ruekert (1992); Kohli and Jaworski (1990); Jaworski and Kohli (1993); Widing II <i>et al.</i> (1997).
<i>External factors</i>	
The environment (macro)	Selnes <i>et al.</i> (1996)
The environment (micro)	Dobscha <i>et al.</i> (1994); Greenley (1995a, 1995b); Gounaris and Avlonitis (1997)
Perceived environmental turbulence	Davis <i>et al.</i> (1991); Bhuian (1992)

**Table II.**  
Antecedents of market orientation mentioned in the literature

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Following Kohli and Jaworski (1990) and Bhuian's (1992) frameworks and those contributions made by several authors, hypotheses about antecedents and consequences of market orientation will be formulated and tested. Although most research examines market orientation dynamics only in a combined approach, a component-level approach will be adopted for a more detailed explanation, following Jaworski and Kohli's (1996) suggestion.

#### *Hypotheses about market orientation antecedents*

Starting with antecedents, Kohli and Jaworski (1990) classified them in three groups: senior management characteristics, interfunctional dynamics and organisational systems. In this work, personal, organisational and external factors will be analysed.

*Personal antecedents: senior management characteristics.* Several studies consider that senior management characteristics determine the level in which business organisations search, disseminate and response to market information. Given that politicians are responsible to make strategic decisions, personal features related to market orientation antecedents will be studied subjected to them.

- *Emphasis on a market orientation.* Only if top managers express the importance of a commitment towards satisfaction of consumer needs, will the rest of the organisation assume that orientation (Jaworski and Kohli, 1993). As Slater and Narver (1994a) point out, leadership is a necessary condition for a transition towards market orientation. In local governments, management is performed through a political process with its peculiarities (Painter, 1993). In order to assume the marketing concept in public institutions, it is essential the acceptance of a more receptive philosophy and attitudes towards the public, not only by the government, but also by the civil servants working for it (Brown, 1987). This requires an important political support. Definitively, "the highest local management must be involved and engaged to the process of improving the quality of municipal management and its services" (López and Gadea, 1995, p. 154). Thus, it is expected that an emphasis on a market orientation will influence the organisation's market orientation:

*H1.* The greater the political emphasis on a market orientation, the higher the local government level of market orientation.

*H1a.* The higher the political emphasis on a market orientation, the higher the local government's market information generation.

*H1b.* The higher the political emphasis on a market orientation, the higher the local government's market information dissemination.

*H1c.* The higher the political emphasis on a market orientation, the higher the local government's market information response.

- *Professional attitude.* Public pressure besides a more intensified performance control, has brought about a “new professionalism” in public organisations (Harrow and Shaw, 1992, p. 131) given that the provision of satisfying public services requires commitment, aptitude and knowledge (Vinten, 1992). There is a need for professionals in public organisations who would, taking for granted the existing strengths of the traditional system, be able to face a turbulent environment and would be qualified to rule change (Holtham, 1992, p. 108). These professionals do not react against challenge and show commitment to their jobs (Harrow and Shaw, 1992). Moreover, public managers searching to provide quality services will have to achieve more consonant and continuous training as a basis for a marketing orientation (Lovelock and Weinberg, 1984). Following Bhuian (1992), professional attitude is proposed to have three dimensions: professional commitment (understood as a hard desire to stay in the job even with a possibility of change); professional improvement, (or the acceptance of the need of a continuous training to assist their management), and professional ethics, (understood as a sense of responsibility that leads managers avoid their own interests towards a legitimate behaviour in the exchange processes). In conclusion, it can be derived that political managers’ professionalism has a positive influence on a market orientation.

*H2.* The higher the politicians’ professionalism, the higher the level of local government market orientation.

*H2a.* The higher the politicians’ professionalism, the higher the level of local government market information generation.

*H2b.* The higher the politicians’ professionalism, the higher the level of local government market information dissemination.

*H2c.* The higher the politicians’ professionalism, the higher the level of local government market information response.

*Organisational features.* According to the adopted approach to market orientation as information processing, some organisational features, *a priori*, should be considered as predictors of a market orientation:

- *Organisational size.* Liu (1995), defining organisational size as the sales volume, concluded that there exists a direct positive association between organisational size and the organisation’s level of market orientation. However, Miles and Arnold (1991) support that the positive relationship between market orientation and organisational size (measured as its assets volume) could exist just because of the measurement instrument employed: higher budgets allow higher investments in market research. In those organisations, different from businesses, Naidu and Narayana (1991) found a positive relationship between hospital size (measured as



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the number of beds) and its level of market orientation. From the previous discussion it can be deduced that larger local governments should be more market oriented as they have greater means to develop actions according to a public service orientation: market information generation and response. However, this could be counteracted with higher barriers to information dissemination throughout the organisation. The previous discussion makes us propose the following hypotheses:

*H3.* The bigger the local government size, the higher its level of market orientation.

*H3a.* The bigger the local government size, the higher the local government's market information generation.

*H3b.* The bigger the local government size, the lower the local government's market information dissemination.

*H3c.* The bigger the local government size, the higher the local government's market information response.

- *Entrepreneurship.* Conceptualised as an organisational response to increasingly complex environments[3], that exceeds individualities (Davis *et al.*, 1991; Miles and Arnold, 1991) applicable to any kind of institution (see Stevenson and Jarillo, 1990; Wood and Bhuian, 1993) entrepreneurship is theorised to have three dimensions: innovation, controlled risk assumption and proactive attitude. In public organisations, several authors (Osborne and Gaebler, 1992; Walsh, 1994) have posited entrepreneurship as a response to changing environments and the basis for governments to become market oriented. On the contrary, other authors (Harrow and Willcocks, 1992, p. 62) have questioned entrepreneurship limits in the public sphere as "many of its central assumptions and activities rarely match a public service conception". The notion of acceptable risk in public organisations refers to a risk that is formally legal, advantageous, open to evaluation, politically acceptable and compatible with the institution. In relation to innovations, they have to make a contribution to the organisational continuous learning process (Harrow and Willcocks, 1992) Moreover, it has generally been recognised the need for a more proactive position (Painter, 1993) by which public organisations fix their policies according to their changing environments and educate the public towards risk acceptance as something inherent in public services provision (Harrow and Willcocks, 1992). Taking entrepreneurship as an antecedent of market orientation the following hypotheses are proposed:

*H4.* Those local governments with higher levels of entrepreneurship will be more market oriented.

*H4a.* The higher the level of local government entrepreneurship, the higher its level of market information generation.

*H4b.* The higher the level of local government entrepreneurship, the higher its level of market information dissemination.

*H4c.* The higher the level of local government entrepreneurship, the higher its level of market information response.

*External factors.* Selnes *et al.* (1996) analysed how the macroenvironment or national context (economic policy and culture) affects, not only market orientation antecedents, but also the way these antecedents influence market orientation and its consequences. Kohli and Jaworski (1990), Narver and Slater (1990), Jaworski and Kohli (1993) and Slater and Narver (1994b) investigated environmental factors as exogenous variables or moderating variables in the market orientation-performance relationship. Only few studies have hypothesised the microenvironment conditions as an antecedent of market orientation. McNamara (1972) observed how the type of market (consumers or industrial) determines the level of adoption of the marketing concept; for Stampfl (1978), under certain conditions, the implementation of the marketing concept is difficult or even impossible to be achieved. As a consequence, it can be inferred that organisations would end up by adapting their level of market orientation according to the type of industry they perform their activities (Dobscha *et al.*, 1994) or the features of the environment that surrounds them (Greenley, 1995b).

Davis *et al.* (1991) detected that perceived environmental turbulence is positively associated with market orientation since this perception will increase managers' interest in reducing uncertainty and search for ways of surviving effectively. In the absence of this perception, no reaction to the environment will be executed. Public organisations are facing turbulent, complex and constantly changing environments (Coffman, 1986): budgetary cutbacks; consumerism; privatisations; competition among cities to attract investments and events; and competition among organisations (public, private and non-profit) for the provision of services. The lack of perception on environmental changes by public managers would make public organisations remain in their traditional structures and deny the introduction of improvements (Walsh, 1994). On the contrary, the perception of those environmental features involves information searching and response to it, in order to satisfy the public as a means of survival:

*H5.* The higher the perception of environmental turbulence, the higher the level of local government market orientation.

*H5a.* The higher the perception of environmental turbulence by a local government, the higher its level of market information generation.

*H5b.* The higher the perception of environmental turbulence by a local government, the higher its level of market information dissemination.

*H5c.* The higher the perception of environmental turbulence by a local government, the higher its level of market information response.

*Hypotheses about market orientation consequences*

Several authors (see Table III) have developed research on market orientation consequences. Kohli and Jaworski (1990) initially hypothesised three main groups of market orientation consequences: consumers' response (satisfaction

Consequences	Authors
<i>Market orientation and performance</i>	
Overall performance	Narver and Slater (1990); Jaworski and Kohli (1993); Ruekert (1992); Slater and Narver (1994a, b); Greenley (1995b); Slater and Narver (1996)
Innovation	Zirger and Maideque (1990); Aaby and Discenza (1993); Greenley (1995b); Atuahene-Gima (1996); Slater and Narver (1996); Jaworski and Kohli (1996); Gatignon and Xuereb (1997); Hurley and Hult (1998); Han <i>et al.</i> (1998)
Business profitability	Narver and Slater (1990); Slater and Narver (1994a), Llonch and Waliño (1996); Slater and Narver (1996); Lado <i>et al.</i> (1998)
Financial performance	Ruekert (1992); Llonch and Waliño (1996); Siguaw <i>et al.</i> (1998)
Sales	Llonch and Waliño (1996); Slater and Narver (1996)
Excellence	Diamantopoulos and Hart (1993); Caruana and Pitt (1994)
<i>Employees' response</i>	
<i>Esprit de corps</i>	Kohli and Jaworski (1990); Jaworski and Kohli (1993)
Satisfaction with the job	Ruekert (1992)
Commitment	Ruekert (1992)
Co-ordination	Greenley (1995b)
<i>Consumers' response</i>	
Satisfaction and loyalty	Kohli and Jaworski (1990); Jaworski and Kohli (1993)
<i>Channel relationships</i>	
Trust, commitment	Siguaw <i>et al.</i> (1998)
<i>Market orientation and competitive strategy</i>	
	Cravens and Shipp (1991); Smith <i>et al.</i> (1992); Bruning and Lockshin, (1994); Day (1994a); Day and Nedugandi (1994); Hunt and Morgan (1995); Slater and Narver (1996)

**Table III.**  
Consequences of  
market orientation  
mentioned in the  
literature

and loyalty), employees' response (*esprit de corps*, employment satisfaction and organisation commitment), and financial performance improvement. Later, Jaworski and Kohli (1993) tested some of these hypotheses concluding that market orientation mainly influences employees' level of commitment and *esprit de corps*.

However, results derived from empirical studies do not provide an unequivocal support for a positive relationship between market orientation and performance. The source of the different results obtained may arise from various causes. Firstly, the particular approaches employed to conceptualise and measure both market orientation and organisational performance (dimensions chosen and measurement of those dimensions). Second, the existence of moderating variables that interact on the nexus of market orientation and performance depending on the context (Kohli and Jaworski, 1990; Diamantopoulos and Hart, 1993; Greenley, 1995a; Langerak *et al.*, 1997). Finally, different conclusions obtained could come from a real absence of a lineal relationship between performance and market orientation (Dreher, 1993).

Although part of the results obtained proved the opposite, Jaworski and Kohli (1993) concluded that the link between market orientation and performance is robust through contexts characterised by different levels of market turbulence, competitive intensity and technological turbulence. In this sense, Slater and Narver (1996, p. 54) concluded that, given that in the long term all markets will have "low growth, high hostility and changes in consumer preferences", being market oriented will never be negative in spite of the negative moderating effect of certain variables acting in the short term. In the same line, Siguaw *et al.* (1998) concluded that market orientation should be adopted under any circumstances, and its gains should be expected in the long term so that short-term associated costs are compensated.

Research in the field of local governments must consider that, besides the citizens, other markets should be included (i.e. internal clients, other levels of public organisations, civil servants, political staff, investors, tourists, visitors and business organisations). In their exchange processes, local governments perform activities that may be more or less market oriented[4]. The truth is that the adoption of the marketing concept by an organisation, independently of its public or private character, profit or non-profit, should be based on its performance improvement. Consequently, the following hypotheses relating to local government performance and market orientation can be stated:

- H6. The higher the level of market orientation in local government, the better its performance.
  - H6a. The higher the local government level of market information generation, the better its performance.
  - H6b. The higher the local government level of market information dissemination, the better its performance.

H6c. The higher the local government level of market information response, the better its performance.

Besides, local governments are responsible not only for the provision of public services and watchfulness of general interests, but also for citizens' empowerment by means of participation (Hayden, 1993). Consequently, a market-oriented local government will promote active participation and establish mechanisms so that citizens can express their needs, wants and complaints as well as suggestions about the public services they receive (López and Gadea, 1995).

H7. Market orientation has a positive impact on citizen participation.

H7a. Market generation has a positive impact on citizen participation.

H7b. Market dissemination has a positive impact on citizen participation

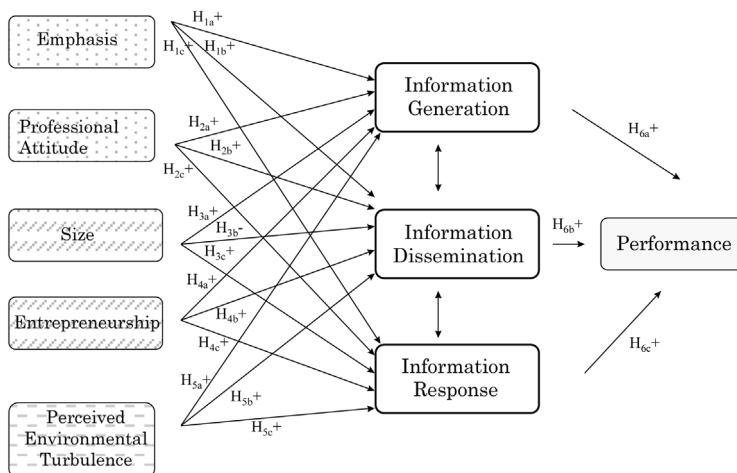
H7c. Market response has a positive impact on citizen participation.

## Methodology

### Data collection

In order to test the model presented in Figure 2, data were collected from a sample of 540 local governments in the Valencian State (Spain), including 4,009,329 inhabitants. Two key informants in each local government were requested to answer to different questions regarding the constructs included in the model: the mayor (emphasis, professionalism and perceived environmental turbulence), and the chief secretary (entrepreneurship, market orientation and performance). It was obtained institutional support from the Chief Secretaries

### ANTECEDENTS      MARKET ORIENTATION      CONSEQUENCES



**Figure 2.** Relationship variables in the hypothesised model

Association. Personalised questionnaires were mailed to all informants, along with a covering letter from University of Valencia, Spain, and preaddressed, postage-paid envelopes. Each mayor and chief secretary were contacted by telephone to obtain co-operation one week before posting the questionnaires and one week later. The latter helped us to detect that no incidences affecting negatively the process had occurred. Personal interviews were also made to ensure some quotas by size, province and political party. A total of 222 questionnaires from chief secretaries were received and 177 from mayors. That makes an overall response rate of 41.11 per cent and 32.77 per cent, respectively.

### *Measures*

All constructs, except market orientation, size, perceived environmental turbulence and performance, were measured using scales drawn from prior studies, using a five-point scale ranging from “1” (strongly disagree) to “5” (strongly agree)[5]. Although each of the scales had been reported in the literature, a scale validation procedure was accomplished using:

- the analysis of item correlations;
- the analysis of item-total correlations;
- the analysis of Cronbach’s alpha; and
- an exploratory factor analysis with Varimax rotation.

*Market orientation.* Market orientation was measured using the scale created and validated by Cervera *et al.* (1999) derived from Kohli *et al.* (1993), following Churchill’s (1979) procedure. The scale measures market orientation through responses derived from perceptions of the selected key informants (the chief secretary in each local government). Reverse-coded items were introduced, when necessary, to offset any affirmation/negation response set[6]. From an initial scale of 37 items, 24 were obtained. They represent four dimensions of the construct, instead of the three theoretically proposed:

- (1) information generation about citizens’ present needs, their satisfaction with public services and the environment, for achieving a better understanding (eight items);
- (2) information generation about the impact of the organisation’s projects (four items) which refers to market information generation about the repercussions of local government’s future actions on citizens’ everyday lives;
- (3) dissemination of the information (four items); and
- (4) response to the generated and disseminated information (eight items).

Psychometric properties of the scale (content, factorial, discriminatory and convergent validity) provide a reliable and valid scale to measure local government’s market orientation.

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*Emphasis.* Emphasis on a market orientation was measured using the scale presented by Jaworski and Kohli (1993) which focused on the verbal support made by senior managers on market orientation activities. Following this scale and adapting the items to the field under research, mayors were asked the frequency with which they had verbally formulated the need to develop coherent actions with a market-oriented philosophy. There was no need to eliminate any of the items, and one single factor was obtained.

*Professionalism.* Items from Bhuian's scale were adapted. Only one item had to be deleted, as the concept of donors did not match in the field under study, obtaining a reliable measure. The six items retained to measure mayor's professionalism were subjected to a factor analysis obtaining three factors. Although results provided support for the theoretical frame, a different composition was found for the ethics factor. Nevertheless, theoretical support was found as "responsibility", the new factor appears as an issue, which refers to ethics and dedication in the field under research. The first factor obtained, commitment with the job will be included in the structural model proposed.

*Size.* Organisational size was measured considering the population of the municipality. Data were obtained from the *Statistic Annual Municipal Directory*. This can be considered a meaningful criteria to measure local government size, as population determines many budgetary and operational aspects in Spanish public organisations' behaviour. According to their size, local governments were classified in five groups.

*Entrepreneurship.* Due to the adopted approach to entrepreneurship as a organisational feature, scales following this perspective were analysed. Accordingly to this, and following Bhuian's application in the non profit field, entrepreneurship was measured through seven items. After reliability analysis was performed, none of the items had to be removed. Only one single factor was obtained and not the three-factor-solution theoretically proposed. As Harrow and Willcocks (1992) propose, entrepreneurship projected from the private to the public field with its risk-taking emphasis, must be modified not to create a risk itself. In consequence, it must be shaped as a whole where risk is only acceptable when it leads into innovations that contribute to organisational learning.

*Perceived environmental turbulence.* To measure mayors' perceptions of their corporate environment, a formative scale was developed containing those features that conform Spanish local governments' environments: changes in demographic, socio-economic, legal and cultural factors, cutbacks, privatisations, consumerism and competition. Mayors were asked to judge their degree of agreement/disagreement with the perceived level of influence of main environmental aspects described. As a formative measure, the items constituting the scale were averaged.

*Performance.* Performance is a multidimensional variable (Jaworski and Kohli, 1993), characterised in many ways (Walker and Ruekert, 1987) and which measurement is made following very diverse methods (Ruekert *et al.*, 1985; Bienstock, 1994). Relating the issue of estimating performance, studies analysing its relationships with other organisational variables have adopted

two basic approaches: first, through an objective approach, by using objective values of the different aspects under research; second, through a subjective approach, where respondents were asked their opinion about global performance, a concrete aspect of it or performance relating to competitors (Golden, 1992; Slater and Narver, 1994b; Diamantopoulos and Hart, 1993). Given the high correlation detected between objective and subjective measures of performance (Venkatraman and Ramanujam 1986; Balakrishnan, 1996) it can be deduced that the subjective approach is valuable, furthermore when available objective measures are not appropriate (Balakrishnan, 1996). Following Jaworski and Kohli (1993), chief secretaries were asked to assess the corporation's global performance. However, the non-existence of a theoretical foundation for the combination of the diverse dimensions of performance in a sole aggregated measure (Jaworski and Kohli, 1996), lead us to focus on one of its dimensions. Citizen participation resulted to be the consequence of market orientation to be introduced in our model, given its high level of explained variance and its theoretical foundation as a mission in the behaviour of any democratic public institution.

In relation to validity of the scales, content validity is shown through the processes employed to build them in order to include all the theoretical dimensions, some of them by means of analysis of relevant literature, others by the adaptation of previous scales. A confirmatory factor analysis was performed through EQS 5.2 to assess convergent and discriminatory validity. Convergent validity is verified, given that all factor loadings rise significant  $t$ -values ( $p < 0.05$ ) as shown in Table IV.

Discriminatory validity is confirmed given that every Cronbach's alpha raises higher values than any of the correlations of the scale with the rest of scales, as shown in Table V.

## Results

Structural equation modelling was implemented through EQS 5.2 (Bentler, 1995) to test the hypotheses represented in Figure 2, except for organisational size and performance in general, where correlation analysis was performed.

The analysis of the model resulted in an acceptable fit to the data, as shown in Table VI[7].

Table VII shows the structural relations (where significant), their standardised coefficients and the  $t$ -values associated with the estimates.

With regard to  $H1$ , it was hypothesised that mayor's emphasis on a market orientation would cause a higher level of it. As expected in  $H1a$ , the 0.170 gamma supports that mayor's emphasis has a significant positive effect on market information gathering about the impact of its projects, although it has no significant relationships with market information dissemination ( $H1b$ ) nor response ( $H1c$ ). In what respects to  $H2$ , results show that professional commitment is slightly significant related to market information gathering about the impact of local government's projects ( $H2a$ ) and dissemination of the information throughout the organisation ( $H2b$ ). However, the  $-0.175$  and  $-0.291$



Parameter	Standardised estimates	<i>t</i> values	Parameter	Standardised estimates	<i>t</i> values
a <sub>11</sub> <sup>a</sup>	–	–	a <sub>85</sub>	0.711	8.260
a <sub>21</sub>	0.949	21.409	a <sub>16</sub> <sup>a</sup>	–	–
a <sub>31</sub>	0.956	22.133	a <sub>26</sub>	0.722	7.413
a <sub>41</sub>	0.948	21.326	a <sub>36</sub>	0.711	7.290
a <sub>12</sub> <sup>a</sup>	–	–	a <sub>46</sub>	0.688	7.050
a <sub>22</sub>	0.702	2.436	a <sub>17</sub> <sup>a</sup>	–	–
a <sub>13</sub> <sup>a</sup>	–	–	a <sub>27</sub>	0.621	5.697
a <sub>23</sub>	0.720	8.069	a <sub>37</sub>	0.562	5.206
a <sub>33</sub>	0.771	8.776	a <sub>47</sub>	0.587	5.421
a <sub>43</sub>	0.825	9.554	a <sub>18</sub> <sup>a</sup>	–	–
a <sub>53</sub>	0.709	7.924	a <sub>28</sub>	0.828	10.037
a <sub>63</sub>	0.783	8.948	a <sub>38</sub>	0.789	9.395
a <sub>73</sub>	0.713	7.967	a <sub>48</sub>	0.805	9.647
a <sub>14</sub>	–	–	a <sub>58</sub>	0.776	9.187
a <sub>15</sub> <sup>a</sup>	–	–	a <sub>68</sub>	0.660	7.480
a <sub>25</sub>	0.636	7.180	a <sub>78</sub>	0.718	8.304
a <sub>35</sub>	0.756	8.951	a <sub>88</sub>	0.570	6.279
a <sub>45</sub>	0.785	9.407	a <sub>19</sub> <sup>a</sup>	–	–
a <sub>55</sub>	0.766	9.102	a <sub>29</sub>	0.958	14.070
a <sub>65</sub>	0.512	5.571	a <sub>39</sub>	0.913	13.119
a <sub>75</sub>	0.737	8.650			

**Notes:**  $p < 0.05$ ; <sup>a</sup> Factor loadings fixed to value 1 in order to allow identification and estimation of the model. This procedure was followed the minimum number of cases required to achieve identification and estimation

**Table IV.**  
Parameter estimates

gamma values respectively obtained, are opposite in direction to that posited in *H2*. Professional commitment is not significantly related to organisational response to market information (*H2c*).

Regarding *H3*, and from the analysis of correlations in Table VIII, it can be derived that organisational size correlates significantly with two dimensions of market orientation: it appears to have negative significant relations with market information generation (contrary to *H3a*), and dissemination (confirming *H3b*).

As established in *H4*, entrepreneurship will determine the organisational level of market orientation. This relationship is confirmed as entrepreneurship has positive significant effects ( $\gamma = 0.273$ ,  $\gamma = 0.732$ ) on both factors of market information generation (*H4a*), and information dissemination (*H4b*;  $\gamma = 0.638$ ) although no significant direct effect on information response (*H4c*).

Finally, *H5* posited that those local governments that perceive themselves as facing a turbulent environment would be more market oriented. Given the 0.950 and 0.203 gamma values for both factors of market information generation, 0.270 gamma for market information dissemination and 0.888 for market information response, this antecedent comes out to be the one with higher number of positive influences over market orientation components confirming *H5a*, *H5b*, *H5c*.

**Table V.**  
Correlation matrix and  
Cronbach's alpha  
coefficients

	F1	F2	F3	F4	F5	F6	F7	F8	F9
Emphasis (F1)	(0.7123)								
Professional commitment (F2)	0.3289***	(0.6068)							
Entrepreneurship (F3)	0.2316*	0.0295	(0.8939)						
Perceived env. turbulence (F4)	0.3007***	0.3777***	0.1120	N.A.					
Market info generation <sub>1</sub> (F5)	-0.0056	-0.1234	0.3708***	-0.0757	(0.8672)				
Market info generation <sub>2</sub> (F6)	-0.0100	-0.0762	0.5525***	0.0984	0.5438***	(0.7939)			
Market info dissemination (F7)	-0.1965*	-0.1792	0.3476***	-0.0304	0.5116***	0.5408***	(0.6878)		
Market info response (F8)	-0.0147	-0.1518	0.2130*	-0.0795	0.7686***	0.3385***	0.4415***	(0.8650)	
Citizen participation (F9)	0.1077	-0.0507	0.5014***	0.0997	0.2793**	0.6287***	0.4185***	0.2466**	(0.9104)

**Notes:**  
 \*\*\* $p \leq 0.001$   
 \*\* $p \leq 0.01$   
 \* $p \leq 0.05$  (Cronbach's  $\alpha$  in main diagonal in parentheses)  
 NA = Not applicable

With regard to market orientation consequences, *H6* posited a positive relationship between market orientation and performance. Results show (Table VIII) that every single component of a market orientation is significantly and positively correlated with global performance assessed by chief secretaries. In what respects to citizen participation, it was obtained that each and every dimension of market orientation has a significant relationship with it, confirming *H7a* (partially), *H7b*, and *H7c* (*H7a*;  $\gamma = -0.773$ ;  $\gamma = 0.770$ ; *H7b*;  $\gamma = 0.213$ , *H7c*;  $\gamma = 0.503$ ). Significant causal relationships obtained, allow us to build a causal diagram gathering confirmed relationships as shown in Figure 3.

Average absolute std. res	Average off-diag std. res	$\chi^2*$	d.f.	Normed $\chi^2$	Bentler-Bonett normed	Bentler-Bonett nonnormed	CFI
0.0592	0.0621	1252.47	759	1.65	0.692	0.836	0.848

**Note:** \* $p < 0.001$

**Table VI.**  
Measures of goodness-of-fit of the model

Hypothesis	Confirmed causal relation	Standardised $\gamma$ coefficient	<i>t</i> -value
<i>H1a</i>	Emphasis $\rightarrow$ Generation <sub>2</sub>	0.170	2.167*
<i>H2a</i>	Commitment $\rightarrow$ Generation <sub>2</sub>	-0.175	-1.694***
<i>H2b</i>	Commitment $\rightarrow$ Dissemination	-0.291	-2.228*
<i>H4a</i>	Entrepreneurship $\rightarrow$ Generation <sub>1</sub>	0.273	2.640*
<i>H4a</i>	Entrepreneurship $\rightarrow$ Generation <sub>2</sub>	0.732	6.517*
<i>H4b</i>	Entrepreneurship $\rightarrow$ Dissemination	0.638	5.495*
<i>H5a</i>	Perceived turbulence $\rightarrow$ Generation <sub>1</sub>	0.950	10.061*
<i>H5a</i>	Perceived turbulence $\rightarrow$ Generation <sub>2</sub>	0.203	2.435*
<i>H5b</i>	Perceived turbulence $\rightarrow$ Dissemination	0.270	2.812*
<i>H5c</i>	Perceived turbulence $\rightarrow$ Response	0.888	8.922*
<i>H7a</i>	Generation <sub>1</sub> $\rightarrow$ Participation	-0.773	-2.724*
<i>H7a</i>	Generation <sub>2</sub> $\rightarrow$ Participation	0.770	5.377*
<i>H7b</i>	Dissemination $\rightarrow$ Participation	0.213	1.682**
<i>H7c</i>	Response $\rightarrow$ Participation	0.503	1.978*

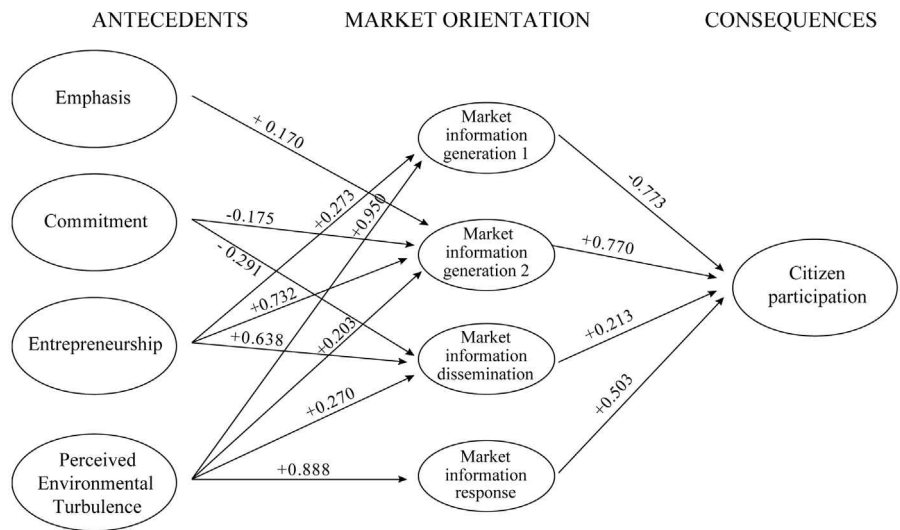
**Table VII.**  
Confirmed significant relations

**Notes:** \* $t$  significant for  $p < 0.001$ ; \*\* $t$  significant for  $p < 0.05$ ; \*\*\* $t$  significant for  $p < 0.1$

	Market information generation <sub>1</sub>	Market information generation <sub>2</sub>	Market information dissemination	Market information response
Size	-0.2119*	-0.1431	-0.3380***	-0.0939
Global performance	0.2600***	0.3735***	0.4473***	0.2683***

**Notes:** \*\*\* $p \leq 0.001$ ; \*\* $p \leq 0.01$ ; \*\*\* $p \leq 0.05$

**Table VIII.**  
Correlation coefficients market orientation-organisational size, market orientation-performance



**Figure 3.**  
Path diagram of  
significant relationships  
of local government  
market orientation

### Discussion and conclusions

Once identified the need to carry out research about the market orientation construct in different fields besides private organisations, and following the proposals made by current researchers, this study is an attempt to transfer market orientation to public management. Accordingly, main contributions in relation to market orientation have been analysed. In the absence of theoretical or empirical proposals in this field, and on the basis of a critical review of the main existing models, the behavioural model created by Kohli and Jaworski (Kohli and Jaworski, 1990; Jaworski and Kohli, 1993) has been proved to be reliable and valid in local governments with some adaptations (Cervera, 1998). Therefore, it can be proposed that local government's market orientation consists in those activities of generation – to understand the market – dissemination and response to market information to satisfy citizens. Hypotheses about antecedents and consequences of market orientation have been tested through structural equation modelling and correlation analyses.

All antecedents analysed (personal, organisational or environmental) determine the level of market orientation by means of their influence in any of the market orientation components. Mayor's emphasis is the investigated antecedent that has a significant influence in less components of market orientation, whereas perceived environmental turbulence is the only one that has a significant relationship with all of them. Mayor's emphasis influence on market information generation, brings about the importance of political leadership towards a market orientation (Brown, 1987; López and Gadea, 1995). As expected, mayor's professional commitment provided significant relationships with market information generation and dissemination. However, the negative sign obtained may be derived from the fact that higher levels of the

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mayor's commitment with his/her job may evolve into a presidential management style which does not promote neither market information generation nor dissemination of market information throughout the organisation. In respect with organisational features, and given that entrepreneurship, conceived as an organisational feature, influences positively and significantly on market information generation and dissemination, it becomes of importance to achieve innovative public organisations, proactive in respect to their environments and able to destroy bureaucratic barriers in order to provide new ways of service to satisfy social needs (Harrow and Willcocks, 1992). In relation to organisational size, results demonstrate that larger local governments generate less information to understand citizens' needs – contrary to hypothesised – and develop lower levels of market information dissemination. In this sense, it can be stated that large local governments should employ their higher budgets in those activities that may better help them understand their markets and reduce those barriers that prevent them from creating informational internal mechanisms of co-ordination. It can also be deduced that smaller corporations, with smaller budgets, manage to keep closer to citizens in a more spontaneous and constant way, which permeates all their departments. Therefore, market orientation is not a question of higher size and consequently higher budgets. In what respects to perceived environmental turbulence, the Spanish municipal environment is creating challenges, which are highly perceived by the Spanish mayors who participated in this research. Perceived environmental turbulence affects positively and significantly all components of a market orientation. This brings about the importance of an strategic view in local politicians that will allow them understand opportunities and threats posed by public organisations' environment.

With respect to consequences, results obtained allow us to state that market orientation affects local government performance. Every single component of a market orientation is positively and significantly correlated to global performance assessed by chief secretary's perceptions. In the case of citizen participation, market orientation affects market information generation, dissemination and response in a significant way. This gives support to the importance of developing market oriented democratic institutions (Hayden, 1993) that will promote participation. In spite of the negative and significant relationship between market information generation about present needs and citizen participation, the rest of the relationships are positive so that the global effect will be positive.

As Grönroos (1994) points out, market orientation shapes organisational structure in its philosophical aspects, responsibilities and levels of power delegation. In the case of local governments, market orientation encompasses not only overcoming external barriers but also internal ones, given the necessary transformation of political-administrative structures, of management philosophies and of organisational cultures in general.

*Study limitations and directions for further research*

Although the findings of this study are significant to market orientation in public management, the complexity of the concepts analysed makes research in market orientation modelling a complex task. Several key factors beyond the scope of this study arise opportunities for additional research. First, our work is based on public management literature in general, and the local context, as a level of it, shares common features but it has also its peculiarities (i.e. position of mayor in the municipal authority studies). Second, judgements about market orientation, although independent and qualified, have been reported by only one member of the organisation and some judgements in different areas and levels of the organisation could enrich the results obtained (Biemans *et al.*, 1997). Third, market orientation level has been assessed from a supply perspective (in-house respondents). This limitation has been already pointed out by other authors (Deshpandé *et al.*, 1993; Gabel, 1995; Biemans *et al.*, 1997; Hurley and Hult, 1998) in the sense that market orientation measures must not be constrained to the subjective assessment of members of the organisation, but include the demand's point of view. This will allow to detect discrepancies and coincidences which the organisation will have to work. Fourth, this analysis has been focused on citizens as a universal concept for local governments' market orientation. More research should provide deeper knowledge in the different publics that interact with local governments such as investors, tourists, civil servants, etc. Fifth, findings in this study are based on cross-sectional data. Future research should analyse the dynamics of change in the variables and relationships analysed by employing longitudinal data. Sixth, other antecedents of market orientation in public management could be considered. In this sense, Table II provides numerous antecedents already analysed by other authors, mainly in private organisations. Seventh, with regard to the consequences, further research should deepen in the measure of performance including other sources of information and the analyses of other aspects like quality of life, citizen satisfaction and electoral success. Finally, potential moderators such as environmental ones and innovation, already analysed in private companies (Greenley, 1995a; Jaworski and Kohli, 1993; Slater and Narver, 1994b; Han *et al.*, 1998), should be paid more attention to get deeper knowledge about the dynamics that connect market orientation to organisational performance.

**Notes**

1. Under the term "public management" are comprised others frequently used in the literature such as public sector, public organisations, public service organisations, or public institutions. They all share common features like their search for the general interest and their independence from market laws (Bon and Louppe, 1981).
2. It is used the notion of "local government" instead of "municipal authority", "local authority" or "local public administration" because it embraces the mission of the organisation in a wider sense than just the provision of public services (Bovaird, 1995).
3. Both market orientation and entrepreneurship are considered answers to turbulent environments. In this sense, they have been conceptualised as connected or even coincident constructs. See Day and Reynolds' (1997) description of works connecting marketing and entrepreneurship.

4. In the case of companies, Andreassen (1994) identified satisfaction, loyalty and reputation as consequences of local government market orientation: those local governments developing closer relationships with companies located in their areas provide stimuli for them to remain and continue with their investments, and thus for local economic progress.
5. For space reasons scales are not provided. Contact the authors if required.
6. Although it has been denoted that the existence of reverse-coded items could affect the factorial structure (see Babakus and Boller, 1992), it is desirable, following Carman's (1990) precisions, to introduce them.
7. Although  $\chi^2$  seems to reach a too high value, other studies have accepted it (Lichtenstein *et al.*, 1993). Moreover, given that  $\chi^2$  is highly sensitive to sample characteristics (Jöreskog and Sörbom, 1988) and given the characteristics of the one employed (heterogeneity and size), following Carmines and McIver (1981), it seems more adequate to consider the  $\chi^2_N$  ( $\chi^2$  corrected by its degrees of freedom) as an accurate goodness-of-fit measure.

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