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**ASSESSING THE MARKETING ORIENTATION
OF
HANSMANN'S FOUR CATEGORIES OF NONPROFITS**

THESIS

submitted by:

Saxon Harding

to the Faculty of Graduate Studies and Research
in partial fulfillment of the requirements for the degree of
Master of Management Studies

May 14, 1998

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ACCEPTANCE SHEET

The undersigned recommend
to the Faculty of Graduate Studies and Research
acceptance of the thesis.

**Assessing the Marketing Orientation
Of
Hansmann's Four Categories of Nonprofits**

submitted by Saxon Harding in partial fulfillment of the
requirements for the degree of Master of Management Studies

Thesis Supervisor

Director, School of Business

Carleton University

May 14, 1998.

ABSTRACT

Nonprofit organizations are increasingly the service providers of social marketing programs which once were almost exclusively government funded. For support, however, they must draw upon a literature which does not well understand what the impact of business methodologies such as marketing will have on organizations whose rationale is to manage conflicts of interest. The research utilizes a typology of nonprofit organizations based on the dimensions of finance and control to test the applicability of the marketing orientation in a survey of 270 nonprofit organizations. Contrary to marketing orientation theory, the organizations did not exhibit any of the three marketing orientation components. Instead all the four types exhibited the same needs awareness component. The finding suggests that these organizations understand their end-users but do not focus on satisfying their needs in the way that market-oriented businesses do because of the presence of conflicts of interest. Validation for the typology was found.

ACKNOWLEDGMENTS

The completion of this research marks the end of a journey which began when I, a program evaluator, became convinced that the problems faced by evaluators were related to the use of business models in non-business contexts. Two years later, with a great deal more understanding about these issues, I can only feel gratitude that the School of Business has supported my quest.

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1.0 Introduction

A combination of social and economic factors has created a new force in the Canadian economy which is destined to have a significant impact on our society. The nonprofit sector - the economic ugly duckling - is becoming a swan. Yet even as academics, politicians, think tanks and the media struggle to understand the sector and explain its rise, nonprofit organizations find themselves faced with a daunting challenge: how to respond to the rising demand for services with fewer resources in a manner which satisfies a more critical public.

To deal with this challenge, nonprofits are increasingly turning to business methodologies such as marketing to increase their revenues (Rados 1981; Kotler 1982; Andreasen 1982). Reciprocally, marketing consultants and scholars have urged nonprofits to adopt a particular marketing methodology, the marketing orientation, to improve cash flow and increase market share (McLeish 1995; Kotler 1982; Rados 1981; Andreasen 1982). Nonprofits, however, are not businesses (Drucker 1978, 1990) and moreover, differ fundamentally among themselves (Hansmann 1980, 1996). Therefore, it is important to understand the impact of the adoption of a customer-focused, profit-oriented methodology such as the marketing orientation on various types of nonprofit organizations.

2.0 Literature Review

This review begins with a section devoted to an examination of the nonprofit sector itself: its size and the services it delivers. Next, the review provides a rationale for a typology of nonprofits. Using a typology to assess the impact of business methodologies allows for more useful conclusions than if no attempt were made to differentiate these organizations. Finally, because marketing is an applied social science predicated on the neo-classical economic concept of exchange and because neo-classical theory has difficulty accommodating the types of activities and exchanges engaged in by nonprofit organizations (Gassler 1986) the next sections are devoted to an examination of various economic theories which attempt to explain the role of nonprofit organizations in the modern economy.

Following these sections, a brief survey of the evolution of marketing theory is provided to establish the background to the marketing orientation concept and to give some basic definitions. Nonprofit organizations are, overwhelmingly, service providers, so the sections which follow discuss the pros and cons of the marketing orientation as applied to service businesses. Finally, in light of the above, that is the theoretical limitations inherent in the direct application of business methodologies to non-businesses, the significant ways that nonprofits differ among themselves and the difficulties which occur when the marketing concept is applied to service businesses, the review assesses the degree to which the marketing management advice provided to nonprofits addresses these constraints.

The research questions follow directly from the considerations raised by these issues: is a marketing orientation appropriate for any type of nonprofit? If appropriate for some, which ones?

2.1 The Nonprofit Sector

In addition to the market and government sectors in the modern economy, a third exists which is not well understood either in terms of its size, its economic functions or its rationale. This third locus of quasi-economic activity is usually called the nonprofit sector, although, as will become apparent, there are as many names for the sector as there are proponents of its place in the economy. In fact, the phrase “nonprofit sector” is used only as a shorthand term in this review for the economic functions which nonprofit organizations carry out: it should not be construed as suggesting an analogue to the business and government sectors either in the type of activity carried on by nonprofit organizations or their legal and financial foundations.

This nonprofit sector is comprised of institutions which deliver most of the high-profile human services on which Canadians depend: education, hospital care, performing arts, museums, daycare, nursing homes, welfare agencies and research consortia. In addition, the sector contains those organizations which address the affiliate needs of Canadians: professional organizations, churches, social clubs and groups devoted to causes. A few examples will illustrate the extent of the diversity: Children’s Aid Societies, homes for the aged, Meals on Wheels, shelters for battered women, the John Howard Society,

CANARIE (high-tech research), the Hospital for Sick Children, Canadian Red Cross, St. John Ambulance, Carleton University, Boy Scouts, Savoy Society (Gilbert and Sullivan Operettas), REAL Women, Mothers Against Drunk Driving, The Royal Canadian Legion, the Canadian Bar Association and the Imperial Order of the Daughters of the Empire.

What all of these organizations have in common and what is meant by the term ‘nonprofit’ is that any surplus (excess of revenues over expenses) which is generated may not be distributed to those who control the organization such as its members, officers, directors or trustees. Profits must be re-invested into the programs and services the organization was set up to provide. Consequently, because of this “nondistribution” constraint, a nonprofit has no owners - no group who both controls the operation and shares the residual earnings (Hansmann 1996).

Estimates of the size of the nonprofit sector in Canada vary considerably. Where some researchers believe as many as 200,000 registered charitable and other nonprofit organizations exist in Canada (CPRN, 1997, p.35), others arrive at a lower figure of 139,000 (Bryden, 1996). The reason for such a range of estimates has to do with the reporting requirements of Revenue Canada, the primary source of data on nonprofit organizations. Revenue Canada requires all registered charities to submit an annual information return (T3010). In order to register as a charity, an organization must provide benefits which fit five charitable categories developed from the common law: health, the relief of poverty, the advancement of religion, the advancement of education

and “other purposes of a charitable nature beneficial to the community as a whole” (CCP, 1994 p. 4-5).

In addition to charities, Revenue Canada also require all “other nonprofit organizations” whose revenues exceed \$10,000 or with total assets in excess of \$200,000 or who filed the previous year to file a T1044 information return (Day and Devlin 1997). Since there is “no way to verify that all relevant organizations are indeed filing...it would appear that available Revenue Canada data are only capturing a small subset of the noncharitable nonprofit sector” (Day and Devlin 1997, p.62). Noting that only 4,490 noncharitable nonprofits filed returns in 1994, these authors comment that “the count obtained using Revenue Canada data differs by orders of magnitude from what one might expect on the basis of other evidence” (Day and Devlin 1997, p.63).

With respect to the nonprofits which can be measured, i.e. charities, the Canadian Centre for Philanthropy (CCP) published in 1994 what it described as an “important first step” in documenting the size, scope and financing of registered charities in Canada (CCP, 1994). Their “admittedly flawed” statistics indicated that Canada’s 70,000 registered charities accounted for \$86 billion in expenditures (equivalent to 13% of the Gross Domestic Product) and employed 9% of the labour force in Canada - two thirds of whom worked full time (CCP, 1994). Similar difficulties exist in determining the size of what has been variously called the independent, the voluntary, the third and the civic sector in other western democracies (Weisbrod, 1988; Gidron, Kramer and Salamon, eds.1992).

What is not in dispute is that the sector is growing rapidly (Rose-Ackerman,1996; Ware 1989; CCP 1994; Day and Devlin, 1997). In the United States, where studies are an industry in its own right (Campbell, 1993), the size of the nonprofit sector tripled over a twenty year span (Weisbrod, 1988). In Canada, from 1969 to 1996, the number of charities doubled (CPRN, 1997) with 25% of the increase in the last five years (Bryden, 1996). Changes in the Income Tax Act to encourage donations by the public and the increasing dependence of governments on charities to deliver necessary public services (Domingue 1996) have created conditions conducive to the growth of these organizations (Hansmann 1980; Gassler 1986; Campbell 1993).

The nonprofit sector, unlike the government and market sectors of the economy, has a plethora of names: nonprofit, not-for-profit, voluntary, intermediate, civic, voluntary, third, independent, and the commons. Researchers have commented that this varied nomenclature reflects attempts by the disciplines interested in the sector to map out the research agenda from their particular vantage point (Scott 1997). The existence of so many terms is considered evidence in itself that the nonprofit organization is, despite the long tradition of charity on which it stands and the existence of prior, analogous forms, actually a new economic form for which researchers have not yet fully developed a rationale (Billis 1992; Gassler 1986).

2.2 Types of Nonprofits

Nonprofit organizations are not all alike, in the way that businesses are¹. Some, such as religious groups rely almost exclusively on donations, others utilize an extensive cadre of volunteer workers, others draw from businesses for capital with which to conduct basic research, and yet others deliver what are essentially government programs through government contracts. These considerable, fundamental differences in inputs and assets (funding, tax exemptions, labour, capital etc.) among nonprofit organizations mean that research into the various issues raised by the presence of nonprofits e.g. their outputs, their utilization of inputs, the valuation of volunteer labour and so forth, in the economy must first decide on an appropriate categorization scheme which addresses these differences. Classification, therefore, is a non-trivial issue for this developing field of study.

Hansmann (1980) provides a four-way categorization of nonprofits based on the way they are financed and controlled. This categorization, while not the only classification scheme for nonprofits² is particularly appropriate for an investigation into the impact of a marketing orientation on a nonprofit because it permits an assessment of the degree to which the various constituencies which are the hallmark of nonprofit organizations are “satisfied” by the outputs of the organization.

¹ By this I mean that inputs and outputs are valued according to accounting principles grounded in a quid pro quo which is indifferent to the product.

Support for these dimensions as valid ways to derive categories of nonprofits comes from two independent sources: The Report of the Task Force on the Volunteer Incorporations Act (1990) and The Canadian Institute of Chartered Accountants recommendations in Audits of Non-Profit Organizations. The Task Force distinguished between nonprofits which use public money and those which do not in their recommendation of a public annual disclosure of a nonprofit's financial status. Regarding the issue of sources of financing, the task force explicitly addressed the "illusory" distinction in current legislation between societies and nonprofit companies:

"...many organizations which incorporate under the Societies' Act fit the category "other useful purpose" and in reality would be more appropriately incorporated as nonprofit companies. Further many of the fund-raising activities of societies are in the nature of a trade or business, and would again be more appropriately carried on by a nonprofit company under the Companies Act" (p.8)

In addition, the task force made a series of recommendations regarding members' rights and duties. Noteworthy is their rejection of the umbrella phrase "rules of natural justice" (p.19) in favour of specific recommendations spelling out conflict of interest issues, shareholder agreements and the provision of financial assistance to members of mutual benefit organizations (p.22). All of these recommendations deal with the consequences of control by certain constituencies, hence control is a central issue in a nonprofit.

The Canadian Institute of Chartered Accountants (CICA) has the following pertinent remarks about nonprofits (NPOs) concerning their "general features":

"Some NPOs are devoted exclusively to their members, but most of the time their services are geared towards third parties and involve training and education, economic and social assistance, child care, recreational services, the promotion or defense of

² See for instance Rados (1981) and Steinberg in Avner, Ben-Ner and Benedetto Gui (Eds) "The Nonprofit Sector in the Mixed Economy" Ann Arbor MI: University of Michigan Press, 1993.

various causes, artistic or cultural endeavours, etc... Their sources of funding are diverse and are becoming more so as government support is decreasing, forcing NPOs to look elsewhere for funding. Grants from the various levels of government and other organizations, fees and donations can now be supplemented by investment income and income from the sale of increasingly diverse goods and services." (p.1)

On the issue of the impact of a funding source on programs and services, CICA notes that a donor "may restrict the use of donated assets or money to specified purposes" or a charitable foundation may promise its donors "that it will use the proceeds from a fund-raising campaign exclusively to carry out a specific project." (p. 6). Thus "a significant part of NPOs revenues, particularly grants or contributions depends on decisions made by third parties who do not usually use the organization's services. Regarding control, CICA observes that "corporate culture ...affects the following issues in particular: management philosophy (and) the establishment of priorities, especially as concerns resource allocation and accountability" (p.9) and that "significant external influences (i.e. restrictions set by contributors) have an impact on the internal controls of some NPOs" (p. 10). The interesting question is, of course, which ones?

Hansmann (1980) notes that the feature which distinguishes a nonprofit from a business is not that it cannot make a profit but that it cannot distribute this to "individuals who exercise control over it such as members, officers, directors, or trustees" (p.838). Distribute here means in the form of dividends: it does not preclude profits being used for overhead. Also, profit, here, means net earnings after expenses. With respect to what constitutes legitimate expenses and what percentage can be deducted, Revenue Canada's regulations are not clear and sometimes appear to be observed more in the breach than the occurrence (Bryden 1996) but the regulations for registered charities require that 80%

of the tax receiptable donations be spent on charitable activities.³ Hansmann calls nonprofits who receive most or all of their income in the form of grants or donations “donative” nonprofits. The other end of the financing continuum, occupied by organizations who receive the bulk of their income from prices charged for their services, he calls “commercial” nonprofits.

The second dimension identified by Hansmann is control: the extent to which a nonprofit’s activities are directed by its patrons. Those whose directors are elected by the membership he calls “mutual” nonprofits whereas those who are “largely free from the exercise of formal control by their patrons he terms “entrepreneurial”. Hansmann notes that the terms “member” and “patron” do not necessarily mean the same thing in each nonprofit. For instance, he cites the United Way as an example which is controlled by its members, the service organizations who receive the funds collected from individual patrons who have no say and no direct voice (p. 841).

The two dimensions create four categories: donative mutual, donative entrepreneurial, commercial mutual and commercial entrepreneurial. Many organizations are not pure types and fall not at the ends of the dimensions but somewhere along the continua hence utilizing this categorization permits an assessment of whether the adoption of a marketing orientation might influence the movement of an organization along the continua and

³ Two points provide context here. First, charities represent according to some figures about one third of all nonprofits in Canada so this rule is not by any means applicable to the majority. Second, tax receiptable donations do not include funding from charitable foundations (themselves charities). This latter funding

ultimately change its categorization. Such movement would be flagged by a broadening or a generalization of an organization's mission or mandate or the use of "mainstream" target market criteria.

while it may be subject to a foundation's evaluation criteria is not legally required to be spent on programs, although most is.

2.3 Rationales for Nonprofit Organizations

As noted previously, the nonprofit sector is receiving unprecedented interest from Canadian academics, the media and society (CPRN 1997). This is due to a confluence of factors, similar to those which saw the sector's emergence as a field of study in the United States in the 1970s with the work of the Filer Commission (O'Neill 1989 p.170). Among these factors are the downsizing of governments with the subsequent off-loading of programs and services to the nonprofit sector and the simultaneous re-examination of the tax exemptions and registration requirements of nonprofit organizations (Domingue 1995), decreasing levels of personal and corporate donations and a rise in alternate fundraising methods (CPRN 1997) and the growth of the service economy and the professional associations on its periphery (Belfall 1995).

This increased interest in the sector has produced a need to distinguish it from the government and market sectors and to develop a rationale that permits the quasi-economic behaviour of nonprofits to find a legitimate place in the economy. What that place is remains very much a matter of conjecture and vantage point. On the problem of attempting to make sense of nonprofit facts without a structure, Salamon (1995) quotes from Kuhn's treatise *The Structure of Scientific Revolutions*: "In the absence of a paradigm or theory...all of the facts that could possibly pertain to the development of a given science are likely to seem equally relevant"⁴ This point is particularly well taken in the field of nonprofit research in which the disciplines of social work, economics,

⁴ Kuhn, 1962, p.15

business, public administration, psychology, law, political science and religion all have a perspective which attempts to shed light on some aspect of the sector's rationale.

Economic theories of the nonprofit sector are of two types. The first type looks with neoclassical lens at modern economies as the precinct of business and government and asks what is there that fails in the operation of these two sectors that has given rise to a third, nonprofit sector? The answers to this essentially demand-driven question are the residual theories of contract and government failure (CPRN 1997; Hammack and Young 1993; Weisbrod 1988).

The second type of theory looks at the modern economy and charitable activity in a historical context and asks how can one explain the development of nonprofit organizations from their beginnings in altruistic, private behaviour? (Lohmann 1992; Salamon 1995; Gassler 1986; Hansmann 1996) Some answers to this supply-driven question are personal, others are institutional. Regarding the former, not much work has gone into the characteristics of nonprofit entrepreneurs and even less into the extent to which founder characteristics and motivations are related to the way nonprofit services are provided to consumers (CPRN, 1997). Further, it should be noted that theories which rely on personality variables to explain an institutional form are drawing on a common myth about the nonprofit sector - that its personnel are somehow morally superior or different (Drucker 1978). With respect to the latter, the institutionally based theories, there are four theories varying in approach and degree of comprehension which attempt to explain the phenomena in question - Lohmann's theory of the commons (1992),

Salamon's theory of voluntary failure (1987), Gassler's theory of nonprofit enterprise (1986) and Hansmann's theory of the ownership of enterprise (1996).

This literature review assesses each of these theories in terms of its potential as a grounding for research into the application to the nonprofit sector of business methodologies in general and marketing in particular. This is necessary since, if no current theory can provide an adequate basis for these methodologies, then those that *are* used such as the marketing orientation need to be understood in that light - i.e. that they are stop gaps until more theoretically-grounded rationales are developed. Alternately, if there are theoretical formulations that correspond to the known parameters of the nonprofit organization, then these should be used in evaluating the applicability of a business methodology to a nonprofit.

2.4 Residual Theories of Government and Contract Failure

Both government and contract theory are rooted in the observation that "failure" is the consequence of certain economic conditions: natural monopoly/increasing returns, public goods, significant externalities in production or consumption, the existence of free-rider problems (Campbell, 1993) or information asymmetry (Weisbrod, 1988). There is less consensus about what causes these failures or even the entire failure stance which by categorizing the existence of the nonprofit sector as the result of failure in the other two sectors seems to downgrade the significance of the sector's contribution to the economy (Scott 1997).

Government failure theory explains the existence of a nonprofit sector and why nonprofit organizations provide collective goods. Collective goods are those which voters elect governments to provide and correspond to those goods and services which are non-divisible and which would cost the same regardless of how many taxpayers contributed (e.g. national security, monetary standards, taxation policies, legislation etc.). “Providing these goods exclusively through the market (would) thus ensure that they are in short supply since few consumers will volunteer to pay for products they can enjoy free” (Salamon 1987, p.109). The government fails, so goes the argument, when mandated to satisfy a median voter and concerned about re-election, it finds it cannot justify or risk the provision of services for which there is not a clear demand by a majority of voters or a coalition (Salamon 1987; Weisbrod, 1988). Deputizing nonprofits to act in their stead permits governments to satisfy large, vocal, needy or high-profile minorities without the full commitment and costs necessitated by a government program (Knauer, 1996). This somewhat opportunistic explanation is frequently supplemented by citing the administrative advantages attached to a nonprofit service delivery: the ability to charge user fees; the freedom to experiment with new services or delivery processes; the freedom from bureaucratic rigidity (Weisbrod, 1988)⁵. Less often cited is the benefit to governments of an arms’ length arrangement should the nonprofit service become problematic (Knauer, 1996). Salamon (1987) notes that this theory contains a fundamental contradiction:

“But because the nonprofit sector is viewed as a substitute for government, providing goods and services that the full political community has not endorsed, government support to nonprofit organizations has no theoretical rationale. To the contrary, under

⁵ Critics of government failure cite these very advantages as evidence that the government has not in fact failed at all (Campbell 1993) (CCP 1994).

this theory, to the extent that nonprofits deliver services that government underwrites, they violate their theoretical *raison d'être*, which is to supply the goods government is not supplying" (p.109)

Government failure theory, then, is predicated on a constellation of concepts, all of which must be accepted if the consequences of failure are to be valid: viz. government is the premier provider of public goods; there are two kinds of goods, public and private; and the nonprofit sector provides public goods only when governments don't.

Contract failure theory is the opposite side of the capitalist coin and explains the existence of a nonprofit sector by referencing failings in the market sector. It received its first exposition in Hansmann's 1980 article outlining how nonprofits by virtue of the trust they engender, compensate for market failure. His argument is essentially that in situations where purchasers cannot personally evaluate products, e.g. foreign aid, the risk of misappropriation of funds by a profit-seeking entrepreneur is such that only an organization with a nonprofit mandate can carry out the distributive function without prohibitive transaction costs. For example, the transaction costs attached to checking up on negligent execution or exorbitant fees for a service such as nursing care for the aged, which is usually contracted for by a third party and not by the consumer is too great for such a service to be handled well by market forces. Having the service delivered by a nonprofit firm which has no owners who can profit by behaving opportunistically, reduces the transaction costs and makes the service viable. Campbell critiques this argument as less than a convincing rationale for the existence of a *private* non-profit sector (1993 p.5). Salamon (1987) says the difficulty with this argument, is that it doesn't explain why if trust is the issue, the outcome of market failures is not more

government agencies and service provision, since presumably, governments are even more trustworthy than nonprofits. It should be noted that Hansmann's theory does contain a partial attack on this problem when he notes that in attempting to ensure government accountability, the "resulting bureaucracy may be sluggish and disproportionately costly, particularly if there are no economies of scale involved in managing such enterprises, as there often are not with the kinds of services provided by nonprofits" (1980, p.895). As explored later in this review, Hansmann later fleshed out these ideas into a fully-fledged theory (1996) of the ownership of enterprise which accounts for the entire range of organizations within one set of constructs.

These residual theories, then, essentially cast nonprofit organizations in the role of quasi-governments or quasi-businesses. They do not conceptualize the sector as having a distinctive positive, necessary role, independent of the other two as its advocates would wish.

2.5 The Theory of the Commons

Lohmann's theory of the commons (1992) attempts to provide a theory which utilizes the larger context of voluntary behaviour. Eschewing a "conventional residual" approach which treats the voluntary sector "as what is left over once government and commercial agencies, and probably also the informal sector have been put to one side (1992, p.47), Lohmann's theory rests on nine basic assumptions about the voluntary and nonprofit sector. Central propositions include the notion that the social action which characterizes

the sector is premised on affluence, i.e. surplus and near universality. This is in contrast with the premise of scarcity which underpins the analysis of allocation among alternative ends that characterizes modern economics.

“In all known cultures, self-defining collectives of people voluntarily associate and act jointly outside of markets and households and independent of the state in pursuit of common purposes. Even among itinerant hunter-gatherers and farming and fishing cultures, leisure time is not spent in subsistence activities.” (1992, p.53)

For Lohmann, it is the rational pursuit of common goods that produced the democratic political state. “Political states arise out of the common goods and mutual actions of interest groups, factions and political parties and in turn exercise a measure of control over the activities of commons.” (p.274). Thus, against the modern economist’s solution of the problem created by nonprofits - a problem solved by relaxing the meaning of terms like *firm* and *public goods*, Lohmann would create new constructs which recognize the interdependency of all three sectors in the shared social spaces he calls “commons”. Lohmann’s theory is thus not so much an economic theory of nonprofits as a sociological theory of economic behaviour. While it represents an important example of the type of thinking which seeks a shared framework for describing all three sectors, it does not provide a theory on which to base an analysis of the unique inputs and outputs of nonprofits and by extension the marketing activities which utilize these outputs to generate more inputs.

2.6 Salamon's Voluntary Failure Theory

The interdependency of the three economic sectors is a central facet of Salamon's Voluntary Failure Theory. Salamon points out both the fears of the Left (of the sector's demise) and those of the Right (of its overweening presence) are the consequence of the absence of a theory which explicitly explains the extensive co-operation between nonprofits and government. He asks why, if failure theories are accurate, the sector is so vigorous (p.40).⁶ The answer he provides rests on the fact that central government is both a provider of funds and direction and also a deliverer of services. Because government is involved in both of these functions, the result is "third party government" in which central government shares considerable discretion and public authority with a wide variety of other governments, private institutions and nonprofits. The advantage, cited for the United States but valid in Canada too, is a program delivery system which respects and incorporates a pluralistic society, permits experimental projects on shoestring budgets and utilizes specialized, local expertise unavailable in a typical bureaucracy.

Salamon notes that this flexible style of governing has its drawbacks, notably the public management problems when multiple stakeholders are involved, the decreased control and the lack of accountability. However, it is the advantages of diversity, competition,

⁶ That is, if the only reason the sector existed rested on the inadequacy of government and/or business, one would expect as these two sectors improved their responsiveness, that the nonprofit sector would decrease or alternately that the nonprofit sector's vigour would parallel a diminution of the other two sectors. Neither of these scenarios has happened and all three have increased in size and responsiveness.

small-scale enterprise, lower costs and innovation that explain why this method of providing publicly funded services has evolved to its present state.

Thus instead of governments and markets “failing” as some theories suggest, it is governments which are the derivative institutions which respond to the failure of the voluntary sector. Salamon notes that such a reversal accounts appropriately for the voluntary sector’s presence historically as antecedent to government or co-existent when, for example, it was considered part of the public sector in nineteenth century economies (p.43). Further he points out:

“The central failing of the voluntary system as a provider of collective goods has been its inability to generate resources on a scale that is both adequate enough and reliable enough to cope with the human service problems of an advanced industrial society.”

In particular, Salamon singles out four specific deficiencies in any system of unstructured altruism: philanthropic insufficiency, philanthropic particularism, philanthropic paternalism and philanthropic amateurism. Significantly, each of these “failings” has been the target of critics of the nonprofit sector and the rationale for suggestions designed to improve its management. Obviously, however, in the absence of specific theory to situate the failings, much of the criticism comes off as mean-spirited carping which devalues those who “do good”.

Philanthropic insufficiency refers to the inadequacy of a voluntary system to “generate resources on a scale that is both adequate enough and reliable enough to cope with the human service problems of an advanced industrial society” (Salamon, 1987 p.111). It is

too easy for free-riders to take advantage of a system they do not support if the only support for the system is voluntary contributions.⁷ Salamon cites as evidence of this failing, the less than optimal level of the resources provided, the free-rider problems where the stingy benefit from neighbourly benevolence, the dependency on the cyclic nature of the economy and the uneven geographic coverage. The second failing, philanthropic particularism is the tendency of nonprofits to target particular subgroups and not others. This becomes acute when categories of the poor are more deserving than others or some races are better served than others or when some groups are multiply served but others not at all.

Philanthropic paternalism is a failing that stems from the source of the resources: when the wealthy are the source it is their preferences for services and clientele that are decisive. "Aid is provided as a matter of charity, not of right" - a deficiency which has become very evident as government funding in Canada continues to abate. Finally, philanthropic amateurism is, according to Salamon, the consequence of the paternalism of the voluntary sector and the value-laden help provided by well-meaning amateurs. He notes that,

"for a considerable period of time, the problems of poverty and want were attributed to the moral turpitude of the poor. Care of the poor, the insane, the unwed mother was therefore appropriately entrusted to well-meaning amateurs and those whose principal calling was moral suasion and religious instruction, not medical aid or job training" (1987 p.112).

These failings of the voluntary sector, however, are matched by the government's strengths and replacing either by the other makes far less sense than "collaboration

⁷ A case in point is the public American television programming. Viewers who do not contribute can still

between the two” (Salamon 1987). He argues this collaboration is not the unwarranted aberration that failure theory would aver but a “logical and theoretically sensible compromise” Further, in defense of his theory, he asserts that “given the importance of these relationships (i.e. between government and nonprofits) this is reason enough to lend credence to these alternative theories” (emphasis added). Unfortunately, while it might make sense, it is still a post hoc ergo propter hoc argument. Essentially, Salamon seems to be saying that governments and nonprofits knew from the beginning of the partnership that they would need the other in the ways that their failings would predict. But to have known in advance of their ‘weaknesses’ and not to have attempted improvements means that neither party could have considered itself an independent actor but would have acted as though it was. Hence, the voluntary sector does not fail as Salamon avers but exploits government need.

Moreover, this theory does not explain why a nonprofit form of enterprise exists in the first place. Either it existed prior to its functions being co-opted by government or it is a government tool with only a pretense of autonomy. Thus while voluntary failure theory explicates a number of problems with the way services are provided by government and nonprofits, it does not provide a rationale for the sector and by extension its economic functions other than saying that American governments⁸ would be lost without it.

benefit. Wherever insufficient voluntary contributions prevail, this kind of programming does not exist.
⁸ Because of their long history of “third party government”

2.7 Gassler's Theory of Nonprofit Enterprise

In contrast, Gassler (1986) sees the nonprofit sector as both antecedent to, simultaneous with and subsequent to activity in both of the other two sectors. For him, the nonprofit sector is the plenum out of which the other sectors individuate. His 1986 "The Economics of Nonprofit Enterprise" analyzes the restrictive explicit and implicit assumptions of neoclassical economic theory in order to determine which economic functions are performed by nonprofit organizations. He points out:

" Public and private nonprofit enterprises straddle the economic system and its environment. Set up mostly for 'noneconomic' reasons, they nevertheless affect the economic system even in the idealized neo-classical version by creating the conditions under which the assumptions are satisfied or by making changes in the outcome of the systems when they are not." (1986, p.17)

Gassler contends that while neoclassical theory is adequate to describe the input side of nonprofit enterprises because their activities require real resources, it is "wholly inadequate for looking at the output side." (p.13) a point long maintained by Drucker (1973). His analysis produces five functions which while performed in the real world simultaneously can be ordered within a neoclassical framework into a logical, causal sequence. These are the environmental, systemic, allocative, distributive and stabilization functions. Each of these is described below in turn.

2.7.1 The Environmental Function

For Gassler, the environmental function is something like an ambient atmosphere in which subsequent market activity occurs. Nonprofits, says Gassler create the atmosphere in which businesses later function. They do this in three ways: by forming tastes or preferences; by driving technological change through basic research and by altering the endowments of market participants by devices such as lobbying for family allowances, tax exemptions and so forth. Gassler distinguishes the function of private nonprofit enterprises such as churches, youth groups, colleges and so forth in shaping tastes from the role that advertising by firms plays in harnessing those tastes to build brand loyalty - a distributive function. Similarly, he shows that while basic research and the discovery of knowledge for its own sake is the domain of nonprofit enterprises, businesses enter the process later at the applied research and development phase, a point freely granted by firms who create nonprofits.⁹ Firms, he says, “are interested only in success; scientists can also be fascinated by failures” (p. 21). Lastly, because participants cannot engage in exchange unless they have the resources to do so, the political processes by which nonprofits change the weights of the resources of market participants are antecedent to the exchange.¹⁰

⁹ see Andrew Bjerring “The Information Highway” Business Quarterly, Spring '94 outlining the role of the nonprofit CANARIE with over 80 private and public sector members supporting basic research on communications infrastructure

¹⁰ For instance, the recent decision to change the Canadian Income Tax Act so that recipients of child support do not pay tax and contributors do has altered the rules for divorced parents.

2.7.2 The Systemic Function

Gassler defines the systemic function as one which sets the conditions for market transactions - “the rules of the game”. These conditions, he says are ownership, trust and market information and each of them is determined by the influence of nonprofit enterprises and, to borrow Lohmann’s term, the social spaces of the commons. Ownership, what is legal to trade and what is not, while influenced by market transactions is not determined through market activity but through law and custom. The agenda-setting activities of nonprofit organizations determining what is a legal commodity and who can do the exchanging are legion: participation in the economy for women; the abolition of slavery; the extension of voting rights and property rights for the lower classes; the prohibition of sales of certain items to minors and so on (Milne et al. 1996).¹¹

The second aspect of the systemic function is trust. Trust results from the socialization process which creates responsible citizens and is an output of nonprofit enterprise that is essential to a market economy. Market economies cannot operate without a basic public trust that lying, cheating and theft will be the actions of the dysfunctional few - the transactions costs are too great. Nonprofits in the form of churches, relief agencies, schools and watchdog organizations are, along with households, the chief socializing agents. It is worth

¹¹ For example, recent decisions regarding whether surrogate motherhood is a legal exchange.

noting that when these organizations behave in untrustworthy ways, the public perceives the threat to the fabric of society as far more serious than when firms flout the law: a moral hierarchy has been turned upside down. This point exemplifies Gassler's caveat that nonprofit outputs are the logical inputs to market activities.

The final component of the systemic function is market information - the provision of adequate intelligence so that participants can participate in exchanges on a fairly equal footing.

2.7.3 Valuing the Environmental and Systemic Functions

Gassler points out that the environmental function consists of parameters held constant in neoclassical economic theory while the systemic function, according to Gassler "does not show up in the formal analysis at all." (p.20) Gassler is saying that activities which function as parameters in a business are either the actual outputs of nonprofits or are unvalued. Further, Gassler, in discussing the way that these functions are accounted for in economic theory notes that the "neoclassical framework uses a subset of a larger whole – and that use of it to evaluate matters outside its scope may lead to logical circularities or inappropriate answers" (p.13). This conclusion is significant since it suggests for instance that concepts (e.g. exchange) developed by businesses (the subset) cannot be applied to the larger whole (the nonprofit) in a logical manner. The literature review looks at this issue later on in the sections devoted to the marketing concept.

On the difficulty of evaluating nonprofit output, Lohmann (1992) arrives at a similar conclusion to Gassler and comments that, “one of the most difficult aspects of common goods economics is activities that we cannot measure but that are nonetheless perfectly clear to those engaged in them” (p.166). Noting, the inability of normative microeconomics to measure these functions, he argues for distinguishing between outputs as products and outcomes as results.

2.7.4 The Allocation and Distribution Functions

Allocation, the provision of goods, is the preoccupation of economics along with the distribution of income. Gassler characterizes the allocation and distribution functions as the “microfoundations for macroeconomics whose jurisdiction is the stabilization function”. (p. 32). Nonprofits, as noted previously, when they provide services mandated by governments act as suppliers of public goods. They also supply certain valuable public goods known as merit goods e.g. theatrical performances, museums and libraries. In discussing the way in which merit wants (i.e. the demand by society for merit goods) and market wants interact, Gassler points out that that the same individual can express what are essentially contradictory positions. For example, an individual can want the tax on cigarettes reduced to enhance the utility function of the good itself and simultaneously agree with watchdog groups that reducing cigarette consumption would be desirable. Although not expanded upon by Gassler, the example illustrates how nonprofits contribute to the economy by providing an outlet for wants that are neither market

nor yet public. Hence a theoretical benefit from according nonprofit functions a role in the economic model would be the provision of a measure of conflicting wants within individuals - something that the "rational consumer" model does not allow.

With respect to the distribution function, Gassler distinguishes between the distribution of income which markets provide and the redistribution engaged in by nonprofits. He comments that overwhelmingly, the mechanism used by nonprofits is redistribution in kind such as occurs at food banks rather than in cash, such as vouchers which are typically used by governments.¹²

It should be noted that while these two functions resemble those engaged in by market firms they are pursued for different reasons by nonprofit enterprise. For example, the provision of a theatrical performance is for the enjoyment and education of the patrons but not for any income distribution to owners.¹³ Similarly, the provision of food by donors to a food bank is for the relief of poverty not for any material benefit to the donors. Hence there may be little incentive, as long as basic costs are covered, to maximize the satisfaction of certain constituents as the marketing orientation would require, for the purpose of increasing demand. In fact, dealing with too much demand is a problem that nonprofits struggle to control.

¹² He does not discuss the role of charitable foundations as agents of redistribution in cash but obviously that is virtually their only function.

2.7.5 The Stabilization Function

Gassler operationalizes this function as the activities which are the province of national governments by virtue of their fiscal and monetary tools: the achievement of acceptable employment levels; price stability; balanced foreign accounts; and acceptable rates of economic growth. While it is conceivable that market firms, contrary to their desires, might affect the stability of a country, as might happen for instance with a multinational corporation, he notes that nonprofits have a “built-in destabilizing tendency”. This is because of the redistributive activities in which they engage. He theorizes that when less revenue is contributed to nonprofits, the resulting decrease in output and employment pulls incomes down further. In effect, he is ascribing to nonprofit outputs a multiplier effect which exacerbates or amplifies current economic conditions.

The implications of this point for marketing in nonprofits are somewhat alarming. If nonprofits in times of economic downturn attempt to stimulate more donations in order to stave off the drop in output and employment just mentioned, these actions may have the counter-intuitive effect of reducing outputs faster than would have been the case without the added effort. In this lifeboat scenario, as nonprofits attempt to climb (solicit donations) into boats already full (no extra capacity), the effect is not to preserve their organizations (save them from

¹³ Owner here refers to the owner of the theatre not the copyright owner of the piece performed.

drowning) but to swamp the whole boat (make it impossible for the survivors to give anything).

If in fact this is the underlying dynamic, not only does this make it extremely difficult for a nonprofit manager to calculate the value of a particular marketing campaign, it can lead to the adoption of strategies which, formerly useful, may now create economic distress and long-term damage to the role of the nonprofit.

2.7.6 Value of Gassler's theory to Nonprofit Research

Gassler's theory accords to nonprofits five functions, two of which are similar to those performed by market firms and three of which are outside the market economy. However, even where the functions are similar (i.e. allocation and distribution) the different way that nonprofits perform them means that outputs are not comparable. Further, none of the activities resembling allocation and distribution has the same impact on the nonprofit's balance sheet as those functions do in a profit maximization context (Ansari et al. 1996).

The value of this theory of nonprofit enterprise for research into the application of business methodologies is that it permits a differentiation of nonprofit outputs according to the functions from which they flow and by extension a more particularized discussion of the applicability of certain business methodologies. For instance, if the application of the marketing orientation is to have any validity

in a nonprofit, it will be for those nonprofits which have outputs which have the potential for satisfying some of the nonprofit's consumers. Hence, it may well be that nonprofits whose principal outputs are the immeasurable inputs into the environmental and systemic functions (e.g. Mothers Against Drunk Driving) and whose missions are to disturb rather than satisfy are not appropriate organizations for the application of a marketing orientation.

2.8 Hansmann's Enterprise Ownership Theory

If Gassler's theory provides nonprofits with a rationale for the activities they perform, Hansmann's theory (1996) of enterprise ownership establishes a rationale for their structure. Hansmann provides a theory which explains why for the entire range of enterprise types, the ownership of a firm is generally given to its patrons and what factors determine the particular group of patrons so selected. Hansmann shows why the "same factors which determine the most efficient assignment of ownership also determine when it is appropriate ...to have no owners at all." (p.12), as is the case for nonprofits.

Hansmann defines patrons as "all persons who transact with a firm either as purchasers of products or as sellers of supplies and labour" and observes that "nearly all large firms ...have owners who are also patrons". Further, he maintains that the while this is obvious for consumer and producer cooperatives, it is also true of the standard business corporation: "the conventional investor-

owned firm is “nothing more than a special type of producer cooperative - a lender’s cooperative or a capital cooperative”.

Nonprofit firms arise whenever the costs of contracting and the costs of ownership are high enough that no class of patrons can be found that can bear the costs efficiently (Hansmann 1996, chapter 12). Costs include all the interests and values that are affected by the transactions that the patrons have with a firm. In nonprofits, typical costs include the cost of switching to another provider, the difficulty determining the quality or the quantity of services they receive (information asymmetry), price discrimination practices which permit some patrons of the arts to pay more for the same performance than others (just to make sure it happens).

The consumers of nonprofits typically are unable to determine with reasonable effort the quality and quantity of the services they receive.¹⁴ Hence assigning ownership to another class of patrons would afford that latter group incentives and opportunities to exploit these consumers. In addition, the consumers are not situated to assume effective control and ownership themselves because the costs relative to their transactions would be too high. Thus because no group of patrons can be found who should or would be owners, the “benefits of ownership are abandoned in favour of a structure in which the managers hold it in trust for the customers and are held to tighter fiduciary constraints” (p.228).

Donative nonprofits exist principally to mitigate the costs associated with information asymmetry and ownership. Hansmann's discussion of these structures makes it clear whom he regards as the customers:

“...contributors to firms such as OXFAM and the Red Cross are so numerous, dispersed and transitory, and their contributions are typically in such small amounts, that any effort to organize the contributors for effective governance would cost more than it would be worth. Meaningful ownership is not a possibility. The solution commonly chosen is therefore to organize the firm as a fiduciary entity that is operated on behalf of, but not by, its customers. Although we often think of such firms as being operated on behalf of their constituents, this is true only indirectly. The organizations are designed to serve their constituents well in order to serve their contributors well, since it is the welfare of the constituents that the contributors are, in a sense, buying.” (p.230)

Hansmann does not consider explicitly the issue of the dominant role governments have in the financing of donative nonprofits (CCP 1996) yet nothing in his analysis precludes government from being the customer who must be satisfied. In fact, research into the impact of government funding cutbacks in British Columbia essentially substantiates the role of government as customer. (Rekart 1988) found two types of community-based agencies: those nimble enough and organized enough to garner government contracts and those which lacked the expertise to jockey for funding. The former increasingly serve clientele identified by government as within its mandate. Their own mandates in turn became increasingly broad to encompass the shifts of political expediency. The latter while trying to serve less popular clients are heavily dependent on erratic non-government funding sources such as charity gaming.

¹⁴ The market failure argument noted above

In commercial nonprofits such as nursing homes or universities the contracting costs to consumers of switching providers can be considerable in contrast to the small costs of switching charities for donors. For these reasons, patrons of these nonprofits “might rationally prefer to patronize an institution whose incentive to exploit them is smaller than it would be in an investor-owned firm” (p.234). Alternately, however, the costs of market contracting are less severe in commercial nonprofits - a fact which explains why commercial nonprofits share their market with for-profit firms. This latter phenomenon leads Hansmann to speculate that perhaps the most likely explanation for the continued presence of nonprofits in a service industry increasingly attractive to investor-owned firms is the managers’

“push to maintain and even accumulate capital within the firm even when it is earning an inefficiently low rate of return. And a nonprofit firm or a proprietary firm that pays no dividends, can survive and even grow as long as it is earning any positive net return on its invested capital, even if that rate of return is far below what could be earned if the capital were employed elsewhere” (p.292).

Put another way, the very sluggishness and lack of ability to exploit consumers that lead to the need for the nonprofit in the first place are the variables that allow it to keep going longer than a comparable for-profit.

The virtue of this theory is that it differentiates ownership structure from any particular moral stance of the patrons associated with it. As Hansmann observes, “the nonprofit form is a very crude consumer protection device. It does not create strong positive incentives for serving customers well; it simply reduces the incentives to serve them poorly (p.235).” In fact, he shows that the nonprofit

form is the typical form when a new service need arises and a severe information asymmetry problem obtains. He describes an evolutionary process in which consumers become more familiar with the services (understand how and what to monitor), the services themselves become standardized (more clearly targeted on homogeneous markets) suppliers build reputations and regulation becomes more efficient. As these processes mature, the costs of market contracting go down and typically, for-profit firms begin to provide the services. He explains the presence of (commercial) nonprofits in a service industry in competition with for-profits as a signal not only of a more understandable environment but also that locked-in capital in the nonprofits allows them to maintain a presence longer than would be the case in an investor-owned structure. It should be noted that the evolution posited by Hansmann fits with Gassler's ideas about which roles are played by nonprofits and the relationship of those roles to the ones played by market firms.

The relevance of Hansmann's theory lies in its ability to spell out the precise context in which the nonprofit enterprise is appropriate. Armed with such knowledge, managers of nonprofits can easily assess how their decisions do or do not meaningfully exploit that context or when their decisions threaten to take them beyond the context and into areas where other ownership arrangements might be the preferred choice.

2.8.1 Satisfying the Consumers of Hansmann's Nonprofit Types

With respect to the range of consumers of the four different types of nonprofits identified by Hansmann (1980), then, measuring client satisfaction and the degree to which a marketing orientation is possible will depend on the types of benefits provided (i.e. direct and indirect) and the degree to which it is important that the donating groups are satisfied. In donative mutual nonprofits, because they are funded by donations and controlled by members, the membership is usually the organization's customers and the ones who need to be satisfied. Hence a market orientation which attempts to evaluate the members' satisfaction should be critical in developing the type of programs and services offered by this type.¹⁵

Donative entrepreneurial nonprofits on the other hand, are not controlled by those who donate but usually by a self-perpetuating board of directors with professional managerial help. These types typically have both direct and indirect constituents of their programs and services and will need to evaluate the divergent needs of both and hence will have difficulty implementing a marketing concept as envisaged by business. In addition, the application of a marketing orientation in this type of organization may well be marked by changes in focus or mission according to the rigors of the available funding. Importantly and at odds with the marketing orientation suggested for nonprofits by marketing theorists, the marketing will be aimed not at designing programs to suit the direct

constituents but at generating contracts and funds. Hence it is possible that beneficiary groups whose circumstances are a priority with government funders will have more services and programs than those whose concerns are less visible.

Commercial mutual nonprofits such as the Canadian Automobile Association charge members prices for their services in a way nearly indistinguishable from businesses. These groups, competing as they often do with the for-profit sector, may find some aspects of the marketing orientation a useful management tool in gaining market share and satisfying existing consumers. Finally, commercial entrepreneurial nonprofits (e.g. Canadian Standards Association) because the interests of their direct clients (manufacturers) are not necessarily those of the indirect ones (the general public) will likely have tensions between the professionals whose concern is to protect the ultimate consumers (i.e. the general public) and the management who need to satisfy the interest groups who fund the operation. In these organizations, the marketing aim will be to ensure that the funders continue their support.

2.9 Implications of Nonprofit Theory for Nonprofit Management

Granting a role for nonprofits as structures which institutionalize the environmental and systemic functions in the larger economic whole has important implications for understanding the adjustments which must be made when economic theory is translated

¹⁵ Hansmann (1980) points out that not every group who claims to have members necessarily has them in the sense outlined here. For instance, one is a member of the National Geographic but one has no control

into nonprofit management decisions such as marketing.¹⁶ Drucker (1978) has argued vigorously that “performance in nonprofits is fundamentally different from that in businesses” and that nonprofits cannot simply import business methodologies into their organizations. An agency whom the public expects to set society’s agenda by proposing social solutions might alter that public perception were it to orient its mission or its service to conform to the agendas of those that fund it (Drucker, 1978) rather than those that use it (Drucker, 1978; Hardina, 1990). Similarly, agencies who act as watchdogs risk their credibility if they use marketing techniques which target only those most likely to buy in rather than those whom they want to monitor (Rados, 1981, p.20-24)

Other researchers looking at organizational change in nonprofits have noted the degree of ambiguity and role confusion created by multiple stakeholders, shifting priorities, competing professional service methodologies and the impact of charismatic leaders (Billis, 1992). Further, the auspices (government, firms, nonprofits) are rarely “regarded as essential variables” (Billis, 1992). Others urge “a healthy skepticism ...about knowledge deemed usable in the management of voluntary sector organizations if that knowledge has been derived from the study of other organizational forms”.¹⁷ Hence the uncritical adoption of marketing techniques, representative as they are of particular orientations and business philosophies, may become a Trojan Horse for nonprofit organizations.

over the organization and is not considered a patron (p.841 - footnote 30)

¹⁶ I am not suggesting that nonprofits are the only way in which these functions are embodied. In fact many companies and government agencies and individuals take on these roles but they do not do so in the formal, mandated way that nonprofits do.

2.10 Evolution of Marketing Theory

Marketing theory has evolved considerably since its articulation as a separate business function in the 1920s (Webster, 1997; Greyser, 1997). An overview of the way in which marketing developed from an internal to an external orientation was provided in an article by the executive vice president of Pillsbury, Robert Keith (Keith, 1960):

“No longer is the company at the center of the business universe. Today the customer is at the center. Our attention has shifted from the problems of production to problems of marketing, from the product we can make to the product the consumer wants us to make, from the company itself to the market place.”

The development of marketing practice at Pillsbury, outlined in the article, is considered by scholars to exemplify a general trend for goods producing manufacturers (Greyser, 1997). Starting from a *production orientation* in which the company saw itself as a professional miller with a quality product so good that consumers would beat a path to the door to buy it, Keith outlined how production success in the form of a proliferation of products and improved processes created a new set of management problems related to abundant supply. To maintain the company's position by selling what was produced at a favourable price required a *selling orientation* to a consumer who “with proper cunning, could be separated from his or her money” (Greyser, 1997)

Increased competition from the utilities offered by alternate products or from niche manufacturers plus the impact of a more stringent regulatory environment had the effect of creating a *marketing orientation*, in which the consumer was consulted for the criteria

¹⁷ Tucker, D.J.(1983), “Environmental Change and Organizational Policy-Making” in M.S. Moyer (Ed), *Managing Voluntary Organizations*. Toronto: York University Press quoted in Billis (1992)

of new products. As Keith explained it and as marketing scholars endorsed, this meant determining what products consumers wanted that a company could make and sell profitably given the skills and capacity of the company. The final step in the process, predicted by Keith was what is sometimes called the *marketing concept*¹⁸ - the development of loyal, satisfied consumers through long-term relationships made possible by the aligning of every operation within the company on the goal of a value-added product.¹⁹

This essentially demand-driven orientation however, came under attack with the decline in competitiveness of American industry. Critics of the marketing orientation approach focused on “a lack of emphasis on product innovation and ...a short-term orientation by decision-makers” (Ramesan and Kelley 1994). Proponents countered with tighter definitions and behavioural components of the construct (Kohli and Jaworski, 1990; Narver and Slater, 1990).

Kohli and Jaworski’s construct (1990) as tested by Narver and Slater (1990) saw market orientation as the result of internal structural forces. In other words, market orientation was something like a cultural attitude determined by senior management focus and interdepartmental dynamics. Environmental variables which may in fact have acted as antecedents to the firm’s degree of market orientation and hence its profitability were

¹⁸ Some authors (Rigby, 1991) discuss under marketing orientation what others (Ramesan and Kelley, 1994) call marketing concept. I have adopted the convention that “concept” denotes an integrated organization-wide response to the consumer.

“categorized as exogenous variables or control variables measured independently of market orientation” (Dobscha, Mentzer and Littlefield, 1994). In a nutshell, the supply side of the problem had been neutralized.

Dobscha, Mentzer and Littlefield (1994) concerned about theory which holds that “more market orientation is always better” and the “misplacement of resources” which might result from an uncritical adoption of a marketing orientation posit seven environmental variables which affect the level of market orientation needed for competitiveness. These are ease of entry, degree of industry concentration, degree of government regulation, power of firm’s customers, growth of the market as determined by entry barriers, degree of technological change and power of the suppliers. They argue that:

“...in some cases or in some industries, a heavy emphasis on market orientation may result in a misplacement of resources. So, before the market orientation/performance relationship can be fully understood, more evidence is needed that discloses whether market orientation is more or less appropriate in some industries or business contexts”.

Needless to say, if these caveats for firms apply and a marketing orientation is, notwithstanding the theoretical difficulties adduced by this review, appropriate for nonprofits, then *mutatis mutandis* they are meaningful for nonprofits, particularly given the latter sector’s more complicated stakeholder and regulatory environment and the critical problem of attracting and managing resources.

Seen in the round, then, marketing theory’s ability to articulate the particular way in which exchanges most profitably occur has evolved in response to the ability of western

¹⁹ As will become apparent later, not all scholars agreed that a) the marketing concept was valid and b) the production orientation was defunct.

technology to produce abundant quantities of better, cheaper, more differentiated goods which appeal to more finely discriminated target markets.

When this theory, however, is applied to the service sector with its labour-intensive inputs and its outputs co-produced by consumers (Li and Greenberg 1997) it is less clear whether the marketing orientation is as fully applicable. This is because consumers are not equal in their ability to know or articulate their real needs, especially for complex services such as those provided by lawyers, financial planners, psychologists or hospitals for example. While this is true for all consumers, when the product is clarity of understanding or acceptance of a procedure or a willingness to try a certain therapeutic technique - all products which leave a substantial element of control with the client - it is much harder to control the quality of such products. It is also more expensive. The time and effort to ensure that understanding has developed, for instance, cost the very clients one wants to satisfy more than would a less tailored approach. Since nonprofits are virtually all service providers, the point is critical in determining what caveats need to be considered with the adoption of a marketing orientation.

2.11 Application of the Marketing Concept to Services

The growth of the service industry and the increasing importance of services to the economy prompted a debate among marketing scholars as to the extent to which services could be treated the same as goods. The unique characteristics of services - intangibility, inseparability, heterogeneity and perishability - resolved that debate in favour of the need to treat the marketing of services differently (Edgett and Egan, 1991).

However, Li and Greenberg (1997) arguing for a reconceptualizing of basic marketing constructs comment:

“It is essential to recognize that a service is partly produced, marketed and consumed in an interactive relationship between the customer and the service provider. Therefore the quality of this relationship, as well as the quality of the service, is the result of efforts from both sides. ...The marketing of services ...cannot be separated from overall management (and) ...calls for an integration of marketing and organizational behaviour in the service economy.” (Li and Greenberg, 1997).

It would seem that for services even more than goods, a marketing orientation is a natural fit. But if the need is clear, adoption is another matter. Rigby (1991) found organizational effectiveness to be positively and significantly related to a marketing orientation and marketing effectiveness in service firms -“the customer or client is not simply the concern of the marketing department but must be the motivation behind the entire organization.” Edgett and Egan (1991) on the other hand, assert that usage of a marketing orientation by professional service firms, has proved difficult owing to a “strongly placed production orientated approach” despite a real need for marketing occasioned by increased costs, declining public confidence and changing client expectations. Edgett and Egan (1991) consider the reluctance of professional service firms to adopt marketing a consequence of equating marketing with selling and a concern

that selling professional services violates their ethical imperative. These scruples and the concomitant implementation problems are similar to those encountered in nonprofit organizations.

The propensity of certain organizational cultures to adopt the marketing concept embedded in Kohli and Jaworski's construct (1990) and noted by Dobscha, Mentzer and Littlefield (1994) is examined independently by Javidan and Rigby (1990). Noting that the marketing concept is a "particular type of organizational paradigm" with four dimensions adapted from Schein's work on culture, they develop hypotheses about each dimension as tests of the degree to which an organization has a marketing concept culture. With respect to the environmental monitoring, organizations with this concept monitor client needs and competitors' actions more than those without. Similarly, those practicing a marketing concept value market research more highly and exhibit more agreement about new products than firms who do not have this culture. Thirdly, marketing concept cultures are characterized by the myths they tell about solving customer's problems. Lastly, the culture that fosters the marketing concept is an organic one in which communication occurs in all directions and employees "do not feel bound by the official lines of authority".

Moon and Stano (1988) in their discussion of whether service sector productivity is demand-driven or supply driven provide clarification about the interaction of the consumer and the product. They define the marketing concept as a demand-driven approach "mainly concerned with creating as many satisfied consumers as

possible...(who) purchase a bundle of utilities e.g. form, time, place and ownership that is expected to provide satisfaction.” This is in contrast to the supply-driven approach in which “consumers buy product features such as function and packaging” (p.315). Moon and Stano’s integrated model (1988) makes marketing productivity a function of consumer satisfaction, consumer input and company input. The authors’ comments on the limitations of current methods of measuring marketing productivity in *businesses* are particularly interesting in the light of the previously mentioned limitations of neoclassical economic theory applied to nonprofits with respect to the output side:²⁰

Current methods of measurement are supply-driven where it is assumed that there is always a market for the firm’s product. This assumption is reasonable under the production concept where demand exceeds supply. However, for many industries this assumption is no longer valid. Furthermore, the marketing concept shows that any useful measure of productivity must include both demand-driven and supply-driven variables. The combination (of these) is particularly important for firms in service industries where traditional productivity measures of marketing performance do not reflect the unique characteristics of the service sector.” (p.316)

Hence service businesses adopting a marketing orientation require 1) an assessment of the environmental variables to determine the level which permits competitiveness 2) a culture which makes possible the tight internal integration required and 3) ways of assessing productivity which include demand and supply-driven variables.

Given these constraints then, for businesses in general and service businesses in particular, at issue is the degree to which a marketing orientation is applicable to the nonprofit sector and to types of nonprofits (Moon and Stano 1989; Etgar and Ratchford 1974). The indicators are mixed. On the one hand, nonprofits are almost by definition

²⁰ Supra p.

suppliers of services where demand exceeds supply so if only these variables were being considered, a marketing orientation would not appear to be a good fit for some or all types of nonprofits. However, they are increasingly involved in intense competition for donations, grants and contracts (Moon and Stano's (1988) environmental variable) and their productivity does include, quintessentially, both supply and demand-driven variables so on these grounds, a marketing orientation may well be highly appropriate. Note however, that in this scenario, the "customers" who would be the object of the marketing orientation would be the donors not the end-users since these are the ones upon whom, in some types of nonprofits, the enterprise depends. The next section explores what the nonprofit marketing literature says on the subject of the benefits of marketing methodologies to nonprofit organizations and what the impacts are likely to be for the various constituencies.

2.12 Marketing Theory applied to Nonprofits

Marketing practice for nonprofits routinely acknowledges the key features of nonprofit organizations - multiple publics, multiple objectives, services rather than physical goods and public scrutiny - and the necessity of adapting business marketing techniques (Rados 1981; Kotler 1982; Lovelock and Weinberg 1984; Andreasen 1982; McLeish 1995). A review of the nonprofit marketing literature indicates that the content is devoted to unpacking the full range of business marketing techniques and tools and illustrating their application using nonprofit examples. However, while the parameters of a nonprofit *context* are fully recognized, the constraints of these parameters for the application of

marketing techniques and the impact of these techniques on some types of nonprofits is either treated somewhat cursorily or ignored. As the following overview will make clear, these authors, as they aver themselves, are intent on demonstrating that business methodologies can be applied to this sector. This is accomplished by relaxing business terminology and concepts (i.e. redefining the meaning of price or cost) rather than refashioning those methodologies to suit these non-owned firms (Mauser 1983; Kotler 1982 chapter 1).

2.123 Multiple Constituencies

By definition, nonprofits have a number of constituencies (Hansmann 1996), all of whom have some claim to be considered consumers. The fact that a variety of perspectives *can* be taken regarding who are the consumers of a nonprofit points to the very different types of exchanges in which these types of organizations engage since businesses by contrast do not debate this issue. The Evaluation and Audit branch of the Canadian government observes in its publication outlining techniques for measuring client satisfaction of government programs (Canada 1992) that “determining who the clients are ...may not be as obvious as one may instinctively think... (and that) the concept of ‘client’ cannot be applied indiscriminately in the private and public sectors” (p.14). The publication distinguishes between direct and indirect clients, the former being those who actually receive the outputs of the program while the latter are those affected by the outputs and pay for their provision. Moreover, different client groups *have different, divergent and conflicting concerns* and recognizing this is key to evaluating the satisfaction of the

various consumer groups (p.16-18). Direct point-of-service clients' concerns are those of process variables and individual benefits (i.e. rights, service, skill acquisition, problem resolution etc.) whereas those of indirect clients are issues such as cost, personnel, equipment and the long term societal impacts. Consequently, "different questions should be asked of each group" to determine satisfaction (p.18). Extending the rationale of this argument, then, to the requirements of the marketing orientation with its linking of enterprise viability with customer satisfaction (and holding the other parameters constant) means that the nonprofit must decide which constituencies to satisfy and how.

Kotler's *Marketing for Nonprofit Organizations* (1982) asserts that customer philosophy is one of five attributes characteristic of a marketing orientation (p.23).²¹ A high score, reflecting an effective customer philosophy is indicated by a 'yes' response to each of the following three diagnostics:

- Management thinks in terms of serving the needs and wants of well-defined markets according to their importance
- To a good extent, management develops different offerings and marketing plans for different segments of the market.
- Management takes a broad view of its publics (members, donors, general public, competitors etc.) and continuously reviews new opportunities to serve them.

²¹ The other four being integrated marketing orientation, adequate marketing information, strategic orientation and operational efficiency.

While each of these might be unremarkable *on its own*, it is their simultaneous operation in the nonprofit that creates almost insoluble problems for the nonprofit manager. For instance, are the markets which are to be graded for importance (point one) the same as the publics which are monitored (point three) and offered different marketing plans (point two)? If so, this means the manager must engage in the unenviable exercise of judging whether to value donors' satisfaction ahead of end-users, a point that Kotler acknowledges when he admits that "increasing the satisfaction of one public might reduce the satisfaction available to another public" (p.72).²² Kotler's solution to this dilemma is given below:

"Ultimately the organization must operate on the philosophy that it is trying to satisfy the needs of different groups at levels that are acceptable to these groups within the constraint of its total resources. This is why the organization must systematically measure the levels of satisfaction expected by its constituent publics and the amounts they are, in fact, receiving" (p. 72).

While this solution reflects an operating style characterized by Drucker (1978) as "placating everyone by doing a little bit of everything (and) achieving nothing", it is interesting that this solution could not generate a high score on the Marketing Effectiveness Rating Instrument (Kotler 1982 p. 23-26) from which these diagnostics were taken. This is because nonprofits must trade-off costs and benefits in a way that other enterprises need not for the reasons outlined by Hansmann (1986) as the rationale for nonprofit enterprises. In other words were the cost/benefit analysis recommended elsewhere by Kotler (p.268) for value-based programs to be conducted for the value of a marketing orientation program in the nonprofit, it would discover the nonprofit context:

²² an oblique acknowledgment of the political environment of many nonprofits and the problem of how to divide one satisfaction pie.

no group can safely be given ownership (benefits too high relative to other groups) or given control (costs too high relative to the number of transactions with the firm).

In addition, with respect to the validity of customer satisfaction measures, evidence elsewhere suggests they are "not especially informative or diagnostic, principally because of their striking distributional characteristic"²³ and that "it is not clear what customer satisfaction ratings are measuring" (Peterson and Wilson 1992). Thus the question develops: how would a nonprofit know whether ratings of satisfaction from its publics indicate the marketing orientation and the "highly responsive, adaptive and entrepreneurial" organization that "a rapidly changing environment" (Kotler 1982 p.27) requires?

In a critical review of the marketing concept as espoused by Kotler (1982) and Rados (1981) as applied to nonprofit organizations, Mauser (1983) characterizes the position taken by Kotler with respect to the key concept of satisfying the needs and wants of the exchange partner as a "conventional wisdom" which is inappropriate for the less flexible nonprofit organizations who "may even prefer to disband than to adapt their offering as the marketing concept would demand" (p.203).

Lovelock and Weinberg (1984) take essentially the same view as Kotler but provide more analysis of the multiple-party exchange transactions which are typical of nonprofit

management. In diagnosing the attendant tasks and problems of the nonprofit manager they pose questions about motivations of third-party payers, the choices of those who benefit from the nonprofit's programs and services and point out that "conflicts arise between donor's expectations and the types of consumers whom management seeks to reach" (p.57). However, they do not offer an analysis of the trade-offs involved in resolving these conflicts except to recommend to nonprofit managers that they "orchestrate... the activities and contributions of a number of different constituencies" (p.58). Presumably harmonizing these multiple agendas rests on the personal skills of the manager - a requirement explicitly denounced by Drucker (1978) on the grounds that structural shortcomings cannot be remedied by "better people". Dealing with multiple constituencies (i.e. patrons) however, is the key question in nonprofit marketing - who is to be satisfied and to what extent. It does not, however, fit well within the way the marketing orientation is proposed by these authors.

McLeish's work on strategic marketing for nonprofits is written from the standpoint of a consultant to nonprofit organizations, which may account for its more pragmatic and less theoretical approach (1995). While McLeish subscribes to the same position taken by Kotler, Lovelock and Weinberg on the need for a marketing orientation, he articulates it differently. On the thorny problem of reconciling marketing to donors and clients while still adhering to a marketing orientation, he concedes the two tasks must be done

²³ negatively skewed such that median percentages of very satisfied consumers approaches 49% (Lebow (1982) "Consumer Satisfaction with Mental Health Treatment" *Psychological Bulletin* 91(March):244-259 quoted by Peterson and Wilson (1992)

separately because “they involve separate constituencies” (p.17). But he turns the problem on its head with his example:

“Nonprofit organizations may provide services to clients because of donor or volunteer pressure that the services be offered and not necessarily because management feels this is the best way for either the nonprofit or the clients served” (p. 17).

This example is interesting for the lack of understanding it displays about the unique structure of nonprofits (i.e. manager autonomy cf. Hansmann 1986) and the picture it paints of managers who are out of step with donors or volunteers. Moreover, this conceptualization is quite at odds with the way scholars from other disciplines characterize some actual consequences of nonprofits adopting a marketing orientation. These are variously, “the marketization of welfare” (Salamon 1993); contributing to “the detriment of research where the disease burden is less visible but more serious (O’Brecht and Doutriaux 1992); a reduced “commitment to consumer empowerment” and the risk of “alienation (of) the social work profession from its historic mission as an advocate of the poor” (Hardina 1990) and contributing to a “hidden dual system of individual rights” (Leazes 1993). In fact, this example, were the words changed to reflect for-profit terms, is descriptive of what happens in businesses whose managers have lost touch with their target markets. What is missing from the example is a realization that unlike firms with owners, managers of nonprofits attempt to implement the mission in a way that ensures no group is exploited. It illustrates how counter-productive the advice can be when a perfectly viable business methodology such as the marketing orientation is transferred uncritically to the nonprofit context.

For Andreasen (1982) the benefit of a marketing orientation is improved cash flow and increased customer satisfaction. To that end he provides a diagnostic so that managers can determine whether or not they have what he labels an outdated selling or production focus. He uses examples which suggest that when it comes to choosing between donors and end-users, he considers the end-users the ones who should be satisfied, not the donors. For example, regarding the information that art curators should supply with the paintings they exhibit, he suggests that information about donors' names is "hardly a key piece of data for most museum-goers".²⁴ Instead, information about the artist, the historical period and the medium would broaden appreciation and more importantly spur attendance and "even donations". But if donations are ultimately the point as the quote suggests, then information about the donors is critical to satisfying this constituency. Moreover, if cash flow and customer satisfaction (customers here defined as end-users) are the issue as he says, then it is difficult to know why he does not recommend that art gallery curators abandon Rembrandt for memorabilia of Elvis or other pop icons.

Elsewhere, Andreasen (1983) argues for a different interpretation of consumer satisfaction. In the health care context, he says, consumer satisfaction is "an elusive goal since it depends on consumer knowledge and expectations as well on the performance of the system". Reducing the dissatisfaction created by the doctors' attitudes is the appropriate focus here. However, it should be noted that these attitudes parallel the hallmarks of a production orientation as outlined by Andreasen (1982) previously. For

²⁴ He does acknowledge that donor information helps secure the donations which are "an admittedly important marketing task" but does not address the problem of which constituency is more important to the

instance, doctors' perception that patients don't know what is in their best interests appears to be equivalent to the devalued production orientation perception of "consumer ignorance". Similarly, physicians who think their time is more valuable than patients appears to be equivalent to what Andreassen characterizes as producers "seeing the offering as inherently desirable". Hence Andreassen seems to be saying that in the health care context, where the producers (doctors) know better than the consumers, catering to the latter's perceptions may not be a good idea and that finding ways to make the intrinsic production orientation less grating might be a better tactic.

Andreassen's somewhat contradictory positions suggest that 1) a customer satisfaction orientation for nonprofits is not a universal panacea any more than it is for businesses; 2) nonprofits that know more than the "customer" and have more demand than they can cope with or are driven by a mission or a goal that is uninterested in market share calculations may well be justified in adopting a production orientation and perhaps alternately 3) orienting services towards satisfying customers may suit some nonprofits more than others.

Not every writer on nonprofit marketing operates within the confines of exchange and the problems that it generates for organizations such as nonprofits which have multiple simultaneous exchanges (i.e. constituencies). Rados (1981) believes that marketing is a technology for obtaining behavioural response rather than a facilitation of an exchange of values and critiques Kotler's concept of exchange as applied to nonprofits. If the

mission of the gallery.

exchange encounters which marketing facilitates lead to the attainment of organization objectives, Rados asks, why is it that the only objective Kotler stresses for nonprofits is command over resources (i.e. funds and gifts)? He points out that utilizing the exchange concept stretches the limits of the credible:

“A family planning agency works hard to persuade pharmacists to display condoms rather than keep them in a drawer and sell them only on request. What is being exchanged for what? (p 19).

Rados argues that marketing can only achieve relatively superficial changes in behaviours - anything really effective requires intensive, lengthy and dynamic techniques such as psychoanalysis, brainwashing or religious conversion (p.16)²⁵. For him, “some marketing is exchange, but not all of it.” This stance leads him logically to the position that since individuals must be taken as they are, two types of change methodologies for nonprofits present themselves: persuasive communications (a selling orientation) and adapting to fit the existing patterns of behaviour (marketing orientation). Rados’ comments on the value of marketing for nonprofits is illuminating for what it suggests about the relationship of the various constituencies:

“Since backers give only if it suits them, organizations must reach them by marketing. Even those organizations that do have a choice may choose to mix in some marketing, because when clients volunteer their response, the nonprofit usually enjoys a higher degree of client support than it would otherwise. And marketing solutions adapt to the short-run needs of clients - at least they should adapt to these needs - and as a result, in the short run, the clients will see themselves as being served better than by other, more downright methods (p.23) .”(emphasis added)

Essentially, he is identifying the backers (i.e. donors) as the customers, a proposition entirely consistent with Hansmann’s thinking about donative nonprofits. With respect to what he calls service organizations (i.e. backers and clients), Rados forthrightly observes

that some are “good dealing with clients but inept in raising funds and others are the other way around.” Here, then is a clear acknowledgment of how nonprofits actually cope with the multiple constituency marketing problem.

Rados advances the proposition that a nonprofit’s marketing strategy, that is the target markets it wishes to influence and the marketing mix it uses to do this, depends upon a variety of internal and external factors and also the type of ownership form.²⁶ Rados’ classification scheme includes what in Canada would be crown corporations and cooperatives and is therefore too wide to apply to the concerns of this thesis. However, in incorporating into the diagnostic, a recognition that ownership form, i.e. the nature of the constituencies involved and their financial control, has a seminal influence on who is targeted and why, Rados anticipates Hansmann’s theory of enterprise ownership.

Rados’ exposition of the way these three variables (internal and external factors and form) combine to drive marketing strategy, however, is rudimentary. Rados seems unaware that one of the internal factors he identifies (style) is, in fact a consequence of form. Consequently, he points out that a no-sell approach does not seek out clients but “instead, if they are lucky, they are permitted to find out about the organization and what it offers...This is the style adopted so *successfully* by Alcoholics Anonymous and copied

²⁵Rados does not mean that the long term effects of adopting behaviours which have been formally marketed are superficial but that the actual responses being sought do not involve radical behavioural change.

²⁶ Rados comments that “to this day economics has failed to develop a theory of the effect of ownership form on the operation of enterprise” but since “the corporate form dominates” it is of little importance in business (p.249). Hansmann’s (1996) treatise remedies this deficit.

by other anonymous organizations” (emphasis added). Later, he cites Alcoholics Anonymous as an example of a type of form (common benefit) which because it has members and not customers or backers, is not concerned about growth but instead focuses on delivering a service in a particular way (i.e. a production orientation). But Rados, arguing backwards from the marketing strategies of types of nonprofits, does not connect the form with the style.

In summary, Rados’ concept of nonprofit marketing, while more in accord with the realities of these organizations, is not fully operationalized with respect to various types of nonprofits. This lack limits the value of the marketing technologies he explains since they are not advanced with the constraints of any particular type of nonprofit.

2.124 Impact of Marketing on the Nonprofit Mission

Further difficulties with nonprofit marketing within the exchange paradigm are evidenced by treatments of how a marketing strategy might affect a nonprofit’s mission - its reason for being. One of the fundamental ways that nonprofits are different from businesses relates to the missions of these organizations. Their control and financial structure is such that managers hold the organization in trust for the various groups of patrons. Consequently, the mission of these organizations must relate back to the particular conditions which gave rise to their formation. That is, each group of consumers (donors, end-users, etc.) needs to be assured that the particular value or concern that lead them to patronize a nonprofit is, in fact, being honoured or obviated as the case may be. Hence

for nonprofits, credibility is the sine qua non of continued existence and the equivalent of a business' bottom line. In essence, just as a business must make a profit to continue its existence, a nonprofit must deliver the programs and services in a trustworthy manner to its various constituents.²⁷ In fact, so important is the trust factor, that it overrides the perception of some constituents of the quality of the services they consume: even when measures of the actual quality are equal to those of a for-profit competitor, they are perceived to be less (Fletcher et al. 1995). Nonprofits must be like Caesar's wife - above reproach.

The mission of a nonprofit is particularly vulnerable to aspects of the marketing orientation such as market share and cost/benefit analysis. Yet, in the marketing literature reviewed below, the impact of these technologies is either not discussed at all or given as an example of what to avoid. For many commercial nonprofits such as the Canadian Automobile Association, whose funds come from the sale of private goods, this may not be a problem, but for other types of nonprofits, advice which resulted in a diminution of their credibility would be a serious blow, yet too often, marketing texts do not really seem to perceive this issue.

For example, the nonprofit manager of a social-change agency who turned to these sources for advice on competitive strategies would encounter a discussion on the components of a positioning strategy and its importance in dealing with competition (Lovelock and Weinberg 1984 p.196-197). However, the ensuing explanation of the two

²⁷ The retreat of the Canadian Red Cross from blood collection being a well-known recent example.

“broad positioning strategies available,” price (i.e. status quo) versus a dimension unrelated to price (e.g. freedom of choice) does not include a “value-added” discussion of the pros and cons *for the organization* of adopting either of these two strategies yet clearly for social cause agencies this is a critical element in the decision process. Undoubtedly, a nonprofit such as one trying to establish abortion clinics and abortion rights would be quite aware that a public relations campaign based on the notion of freedom of choice might generate violent counter-responses from conservative fringe groups but this very real kind of conflict between the nonprofit and its “competitor” is not included in marketing strategy chapters. In fact, the following advice, if taken by the nonprofit might actually lead to violence:

“An agency planning to introduce an attitude-change or behavior-change program should attempt to assess beforehand the likelihood of different types of competition and develop strategies to limit the effectiveness of the competition, be it passive or active.” (Lovelock and Weinberg 1984, p.197- emphasis added)

It is hard to imagine such eminent marketing scholars as Lovelock and Weinberg really intend that a nonprofit engaged in setting up abortion clinics should actually engage in what would amount to war. What is more likely is that such advice is the consequence of applying a business model to the nonprofit sector without a theoretical lens which critically adapts such advice to the unique factors which constitute the nonprofit situation. But therein lies the problem. Because a great deal of the marketing advice for nonprofits is not really specific as to type of nonprofit (i.e. donative or commercial) or to the context of the outputs which may be quite political, the manager must essentially adapt or ignore the advice as is appropriate. While managers of nonprofits might be able to do this, obviously marketing advice which went further than describing business-based marketing

techniques such as positioning strategies using nonprofit terms would have much more utility.

Lovelock and Weinberg (1984) quote Kotler's example of the American Lung Association as evidence of the problems a nonprofit organization can run into when it "fails to achieve its goals". They assess the problem as one requiring an "astute and opportune strategy for accomplishing the organization's purpose and mission" which they say is to regain market share. Interestingly, this approach is inconsistent with the authors' previous comments on the ramifications of having a "social profit" for a bottom line (i.e. not market share) and the difficulty of "balancing the needs and expectations of two sets of 'customers' (p 32-33) which in the American Lung Association's case would have been the long-time and probably aging donors whose families had felt the fear tuberculosis occasioned and new donors who had less emotional connection. Lovelock and Weinberg cite the American Lung Association as an example of an unsuccessful organization because its market share of all the funds for major national health agencies fell from a high of 13 percent to 8 percent in less than a decade. In addition, the Association's dependence on the target market for Christmas Seals is criticized because new donors who might support other lung diseases were ignored. But what is equally true is that, in fact, the American Lung Association could be considered a resounding success (i.e. with respect to the threat of tuberculosis) with extremely loyal "satisfied" donors (even when tuberculosis was not a threat they were still getting 8 %) to whom they felt gratitude and for whom they continued to run the programs. Perhaps the real problem faced by the American Lung Association was its inability to manage the conflict

between the organization's scruples about abandoning its donors and its desire to continue operations with a broader lung disease mission.

Lovelock and Weinberg (1984) in a discussion on segmentation point out that "the search for new revenue sources often encourages nonprofit organizations to go after new and more profitable segments only loosely related to the organization's primary mission" (p. 113). Their assessment of the impact of this shows, once again, that the lack of theory about nonprofit form and consequently its mission (to provide trustworthy services) leads to a conclusion that not all nonprofits would happily contemplate. "The opportunity cost", they say, "of gearing up to serve these new segments may be a deterioration of service quality for the core segment." This is an oblique way of acknowledging that the fallout of a marketing orientation is that less desirable a.k.a. "core" groups will suffer (Adams and Perlmutter 1995).

The example is an interesting illustration of the contradictions that occur when a business bottom line such as market share is exported to the nonprofit sector. Not only does this view increase the chances of misdiagnosing the organizational problems, the remedies in the form of techniques to increase market share may have negative effects such as alienating its core groups or encouraging an enterprise which has achieved its goals to keep going when it might be better off to shut down (Drucker 1978). Drucker provides a point of view which does incorporate the different basis of the nonprofit organization and the management problems this creates:

“Where a market share of 22 percent might be perfectly satisfactory to a business, a ‘rejection’ by 78 percent of its ‘constituents’ - or even by a much smaller proportion²⁸ - would be fatal to a budget-based institution. And this means that the service institution finds it hard to set priorities; it must instead try to placate everyone by doing a little bit of everything - which, in effect, means achieving nothing... The temptation is great, therefore, to respond to lack of results by redoubling efforts. ”

Hence market share thinking created by the uncritical transfer of business methodologies leads to market share problems in multiple constituency nonprofits.

Kotler, discussing the problems of cost/benefit analysis applied to value-based programs such as those designed to prevent dropping out of school asserts that the dollar benefits assumed by such programs “should be stated clearly” (p.268). This would be unremarkable were it, in fact, possible to estimate these kinds of benefits. While it is possible to compare the lifetime earnings or the unemployment rates of those who don’t drop out with those who do such figures only indicate the dollar value to an individual of staying in school. They can not be directly translated into the dollar benefits of programs which may have had an influence on that decision. However, because of the exchange theory paradigm which requires cost/benefit analysis, Kotler goes further and asserts that notwithstanding critical resentment of “the notion that everything worthwhile can be measured in dollars” any difficulties which ensue “are not created by the technique (i.e. cost/benefit analysis) but...because the world is complex” (p. 269). Unfortunately it is complex in different ways for nonprofits and businesses. Success and failure in the nonprofit sector have theoretically radically different meanings than those for businesses and marketing to achieve those ends requires a completely different application (Drucker 1978). Again, Gassler (1986) provides a rationale:

²⁸ For instance the difference between 13% and 8%

“The problem is that our criterion for evaluation of the efficiency of nonprofit enterprises is taken from the allocative function whereas nonprofit enterprises are very often set up mostly to perform environmental functions. Therefore, the criterion that economists use – allocative efficiency – is simply too narrow or inappropriate to apply to public or private nonprofit enterprises because it is based on a model of economic behaviour that assumes away the problems that the enterprises in question are set up to solve.”

Theoretically, if nonprofits are firms in disguise as the marketing texts reviewed above implicitly suggest, only differing in form rather than substance, one would expect their numbers to be declining not growing owing to the greater efficiency with which for-profit firms would provide comparable services (Hansmann 1980; Weisbrod 1988). Hansmann points out, in fact when the factors that militate against the for-profit forms have abated (i.e. inadequate disclosure laws, tax loopholes etc.) one consequence is a decline in the number of nonprofit firms in the affected industry.

On the subject of the substantive differences between nonprofits and businesses and the wholesale adoption of management techniques without the adaptations required by their different place in the economic logic, Drucker (1978) points out that *internally*, the management of a nonprofit does not differ much from that of a business – “the differences tend to be differences in terminology rather than in substance” – but externally, management is not about market share or return on capital but about achieving the mission. Exhortations that nonprofits become businesslike can result in “services essential to the fulfillment of the institution’s purpose (being) slighted or lopped off in the name of *efficiency*”. Thus Drucker sees the basic management problem of nonprofits is not how to increase efficiency or gain market share but how to deal with lack of effectiveness – that is not achieving the mandate that initiated the enterprise.

McLeish relies heavily on business theorists and business examples which perhaps explains an almost perverse reading of the nonprofit rationale. For instance, his evaluation of the merits of a cause and product strategy (i.e. product orientation) is based on the “interrelationship between what a nonprofit organization offers and what the market wants to buy or support. Ignoring this ..can be detrimental because they may be producing services or products that the market simply does not want” (p.167). The actual successful behaviour of cause and product strategy nonprofits, however, is quite different. Mothers Against Drunk Driving or Real Women or Greenpeace did not care about whether the market would accept their idea or product when they launched their crusades - in fact it was the passion of their conviction in a process somewhat analogous to product innovation (von Hippel 1982)²⁹ that created the acceptance for what later became mainstream causes (cf. Gassler’s (1986) systemic function supra).

The authors reviewed, notwithstanding the way in which they focus on various aspects of the marketing challenges in nonprofit organizations are nearly all working from a theory which only sees direct quid pro quo exchanges, even if what is being exchanged has been enlarged to encompass intangibles such as ideas and other intangibles. Consequently, even though each acknowledges the way in which nonprofits are not businesses, the marketing techniques and strategies prescribed by these authors are exactly the same as those for businesses and for the same reasons - to increase market share. What the foregoing analysis shows is that despite the broadened concept of exchange, it is not

²⁹ I am indebted to Lisa Watson, M.M.S. graduate student, Carleton University, Ottawa, Canada for this idea.

possible to translate marketing methodologies and the marketing orientation into the nonprofit context without serious logical fallacies (Gassler 1986) and that these methodologies have the potential to exacerbate the very problems they are trying to solve.

At a guess, it appears that the root of the problem facing all these writers is the problems created by the lack of a role for nonprofit outputs in neoclassical economic theory (Ostrander 1987). While this is not a problem that can be remedied in a fundamental way in the short term, a recognition of the constraints of the nonprofit context as exemplified by different types of nonprofit firm would go some distance towards providing more salient marketing advice to the managers of these firms.

2.13 Measures of Marketing Orientation

Kohli and Jaworski (1990) in a sweeping review of the literature of the past 35 years on the marketing concept observe:

“Though the marketing concept is “the cornerstone of the marketing discipline, very little attention has been given to its implementation...(A) close examination of the literature reveals a lack of clear definition, little careful attention to measurement issues, and virtually no empirically-based theory. Further, the literature pays little attention to the contextual factors that may make a market orientation either more or less appropriate for a particular business” (p.1)

A follow-up paper (Kohli Jaworski and Kumar, 1993) on the problem of measuring market orientation commented on the “relatively little systematic effort” that had been devoted to developing “valid measures” of market orientation. That paper then laid out the premises and validation processes for such a measure. The resulting scale, MARKOR, was a measure of marketing orientation in goods-producing for-profit organizations and is reproduced in Table 1. MARKOR underwent “several rounds of pretesting, single-informant assessment and a multi-informant (marketing and nonmarketing executives) replication and extension “ (Kohli Jaworski and Kumar1993 p.467). The resulting 20-item scale validation tests were moderately supportive of a marketing orientation construct consisting of one general market orientation factor, one factor for intelligence generation, one factor for dissemination and responsiveness, one marketing informant factor and one nonmarketing informant factor. With respect to the application of the scale, the authors conclude:

“the most exciting measurement extensions may lie in non-profit organizations, non-traditional organizational forms or non-standard marketing applications. We expect that the component perspective and many of the scale items can be transferred directly to these less mainstream areas” (p. 475).

Raju, Lonial and Gupta (1995) subsequently adapted this scale to evaluate the degree to which a sample of hospitals exhibited a marketing orientation and the relationship between the degree of marketing orientation and performance. These researchers reworded manufacturing-based items to accommodate the hospital setting and terminology. The modified form of MARKOR is reproduced in Table 2. These authors report a few other studies looking at the concept in hospitals but note that these studies all used different instruments with “unidimensional constructs and only a single score”

With respect to the nonprofit sector, only one attempt to measure the marketing orientation was found (Banting and Mahatoo 1986). However, the study in question approached the topic from the point of view of the perceptions of the general public toward the Hamilton Lung Association and assessed the application of the marketing concepts to this charity via focus groups.

3.0 Research Questions

As the literature review suggests, it is the degree to which a business can segment heterogeneous markets and target one or more of those segments to meet the customer and organization needs which determines whether a marketing orientation is an appropriate way for a business to align its products and marketing strategy. Moreover, implementing this type of organizational culture requires a great deal of commitment and top-down support from key personnel. Since nonprofits by definition do not have homogeneous customers but rather exist to satisfy the heterogeneous demands of a variety of patrons, it follows that nonprofits are not necessarily good candidates for this approach, notwithstanding long-standing advice that they do so. In addition, not only are nonprofits are not all alike, the various types may represent evolutionary stages of a proto-business structure which is eventually replaced in the economy by patron-owned firms. Hence it is possible that only those types most similar to businesses would present the necessary conditions to warrant a marketing orientation.

Since one of the rationales for a marketing orientation in nonprofits is that it will create a more responsive organization which provides better customer satisfaction, increased cash flow and more and better services (Andreasen 1982; Kotler 1982) it follows that how a nonprofit defines which group constitute the customers whose satisfaction generates the cash flow has important ramifications for the application of a marketing orientation. Nonprofits are mission-driven organizations who attract patrons sympathetic to the organization's rationale. Hence it is possible that adoption of a marketing orientation

which selects one group to satisfy may require changes to the mission and mandate and affect the autonomy of the organization. These considerations suggested that the degree to which a nonprofit has a homogeneous group of constituents on which its viability depends was a critical factor in whether or not a marketing orientation will be adopted. Viability and homogeneity were assessed using Hansmann's typology.

These considerations suggested two broad research questions.

1. What is the nature of the relationship between the type of nonprofit and the degree of marketing orientation it exhibits?
2. What is the nature of the relationship between the degree to which a nonprofit exhibits a marketing orientation and whether it has experienced changes in its focus and mission and the type of beneficiary served?

3.1 Hypotheses

The thesis tested the hypothesis that nonprofits fall into four categories depending on the way they are financed and controlled. These categories were further hypothesized to be predictors of degree of marketing orientation: those categories most like businesses (i.e. commercial) having a greater degree of marketing orientation than those least like businesses (i.e. donatives). The null hypothesis that these categories are not predictive of a marketing orientation is thus:

H_0 There is no relationship between the sources of financing and control of a nonprofit and the degree of marketing orientation it exhibits.

Alternate hypotheses concerning which categories of nonprofits are more or less likely to have a marketing orientation were constructed based on the degree to which it is necessary to satisfy certain groups of patrons. It was hypothesized that contrary to marketing management advice to nonprofits, it is not the end-user patrons but the patrons who finance the programs and services of a nonprofit whose satisfaction is essential and the group towards whom the marketing activities will be directed. Hence:

H_A Commercial mutual nonprofits would have the highest degree of marketing orientation of the four types.

H_A Donative entrepreneurial would have the least degree of marketing orientation of the four types.

H_A Donative mutual and commercial entrepreneurial would have intermediate degrees of marketing orientation.

H_A Mutual nonprofits, controlled by their patrons, would have a greater degree of marketing orientation than entrepreneurial nonprofits, whose patrons do not control them.

H_A Donative nonprofits, whose revenue is principally from donations and grants would have a lesser degree of marketing orientation than commercial nonprofits whose income is derived from prices charged for services.

Nonprofit organizations are formed to provide services to a heterogeneous group of patrons. Since no group owns the enterprise and management provides the services to the beneficiaries in trust for the donors, the mission and focus of the nonprofit and the type of beneficiary served is the selection mechanism by which donors decide to provide financial support. Historically government has provided a large percentage of the funds

for many nonprofits but these amounts have been reduced under the impact of government restructuring and debt control initiatives. In order to continue to provide programs and services, nonprofits have adapted their programs to suit the requirements of government contracts. On the one hand, broadening the mandate or mission permits the organization to qualify for more government funding because of the more generalist posture it presents. On the other hand targeting beneficiaries for which there are more sources of support permits the organization to diversify its funding. Both responses suggest that those who supply the sources of funding are the customers of the nonprofit who must be satisfied. Consequently, nonprofits which have experienced changes in mission and focus and type of beneficiary served were hypothesized to be nonprofits exhibiting more marketing orientation than those that have not. Hence the null hypothesis of no relationship was:

H_0 The presence of marketing orientation in a nonprofit organization is not related to changes in the mission, focus and type of beneficiary served.

Alternate hypotheses relating to which types of nonprofits are more likely to experience changes in mission and beneficiaries were based on the degree to which the various types are dependent on government or alternate funding. Donative nonprofit organizations are the most dependent on government contracts hence they were hypothesized to exhibit more change in mission and beneficiary served than other types. Conversely, commercial nonprofits are typically competing with for-profit firms for market share and have very little government support. In addition, this type was hypothesized to represent nonprofit structures which are being superseded by for-profit firms but which can maintain their

presence by virtue of the interest on capital assets. Hence this type would experience little need to change their mission and beneficiary to attract more sources of funding.

Hence:

H_A Evidence of a marketing orientation in donative nonprofit organizations would be associated with changes in focus and mission.

H_A Evidence of a marketing orientation in commercial nonprofit organizations would not be associated with changes in focus and mission.

H_A Donative nonprofit organizations who exhibit a marketing orientation would exhibit more changes in mission and beneficiary served than those that do not.

H_A Commercial nonprofits who exhibit a marketing orientation would exhibit less changes in mission and beneficiary served than donative nonprofits.

4.0 Research Methodology

A questionnaire was mailed in early November to the executive directors of 270 nonprofit organizations located in the Ottawa area. A country-wide postal strike at Canada Post, one week after the questionnaires had most likely reached their destination delayed and possibly inhibited the responses. The strike ran from November 19, 1997 until December 4, 1997. As soon as the postal strike was over, a reminder was faxed to all the organizations which had not responded, encouraging them to do so. The nonprofit organizations which responded constituted the sample used in the research. In total, 97 completed surveys were returned, a response rate of 36%. The two sampling frames from which the respondents came had a total population of 270. These sampling frames are described below:

1. The Ottawa chapter of the Canadian Society of Association Executives.

This organization, itself a nonprofit, is one of thirteen Canadian chapters whose aim is to promote the profession of association management. The Ottawa chapter focuses on providing education, information, a forum for consensus building and networking opportunities for both executive and business members. The mission of CSAE is to provide the association community with the means to be more effective and to contribute to a better society.

A questionnaire was sent to every executive director or member of the Ottawa chapter, a total of 222. This was done in an attempt to garner responses from the three types of associations which the frame was thought to contain (donative mutual, commercial entrepreneurial and commercial donative). The responses are not, therefore, the result of a random sampling process. Of the 222 surveyed, a total of 73 responded for a response rate of 32%.

2. The agencies funded by the United Way of Ottawa-Carleton.

The Ottawa-Carleton United Way is a nonprofit agency which aims to promote community sharing and to facilitate the delivery of social services. It funds to varying extents programs of local social service agencies. These agencies are the sampling frame which was surveyed, again in its entirety, to secure sufficient responses from the donative entrepreneurial types that such agencies represent. Of 48 agencies funded in part by the United Way, a total of 22 responded for a 45% response rate.

4.1 Covering Letters

A draft cover letter urging participation in the survey supplied by the researcher was endorsed by both the Ottawa chapter of the CSAE and the Ottawa-Carleton United Way without change. Thus all recipients received the same rationale for participating in the research by their supporting agency. In addition, a letter supplied by the researcher provided more discussion about the dearth of research into nonprofits and the need for data, given the current difficult economic climate for a number of these organizations.

The excellent response rate can be attributed in part to the fact that this is an accurate reflection of the reality facing these organizations.

4.2 Categories of Nonprofits

Each of the organizations was classified into one of Hansmann's types, according to the way the organization was financed and controlled. To determine the way in which the organization was financed, respondents were asked to provide a list of sources of income and provide the percentages supplied by each source both at the time the survey was completed and five years prior. Control was ascertained by providing five-point scales ranging from "strongly agree" to "strongly disagree" concerning the populations from which the board of directors was drawn. Table 1 presents the way in which the control and funding decisions combined to categorize a respondent's a priori category.

TABLE 1
A PRIORI CATEGORIZATION RULE FOR NONPROFITS

SOURCE OF CONTROL		SOURCE OF FINANCING		TYPE
board from dues-paying members	+	membership fees as largest source of income	=	Donative Mutual
board from dues-paying members	+	fees for products and services as largest source or equal % membership fees and fees for products and services	=	Commercial Mutuals
board from the community or board from community and membership	+	multiple sources of funding and minimal membership fees	=	Donative Entrepreneurials
board from the community	+	fees for products and services	=	Commercial Entrepreneurials

The way in which these classification rules were operationalized to actually categorize the nonprofit organizations is taken up in the next two sections.

4.2.1 Source of Control

Hansmann's typology does not operationalize either of the two dimensions which create the four types and so it was necessary to develop this process to place the organizations into a priori categories. The process required that each nonprofit be assessed on each dimension. Responses to the control question established whether the organization was a mutual or an entrepreneurial and those to the finance question determined whether it was a donative or an entrepreneurial. Table 2 sets out the way responses to the control variable were used to make tentative decisions on the control dimension. It shows each control variable, its definition, the points on the Likert scale that were used to classify it and the tentative category assigned.

TABLE 2
DIMENSION 1 - SOURCE OF CONTROL

VARIABLE	DEFINITION	MEASURE	NONPROFIT TYPE
CONTROL1	selected only from primary constituents	Likert 5-point scale strongly agree and agree somewhat = yes	yes = Mutuals (funding source used to finalize which type of mutual)
CONTROL2	selected only from dues-paying members	Likert 5-point scale strongly agree , agree somewhat = yes neither agree or disagree, disagree somewhat, strongly disagree = no	no to CONTROL1 and yes to CONTROL 2 = Entrepreneurials (funding source used to finalize which type)
CONTROL3	selected only from the community	Likert 5-point scale strongly agree and agree somewhat = yes	yes = Entrepreneurials (funding source used to finalize which type)
CONTROL4	partly from membership/partly from community	Likert 5-point scale strongly agree and agree somewhat = yes	yes = Entrepreneurials (funding source used to finalize which type)

The four control variables were used in conjunction with one another since they do not describe mutually exclusive groups. This is because the terminology used by nonprofits themselves and the concepts which currently exist to think about these organizations are not definitive in this regard. For instance, “member” can mean anything from a token membership involving trivial amounts of money and time to a full-fledged membership in a professional body whose certification processes are needed by the member to function in society. Thus a response which agrees that the board is selected from dues-paying members (Table 2 - CONTROL2) can mean that the dues paid are a primary source of funding or represent only token amounts. The response to “selected from the primary constituents” (CONTROL1) needed to be used in conjunction with that to “selected from dues-paying members” (CONTROL2) in order to assess whether that board is a mutual since it is this combination of dues-paying members who are primary constituents which defines a mutual nonprofit.

As Table 2 shows, any organization who indicated strong or moderate agreement to “board selected from primary constituents” (CONTROL1) was automatically classified as a mutual (Hansmann 1980). The final step in the classification process for mutuals was a determination from the second dimension (financing) whether the organization should be classified as a donative mutual (money supplied by membership fees) or commercial mutual (money supplied from fees for products and services). Similarly, respondents who agreed strongly or somewhat that their boards were selected only from the community (CONTROL3) were automatically classified as entrepreneurial and their final designation as donative entrepreneurial or commercial entrepreneurial determined

by an assessment of the source of their funding. The final steps in the classification process are described in section 4.2.2.

For organizations which disagreed with CONTROL1 and CONTROL3 (i.e. they selected the mid-point on the Likert scale, disagreed somewhat or disagreed strongly) iterative steps were needed to make a classification. The first step was to determine the response to “board from dues-paying members” (CONTROL2). Organizations which said no (i.e. neither agreed or disagreed or disagreed somewhat or disagreed strongly) were classified as entrepreneurial. This is because an entrepreneurial by definition has its board from the community (however that is defined) and doesn’t have dues-paying members in the ordinary meaning of that term. The findings from the second dimension of funding for these types was used to verify the classification. Responses to “board partly from community and partly from membership” (CONTROL4) were not needed for classification purposes, as it turned out, because the combinations provided by the first three control variables were sufficient to categorize all the organizations.

At this stage of the classification process, then, the nonprofit organizations had been tentatively classified as either mutuals or entrepreneurial. To complete the classification process, information from the second dimension, sources of funding was needed for the final designation as either a donative or a commercial. How this information was used is described next.

4.2.2 Sources of Funding

The second dimension, source of financing, was measured by collating categories of income sources. Each agency was asked to supply a list of sources of financing and the percentage of organization funding supplied by each for the present period. There were six funding categories with percentages for the funding in the current period. The data were screened to ensure that no case's total percentage exceeded 100%. Three respondents did not provide percentages. The organizations were contacted to remedy the lack. Two supplied the data and the third did not respond. This case was dropped completely from the analysis since it could not be categorized. Table 3 presents the category definitions and variable names.

TABLE 3

CATEGORIES OF FUNDING	
FUNDING CATEGORY VARIABLES	FUNDING SOURCE DESCRIPTION
SALES = percentages from the current period	voluntary retail-like financial transactions from sale of products and services, registration fees, retail outlet operations, royalties, commissions and sponsorships
UNITEDWAY = percentages from the current period	funding obtained from donations including any funding allocated from the United Way of Ottawa-Carleton as well as that from individual donors ³⁰ and from unspecified fundraising activities of charities
FUNDRAISING = percentages from the current period	funding obtained from occasional fundraising activities of noncharitable organizations
MEMBERSHIP = percentages from the current period	funding paid by members howsoever defined ³¹
GOVCONTRACT = percentages from the current period	funding from contracts with any level of government
GOVGRANT = percentages from the current period	funding from government contributions or grants

³⁰ initially corporate donations were not included on the grounds that the donations might not be disinterested. The total was too small to warrant that conclusion and the amounts were incorporated into the United Way category.

³¹ membership is not a unitary concept in nonprofits hence membership fees can mean token amounts or very substantial amounts.

Hansmann's typology distinguishes between nonprofits which are funded from donations (donatives) and those which are funded from quid pro quo transactions (commercial). In order to arrive at two categories of funding which corresponded to these qualitatively different funding sources, the six categories described in Table 3 were collapsed into two basic categories of funding. Table 4 sets out the two funding categories, their definitions and way they were used to finalize the categorization process.

TABLE 4
DIMENSION 2 - SOURCE OF FINANCING

VARIABLE	DEFINITION	MEASURE	NONPROFIT TYPE
FEE	funding from SALES + GOVT. CONTRACT + MEMBERSHIP FEE	sum of reported percentages	if FEE > GRANT = Commercial
GRANT	funding from GOVGRANT + UNITED WAY + FUNDRAISING	sum of reported percentages	if GRANT > FEE = Donatives

The process used to finalize the a priori nonprofit type was an iterative one. First the percentage of funding from quid pro quo exchanges (FEE) was compared to that from donations (GRANT). The category with the largest amount defined the organization's position on the finance dimension: a predominance of funding from quid pro exchanges positioned the organization as a commercial while a predominance from donations meant it was a donative. These positions when combined with those established from examining the sources of control finalized the a priori categorization of the nonprofits. There were 45 donative mutuals, 32 donative entrepreneurial, 12 commercial mutuals and 6 commercial entrepreneurial.

4.3 Survey Instrument

The research was designed to measure the degree to which various types of nonprofits exhibit a marketing orientation and whether evidence of a marketing orientation is accompanied by declared changes in mission and mandate.

Market orientation was measured using the MARKOR instrument designed by Kohli, Jaworski, and Kumar (1993). The modified version of MARKOR used by Raju, Lonial and Gupta (1995) for a survey of hospitals was pretested with two nonprofit organizations with the following modifications: “hospital” was changed to “organization”; “customers” or “patients” were changed to “constituents” and “price changes” to “service changes”. As a result of the pretest “departments” was changed to “departments or people” to reflect the small size of many nonprofit organizations. No other changes were made to this version of MARKOR so that the marketing orientation could be measured in as similar way as possible in these organizations as it had been in the hospital and manufacturing sectors. All of the market orientation questions utilized the same five-point scales of the modified MARKOR used by Raju, Lonial and Gupta (1995).

The attributes of the marketing orientation measured by MARKOR are intelligence generation, intelligence dissemination and responsiveness and as such represent a process which starts with monitoring customer needs and preferences, relaying that information to the organization and acting in response to the information in ways designed to satisfy the identified needs and wants.

As it turned out, the questions which referred to competition, a central tenet of the marketing orientation, were inherently problematic for a number of the donative entrepreneurial organizations (charities). Often, these questions were either not answered or marked not applicable. Less commonly the respondents took the trouble to express their discomfort with not only the actual wording but the thrust of the question.

Because nonprofits by definition exist to balance the diverse interests of a variety of constituencies (as opposed to the more focused interests of a group of owners) with sometimes quite different agendas, determining the number and nature of these constituencies was an important pre-requisite to assessing the degree to which the end-users' needs were met. It will be recalled that marketing theory is clear that the value of a marketing orientation in a nonprofit is its ability to improve cash flow and service to the end-users (Kotler 1982; Lovelock and Weinberg 1984; Andreasen 1982). The survey accomplished this by providing some examples of constituencies and asking the organization to list as primary those constituents for whom they provided the services and as secondary those whom they considered to have a special interest in seeing the service delivered. They were then asked to respond to five-point scales ranging again from "strongly agree" to "strongly disagree" regarding the characteristics of their primary constituents and the ways in which the organization may have changed to meet those needs or the requirements of funding sources.

5.0 Data Analysis

The data analysis was conducted to test the research hypotheses (Section 3.1) that nonprofits fall into four categories depending on the way they are financed and controlled and that these categories were 1. predictive of the degree of marketing orientation exhibited to end-users and 2. that evidence of a marketing orientation would be coincidental with changes in mission, focus and type of beneficiary served. Thus the second research hypothesis was dependent on the first. Accordingly, a data analysis strategy based on multivariate considerations and the limitations of the available statistical tools was developed.

As mentioned, the first research hypothesis which looked at the relationship between the funding, control and marketing orientation variables drove the analysis. Funding and control data had been utilized to classify the organizations a priori according to Hansmann's typology but these a priori classifications needed to be verified through a Discriminant Analysis procedure. In other words, using the classification scheme without verification would have assumed away the problem that was being assessed.³² Moreover, as spelled out in Stevens³³ reliable results require no more than 20 subjects per variable, a requirement which necessitated that only variables with intrinsic meaning be used for the Discriminant Analysis routine. Given that there were 95 usable responses,

³² For an analogous but simpler version of the verification of a priori categories using similar variables see, Stevens, James, "Applied Multivariate Statistics for Social Sciences" Lawrence Erlbaum Ass. Inc. New Jersey, 1996. P. 289, question 4.

this meant that ideally no more than five variables were optimum. In addition, because the Discriminant Analysis routine relies on multivariate processes, these variables needed to be assessed for violations of multivariate normality. Techniques for assessing multivariate normality are only available through MANOVA routines in SPSS, however since MANOVA and Discriminant Analysis are mirror image statistical processes, this did not add unnecessary analysis.³⁴ The final consideration underlying the data analysis strategy was the need to avoid wherever possible capitalizing on chance³⁵ which practically speaking means assessing the variables for intrinsic meaning rather than through statistical processes.

These considerations lead to a data analysis strategy with three steps for the first research hypothesis. The first step, developing variables with intrinsic meaning was accomplished by Exploratory Factor Analysis of the 31 marketing orientation items and assessment of the sets of finance and control variables. The second step utilized a MANOVA to provide the multivariate diagnostics and to assess which variables were significant in differentiating the nonprofit types as defined a priori. The third step was a Discriminant Analysis for understanding the contribution of each significant variable to the discriminant functions and to validate the a priori classification scheme outlined in the methodology. Beginning with an overall description of the organizations studied, each part of the data analysis is described below in turn.

³³ Stevens, James, "Applied Multivariate Statistics for Social Sciences" Lawrence Erlbaum Ass. Inc. New Jersey, 1996. P. 288

³⁴ See Stevens p 261 and Tabachnik p.27. Also, personal e-mail communication from Dr. Roland Thomas.

³⁵ Stevens p 37, p 227

5.1 The Nature of the Nonprofit Organizations Studied

As previously described, the 270 nonprofit organizations which are members of the Ottawa-Carleton United Way or the Ottawa branch of the Canadian Society of Association Executives were contacted through a mail survey addressed to their executive directors. Responses were obtained from 95 organizations. 75 % of those responding occupied high levels in the organization and were either executive directors, presidents, chief operating officers or vice presidents. The remaining 25% of the respondents classified themselves as co-ordinator (6%), director (14%), program manager (2%) or failed to provide a title (3%). Of 95 responses, 90 or 95% agreed strongly that “the day-to-day management of our organization is handled by a full-time salaried manager”.

5.1.1 Economic Functions

Not a great deal was known about the nonprofit organizations which responded since details about their size were not requested and were not central to the research. However, from discussions with the two sponsoring organizations, the local chapters of the Canadian Society of Association Executives and the United Way, it is clear that respondent organizations vary from very large nonprofit organizations with national profiles and many departments to very small organizations with only a local presence.

The one descriptive piece of information which was requested was the wording of the mission statement. These statements were then used to sort each organization according to the economic function (Gassler 1986) they appeared to perform. Only one organization

did not supply a statement. This sorting was only approximate since the mission statements do not identify the economic functions (qua Gassler) they perform directly but merely describe the rationale of the organization. As such, therefore, they are only suggestive.

This sorting process produced a number of discernible groups, the largest of which (21%) provides the economic function of establishing tastes - an environmental function. In this group are organizations which support an ongoing debate through their memberships into policy areas such as the requirements for new professions or the development of new trade policies for the products their members sell in the market. Still others stimulate public debate on emerging public policy areas in various aspects of health and education and governance. The next largest group was composed of organizations which provide merit goods - an allocative function. These were 20% of the total and includes such activities as forestry expertise or figure skating programs and services. The third largest group with 15% of the total were made up of organizations providing the infrastructure for the delivery of community programs which deliver food to seniors or provide telephone response capability to those in emotional distress - what Gassler describes as the allocative function for public goods. The two systemic functions - building trust and providing information were judged to be provided by 14% and 13% of the total number responding and included a wide diversity of organizations which provide everything from scouting programs to providing information about frequency co-ordination. The remaining percentages were 7% for the allocative risk function (e.g. ski patrol, distress centre); 5% for the allocative standards function (nursing programs); and 2% for the

environmental functions of developing technology (environmental analysis labs) and resource endowments (schools of nursing). Hence the range of quasi-economic functions performed by these organizations is very broad.

5.2 Step One of Analysis - First Research Hypothesis

The first null research hypothesis was that there was no relationship between the sources of financing and control of a nonprofit and the degree of marketing orientation it exhibits. As described above, the goal of the first step of the data analysis was to develop variables to test this. The first set of variables to be assessed were the control variables, discussed next.

5.2.1 The Control Variables: Primary Constituents and Dues-Payers

Because the way control is defined is critical to a nonprofit, it was necessary to assess which control variables were significant for the control function. As discussed, of the four control variables, only one, that which asked whether the board was selected only from dues-paying members did not produce a straightforward a priori category for the organization. This is because dues-paying board members can be either primary constituents who pay substantial dues or community members who pay token dues. The distinction is important since it is quite difficult for “token” members to affect board policy and direction. Fully-fledged membership is usually needed in order to do that. As a practical matter, then regarding the research question issue of the relationship between nonprofit type and the marketing orientation, it was necessary to assess the degree to

which these two control variables were correlated. A high degree of correlation would signify virtual overlap with a corresponding decrease in the ability of either variable to discriminate nonprofit type. Similarly, a low degree of correlation would signify that both variables were needed for discriminating between nonprofit types. A Chi square test of association between board selected from primary constituents and board selected only from dues-paying members was run at alpha .05. As Table 5 shows, $r = .55$ ($p = <.0001$). This finding confirms that board selected only from dues-paying members is significant in differentiating nonprofit type. For this reason, the variable was retained to test the research hypothesis.

TABLE 5
CORRELATION - CONTROL1 * CONTROL2

		board from primary constituents	board from dues-paying members
Pearson Correlation	board from primary constituents	1.000	.549**
	board from dues-paying members	.549**	1.000
Sig. (2-tailed)	board from primary constituents	.	.000
	board from dues-paying members	.000	.
N	board from primary constituents	95	95
	board from dues-paying members	95	95

** . Correlation is significant at the 0.01 level (2-tailed).

5.2.2 The Funding Variables

This section assesses the second set of variables which define nonprofits, the funding variables. As discussed, there are fundamentally two ways that nonprofits are funded. They can be funded through donations - which includes any funding given without a definite expectation of something in return or fees - a category which captures all the retail-like transactions in which these organizations engage. As the classification process made clear, nonprofits often use both types of funding. To determine the degree to which each funding variable was significantly related to type of nonprofit, an ANOVA at alpha .05 was run between each type of funding and nonprofit type. Table 6 displays the results.

TABLE 6
ANOVA - FEE AND GRANT FOR NONPROFIT TYPES

				Sum of Squares	df	Mean Square	F	Sig.
FEE	Between Groups	(Combined)		94918.377	3	31639.459	54.532	.000
		Linear Term	Unweighted	3744.980	1	3744.980	6.455	.013
			Weighted	1990.566	1	1990.566	3.431	.067
			Deviation	92927.811	2	46463.905	80.083	.000
	Within Groups			52217.998	90	580.200		
	Total			147136.375	93			
	GRANT	Between Groups	(Combined)		88554.674	3	29518.225	57.670
Linear Term			Unweighted	3142.436	1	3142.436	6.139	.015
			Weighted	2484.560	1	2484.560	4.854	.030
			Deviation	86070.114	2	43035.057	84.077	.000
Within Groups			46066.602	90	511.851			
Total			134621.277	93				

Both fee-type funding ($p. = < .001$) and donation-type funding ($p. = < .001$) discriminate nonprofit type. Consequently, both of these variables were retained for hypothesis testing.

One of the critical issues for nonprofit organizations is the number of funding sources. Theoretically the more sources of funding there are the harder it should be for an organization to market effectively to any one of them. Hence, the number of funding sources should be related to whatever degree of marketing orientation a nonprofit exhibits. To examine the degree to which the number of funding sources was related to type of nonprofit a new variable was created (NUMFUND) which counted all the categories of funding³⁶ utilized by an organization. Table 7 presents the means and standard deviations of the number of funding sources for each type of nonprofit and Table 8 shows that an ANOVA at alpha .05 found that these means differ significantly between types of nonprofits. Given these results this variable was retained for hypothesis testing.

TABLE 7
NUMBER OF FUNDING SOURCES BY TYPE OF NONPROFIT

number of funding sources	type		N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
							Lower Bound	Upper Bound		
	donative mutual		45	2.4000	1.0313	.1537	2.0902	2.7098	1.00	5.00
	donative entrepreneurial		32	3.2188	.9750	.1724	2.8672	3.5703	2.00	5.00
	commercial mutual		12	3.0833	1.2401	.3580	2.2954	3.8713	1.00	5.00
	commercial entrepreneurial		6	2.0000	1.0954	.4472	.8504	3.1496	1.00	4.00
	Total		95	2.7368	1.1129	.1142	2.5101	2.9635	1.00	5.00

³⁶ Excluding, as before, interest and investment as sources of income

TABLE 8
ANOVA - NUMBER OF FUNDING SOURCES BY NONPROFIT TYPES

				Sum of Squares	df	Mean Square	F	Sig.
number of funding sources	Between Groups	(Combined)		17.236	3	5.745	5.271	.002
		Linear Term	Unweighted	.983	1	.983	.902	.345
			Weighted	1.437	1	1.437	1.318	.254
			Deviation	15.799	2	7.900	7.248	.001
	Within Groups			99.185	91	1.090		
Total				116.421	94			

5.2.3 Analysis of Raw Scores of the Marketing Variables

An analysis of the raw scores of the marketing variables was not needed to test the research hypothesis but is provided as background information. Table 1 (Appendix A) sets out the measures of central tendency for the marketing scores for each type of nonprofit. Overall, the mean for all four types was 88.05. The possible range of scores on MARKOR is from 31 (each item scored as strongly agree) to 155 (each item scored as strongly disagree). However, some items were reverse worded. There were 9 negatively worded items. Hence a consistently rated response (one which reversed responses appropriately for every reverse worded item) had an effective range from 67 (22 positive items scored as strongly agree and 9 negative items scored as strongly disagree) to 119 (22 positive items scored as strongly disagree and 9 negative items scored as strongly agree) with the mid-point at 93. It should be noted that it is impossible to interpret the scores as measures of marketing orientation since no marketing orientation components

emerged from the Factor Analysis. Table 2 (Appendix A) shows the extreme values for raw scores on the test.

5.2.4 Measure of Marketing Orientation

The next measure needed to answer the first research hypothesis was a measure of market orientation. Market orientation was measured using the modified MARKOR instrument (Raju,Lonial,Gupta,1995). This instrument was first developed and used in a manufacturing setting (Kohli, Jaworski, Kumar, 1993) and subsequently modified by Raju et.al. (1995) for use in the hospital industry. As a result of the pretest, further modifications to the wording were made in order to allow very small nonprofit organizations to see a reflection of their operation within its framework. Some of the nonprofits who responded had difficulty with the marketing questions. Appendix C provides a complete list of the comments made in response to these items (comments were not made to any other items).

Because the research looked to discriminate among nonprofits by marketing activity, the analysis sought factors extracted from the subset of marketing orientation variables with which to differentiate nonprofit organizations. In order to develop variables with intrinsic meaning, the scores on MARKOR's thirty-one items were first run through a Principal Components Analysis, limited only to eigenvalues greater than 1. Missing values were assigned mean values. Nine components were extracted explaining 64% of the variance with the first component accounting for 23% and the second 8% as seen in Table 3

(Appendix A). The scree plot (Figure 1, Appendix A) shows that the discontinuity occurs after the second component. The communalities are shown in Table 4 (Appendix A) . Table 5 (Appendix A) gives the revised components matrix with only those loadings equal to or greater than .550.³⁷ As is evident, only one factor emerged with this criterion. The unrotated factor scores for the component were used in the MANOVA to explore the first research hypothesis.

Table 9 provides the loadings and the description of the seven variables which loaded on the marketing component resulting from the Principal Components Analysis.

TABLE 9

MARKETING FACTOR COMPONENTS & VARIABLE DESCRIPTIONS		
COMP.	DESCRIPTION	LOADING
1	At least once a quarter, we meet to discuss market trends and developments	.737
1	We are quick to respond to significant changes in our competitors' service structure	.639
1	The activities of the different departments of key personnel in this organization are well co-ordinated	.626
1	We integrate marketing and program development issues when discussing constituents' future needs.	.625
1	Data on constituents' satisfaction are disseminated at all levels in the organization on a regular basis.	.569
1	When we find our constituents would like us to modify a program/service we make concerted efforts to do so	.556
1	Several depts. of our organization get together periodically to plan a response to changes in our service environment	.551

³⁷ Tabachnik, B.G. Fidell, L.S. (1989), *Using Multivariate Statistics*, 2nd Ed. HarperCollins: New York p.640

5.2.5 Meaning of the Factor Extracted from the Marketing Variables

An examination of the items which loaded on the factor extracted from the Principal Components Analysis and a comparison of these items with those which loaded on the four factors identified by Raju et al.(1995) reveals that only two items are common to both lists (Table 9 - bold items). These were “when we find our constituents would like us to modify a program/service we make concerted efforts to do so” and “data on constituents’ satisfaction are disseminated at all levels in the organization on a regular basis”. Both were items on a factor which Raju et al (1995) had labelled “customer satisfaction”. The other five items do not appear on any of the hospital study factors. Table 10 lists the items which loaded on the “intelligence generation” factor in the study by Raju et al. (1995) and also those from the current study which loaded on the factor.

TABLE 10

COMPARISON OF FACTORS EXTRACTED FROM RESEARCH WITH MARKOR

INTELLIGENCE GENERATION ITEMS	NONPROFIT FACTOR ITEMS
We collect industry information through informal means	At least once a quarter, we meet to discuss market trends and developments
We often talk or survey those who can influence our patients' choices	We integrate marketing and program development issues when discussing constituents' future needs.
In our hospital we meet with customers at least once a year to find out what products and services they will need in the future	The activities of the different departments of key personnel in this organization are well co-ordinated
We survey customers at least once a year to assess the quality of our products and services	Data on constituents' satisfaction are disseminated at all levels in the organization on a regular basis.
In our hospital we do a lot of in-house market research	When something important happens to a major constituency or market, everybody in the organization knows about it in a short period.
Individuals from our operations interact directly with customers to learn how to serve them better	We are quick to respond to significant changes in our competitors' service structure
	When we find our constituents would like us to modify a program/service we make concerted efforts to do so

An inspection of these seven variables from the research for this thesis which loaded on the revealed that they are not concerned with an aggressive search *from customers* for ways to improve products and services which is what Raju et al. (1995) termed "intelligence generation" so much as trying to satisfy the end-users and being alert to their needs. No item on the first factor actually seeks any information directly from the end-users in the way that the "intelligence generation" items in the hospital study do.

Given these differences it is difficult to conclude that the factor describes a marketing activity. Rather it appears to describe a concern with understanding customer needs -

something the voluntary comments support (Appendix C). Using the loadings higher than .63 as a guide to its meaning³⁸, this factor was labelled “Needs Awareness”. The needs awareness factor was retained for the MANOVA test of the research hypotheses. In addition, the needs awareness factor was assessed against the funding variables which differentiate nonprofits. This latter issue is taken up in the next section.

5.2.6 Correlations between Needs Awareness Factor and Funding Sources

Even though the marketing orientation implicit in the research question was oriented towards end-users not funders, it was of considerable theoretical interest to determine whether in fact the needs awareness factor identified in the study, was correlated with funding sources. A Chi Square test of association at alpha level .05 was run between the needs awareness factor and the two different types of funding (GRANT and FEE) for each nonprofit type to assess the extent of the relationships between these three sets of variables. Tables 6 and 7(Appendix A) provide the results.

The “needs awareness factor” is significantly and directionally related to funding from donations in donative mutuals and commercial entrepreneurial ($p=.015$ and $<.001$ respectively) and to funding from quid pro quo exchanges only in commercial entrepreneurial ($p=.003$). Since low scores indicate more of whatever marketing component is being measured, these results suggest that in these two types of nonprofits,

³⁸ ibid

sensitivity to end-user needs decreases with increasing amounts of funding from donations. Similarly, but only for commercial entrepreneurial, there is less sensitivity to needs as the amount of funding from market-like exchanges increases.

These findings are not directly related to the research questions however the finding that the “needs awareness” factor is related to funding sources in some nonprofits is suggestive. The implications of these findings are discussed later in the discussion of the findings.

5.2.7 Summary of Intrinsic Variables selected for First Research Hypothesis

As discussed in section 5.0 variables related to control, funding and marketing orientation were needed in order to test the first research hypothesis. The variables which were found to be significant and retained for the MANOVA were the control variable measuring the extent to which board members pay dues (CONTROL2); the number of sources of funding (NUMFUND); funding from market-like exchanges (FEE) and from donations (GRANT) and the “needs awareness” factor. The needs awareness factor did not match the marketing orientation factors found by Raju et al.(1995) or those identified in the literature (Moon and Stano 1988), but was retained for the MANOVA nevertheless for the purposes of testing the research hypothesis.

5.3 Step Two - MANOVA for First Research Hypothesis

The five variables selected to test the research hypothesis (needs awareness factor, number of funding sources, the two types of funding and the needs awareness factor) produced a subject/variable ratio of approximately 19:1 which is not quite what considered adequate by Stevens³⁹. The variables were first screened for violations of multivariate assumptions and a series of diagnostic tests to determine how the results of the MANOVA test of the first research hypothesis should be interpreted. Each of these procedures is described below.

5.3.1 Violations of Multivariate Assumptions

The first research hypothesis relied upon multivariate techniques. Hence an assessment of the underlying assumptions of multivariate data analysis was undertaken on the variables selected for the MANOVA. These assumptions are: independence, normal distribution and homogeneity of variance. Each is discussed in turn.

5.3.2 Independence

Independence was assumed not to be violated since the data were collected from a mail survey sent individually to each respondent. While it is quite likely that the respondents in each sampling frame know other respondents, there is no indication that any responses were compromised by this. Additionally, the intervention of the mail strike affected the

ability of the respondents to attend to the survey. Responses straggled in over a period of three months, making it quite unlikely that the assumption of independence was breached.

5.3.3 Normality

The variables selected for the MANOVA were assessed for normality. Table 8 (Appendix A) shows that with the exception of the needs awareness factor, all of the variables exhibit heterogeneity, particularly for the donative mutual and donative entrepreneurial organization distributions. However, since the heterogeneity derives from leptokurtosis (Table 9 Appendix A), it is reasonable to conclude that this departure from normality will not adversely affect power.

5.3.4 Homogeneity of Variance

Table 11 indicates that for the variable measuring funding from donations (GRANT) there are unequal variances. Table 11(Appendix A) gives the Box test results ($p=.04$) showing that the covariance matrices are not equal. However, given the sensitivity of the test to non-normality and the non-normality shown in Table 8 (Appendix A) , it is possible that the test is measuring this non-normality.

³⁹ Stevens, James, "Applied Multivariate Statistics for Social Sciences" Lawrence Erlbaum Ass. Inc. New Jersey, 1996. P. 265

5.3.5 Outliers, Influential Data Points & Power

The standardized residuals were examined for absolute values greater than 3. Three cases were found and examined for data entry errors. The data was found to be correctly entered. Given that $n = 93$ and the number of parameters = 5 (4 groups +1), values greater than .16 ($3p/n$) were examined for leverage. Three cases were found, all of which had values of .17 on all the predictors. This was judged not enough over the criterion to be of concern. Supporting this is the result of an examination of the Cook's distances: no cases were found >1 (Stevens' criterion). Effect size is estimated to be small at .23⁴⁰ and power adequate at .78⁴¹.

5.3.6 Multivariate Test Results

The data analysis strategy called for a MANOVA to assess which of the selected variables were significant in differentiating nonprofit type. The MANOVA is simultaneously an additional test of the individual group identities and a test of the 'needs assessment' factor across the 4 distinct groups. The follow-up test of the needs assessment comprises a statistical test of Research Hypothesis 1.

A MANOVA with type of nonprofit as the independent variable and the dependent variables identified earlier (board from dues-paying members, funding from donations,

⁴⁰ Using Stevens' formula: $N - k = 90 \times 2.54 = 228.6$ $D_2 = (94/95040) \times 228.6$, $D_2 = 0.226$ *ibid.* p. 178

⁴¹ *ibid.* p. 180

funding from market-like transactions, needs awareness factor and number of funding sources) was run under the assumption of unequal variances. Pillai's trace criterion was used to evaluate the results given the unequal group sizes and the heterogeneity of variance. Table 11 reports that, overall, the four types of nonprofits differ significantly on the set of five variables and that Pillai's trace criterion, Wilks' lambda and Hotelling's lawley-trace are all significant ($p < .001$) for the overall model.

TABLE 11
MANOVA TEST RESULTS - VARIABLES FOR FIRST RESEARCH HYPOTHESIS

	Value	F	Hypothesis df	Error df	Sig.	Eta Squared	Noncent. Parameter	Observed Power ^a
Pillai's trace	.964	8.339	15.000	264.000	.000	.321	125.092	1.000
Wilks' lambda	.230	11.137	15.000	237.810	.000	.387	150.225	1.000
Hotelling's trace	2.540	14.336	15.000	254.000	.000	.458	215.039	1.000
Roy's largest root	2.202	38.749 ^b	5.000	88.000	.000	.688	193.745	1.000

^a. Computed using alpha = .05

^b. The statistic is an upper bound on F that yields a lower bound on the significance level.

5.3.7 Univariate Test Results

Post hoc comparisons with Tamhane inequality (for assumed unequal variance) are presented in Tables 13 a, b & c (Appendix A). The tables show only four of the variables are significant: the funding variables (FEE, GRANT and NUMFUND) and the control variable ("board from dues-paying members"). The needs awareness factor does not differentiate across type of nonprofit. Table 12 presents the results of the univariate

tests. Again, the needs awareness factor does not contribute ($p = .176$) for the overall result. The other four variables are all significant.

TABLE 12
UNIVARIATE TEST RESULTS - VARIABLES FOR FIRST RESEARCH HYPOTHESIS

Source	Dependent Variable	Sum of Squares	df	Mean Square	F	Sig.	Eta Squared
Contrast	FEE	94918.377	3	31639.459	54.532	.000	.645
	GRANT	88554.674	3	29518.225	57.670	.000	.658
	Needs Awareness Factor	4.953	3	1.651	1.684	.176	.053
	number of funding sources	16.540	3	5.513	5.049	.003	.144
	board from dues-paying members	99.394	3	33.131	17.547	.000	.369

^a Computed using alpha = .05

5.3.8 Conclusions related to first Research Hypothesis

The first research hypothesis was:

H_0 There is no relationship between the sources of financing and control of a nonprofit and the degree of marketing orientation it exhibits. Based on these test results the null hypothesis was not rejected.

5.4 Second Research Question and Second Research Hypothesis

The second research question was: What is the nature of the relationship between the degree to which a nonprofit exhibits a marketing orientation and whether it has experienced changes in its focus and mission and the type of beneficiary served? Since the first research question demonstrated that nonprofits did not vary with respect to the

“needs awareness” factor, the second research question was therefore moot. The corollary of the failure to find differences across nonprofit type on the factor extracted from the marketing orientation scale was that any changes that may have been found in the focus, mission and type of beneficiary served were not related to measures on the “needs awareness” factor.

The second research hypothesis was:

H₀ The presence of marketing orientation in a nonprofit organization is not related to changes in the mission, focus and type of beneficiary served. Given the failure to demonstrate any differences in marketing orientation among nonprofits, the null hypothesis of the second research question was not rejected.

5.5 Step Three - Discriminant Analysis

To determine which variables discriminate nonprofit types, a DISCRIMINATION technique using the significant variables from the MANOVA were run at alpha .05. That procedure is described next.

5.5.1 Discriminating Nonprofit Type

Because the MANOVA indicated that the needs awareness factor isolated from the marketing scale was not significant, it was dropped from the analysis. The resulting variables, “board from dues-paying members” and the three funding variables (GRANT,

FEE and NUMFUND) produced a final subject/variable ratio of 23:1, in excess of the 20:1 considered necessary by Stevens.

5.5.2 Multivariate Assumptions

The variables selected for the prediction equation were re-assessed for normality. Table 14 (Appendix A) shows that all of the variables exhibit heterogeneity. However, since the heterogeneity derives from leptokurtosis (Table 9 Appendix A), it is reasonable to conclude that this departure from normality did not adversely affect power.

In addition, Table 15 (Appendix A) gives the Box test results ($p=.002$) indicating nonhomogeneity of variance. The Levene test shown in Table 17 indicates heterogeneity of variance for funding from donations (GRANT) ($p=.003$). A contributing factor is the unequal group sizes: type 3 with n of 12 was one quarter the size of type 1 and one third the size of type 2. Type 4 with n of 6 was one half again those estimates. Moreover, the log determinants shown in Table 17 (Appendix A) indicate that variance decreases with group size save for donative entrepreneurial. Following Stevens' discussions on this issue, this would suggest that the impact of these inequalities⁴² is to produce conservative test statistics for all but the donative entrepreneurial group whose statistics therefore need to be evaluated liberally. Conservative test statistics mean a smaller actual alpha than used and a corresponding decrease in power. What this all suggests for the interpretation of the results is that the groups may differ on the variables tested more than appears to be the case.

5.5.3 Discriminating Group Membership

The last phase of the data analysis was to assess how well a linear combination of the final variables categorized types of nonprofits. A discriminant analysis was run on SPSS 7.5 with “board from dues-paying members”, “number of funding sources” and the two types of funding source (FEE AND GRANT). It may appear that there is some circularity in looking for group differences in variables used in forming the groups. However, the intent of this part of the analysis is to validate that the strategy for constructing the groups really does result in a set of groups that differ.

Of the original cases 71.6% were correctly classified. There were insufficient cases for a hold-out sample on which the discrimination functions could be validated. However, cross-validation procedures produced a 65.3% correct classification rate. Donative mutuals were correctly classified 62.2% (57.8% on cross-validation); donative entrepreneurial 87.5% (78.1% on cross-validation); commercial mutuals 58.3% (50% on cross validation) and commercial entrepreneurial 83.3% (83.3% on cross-validation). Figures 2-6 (Appendix A) present a graphical display of the categorization.

⁴² *ibid* p. 250-260.

5.5.4 The Discriminant Functions

Three discriminant functions were calculated with a combined Chi-square (15) = 127.253, ($p < .0001$). After removal of the first function, the association between the predictors and the groups was still significant: Chi-square (8) = 24.795, ($p < .001$) (Table 13). The two discriminant functions accounted for 87.6% and 9.9% of the between-group variability respectively.

TABLE 13
WILKS' LAMBDA

Test of Function(s)	Wilks' Lambda	Chi-square	df	Sig.
1 through 3	.239	127.253	12	.000
2 through 3	.757	24.795	6	.000
3	.943	5.256	2	.072

5.5.5 Interpretation

The means of the groups (Table 14) on Discriminant function #1 show that it separates the donative entrepreneurial group from the other three but it does not discriminate donative mutuals from commercial mutuals very well. The variable measuring funding from donations (GRANT) variable (corr.= .939) is the one which defines the function, a finding supported by the strong negative value for market-like funding sources (FEE) (corr. = -.912). "Board from dues-paying members" (corr. = .422) makes a supportive contribution. "Number of funding sources (NUMFUND) (corr. = .232) appears to be irrelevant (Table 15).

TABLE 14
FUNCTIONS AT GROUP CENTROIDS

type	Function		
	1	2	3
donative mutual	-1.080	-.137	-.161
donative entrepreneurial	1.998	-4.313E-02	-6.261E-03
commercial mutual	-1.026	-.312	.621
commercial entrepreneurial	-.676	1.831	.103

Unstandardized canonical discriminant functions
evaluated at group means

TABLE 15
STRUCTURE MATRIX

	Function		
	1	2	3
GRANT	.939*	-.260	-.125
FEE	-.912*	.237	.309
board from dues-paying members	.422	.903*	-.024
number of funding sources	.232	-.329	.645*

Pooled within-groups correlations between
discriminating variables and standardized
canonical discriminant functions
Variables ordered by absolute size of correlation
within function.

* Largest absolute correlation between each variable and any
discriminant function

An assessment of the standardized coefficients supports this. As Table 16 shows, the coefficient for the funding variable from donations (GRANT) is .832 while “dues-paying members” (CONTROL2), the second largest has a modest value of .321. All the other variables appear to be redundant. Hence the first discriminant function describes a funding dimension as theorized in Hansmann’s typology. Discriminant function #2 distinguishes the commercial entrepreneurial group from the other three groups. The “dues-paying members” variable is the one which defines the function (corr.= .903) with

none of the other variables making much of a contribution. The coefficients for the second discriminant function support this. “Board from dues-paying members” (CONTROL2) has a value of .955 but none of the other variables have any relevance. “Board from dues-paying members” reflects the second function in Hansmann’s typology: control.

TABLE 16
STANDARDIZED DISCRIMINANT FUNCTION
COEFFICIENTS

	Function		
	1	2	3
board from dues-paying members	.321	.955	.260
FEE	-.042	.249	2.110
GRANT	.832	-.158	1.715
number of funding sources	.194	-.115	.882

5.5.6 Variable Importance

TABLE 17
DISCRIMINANT RATIO COEFFICIENTS

Variable	First Discriminant Function			Second Discriminant Function			Third Discriminant Function		
	SDC	SC	Parallel DRC	SDC	SC	Parallel DRC	SDC	SC	Parallel DRC
Grant	0.832	0.93	0.774	-0.158	-0.260	0.041	1.715	-0.125	-0.214
Fee	-.042	-0.912	0.038	0.249	0.237	0.059	2.110	0.309	0.652
Control2	0.321	0.422	0.135	0.955	0.903	0.862	0.260	-0.024	-0.006
Numfund	0.194	.232	0.045	-0.115	-0.329	0.038	0.882	.645	.569
Total			0.992			1.000			1.001

Table 17 shows that funding from donations (GRANT) and “dues-paying members” and (CONTROL2) account for 90.9% of the length of the first discriminant function. “dues-paying members” (CONTROL2) and funding from market-like transactions (FEE)

account for 92.1% of the length of the second discriminant function. “dues-paying members” (CONTROL2) features in both discriminant functions, making it difficult to name. An attempt to rotate these functions was unsuccessful, since only one component could be extracted. Hence nonprofits in the sample are discriminated by the extent of funding through grants and the extent to which their boards are dues-paying members. Table 19 (Appendix A) presents the classification results.

6.0 Discussion of the Findings

The major findings regarding the typology of nonprofits, the marketing orientation and evidence of organizational change are discussed below.

6.1 Nonprofit Typology

Hansmann's typology provides a four-way classification of nonprofits according to the way they are financed (sources of funding) and the way they are controlled (composition of the board of directors). The study's findings validated these criteria. The coefficient for funding through donations (GRANT) was the largest on the first discriminant function with funding through market-like transactions (FEE) a negative loading indicating that to the extent a nonprofit is funded through donations (i.e. the exchange is intangible) it is not funded through quid pro quo types of tangible exchanges. The coefficient for "dues-paying members" (CONTROL2) was the largest on the second discriminant function. This reflects the real differences in nonprofit types regarding the composition of the board of directors. Boards which do not pay dues are entrepreneurial - these types of nonprofits are run by boards who are society's agents as opposed to donatives which are run by boards who pay dues and who look after the members' interests. The distinction as Hansmann saw, is critical to understanding the dynamic forces at play in each type of nonprofit. Those forces are examined next.

6.1.1 Donative Mutuals

This was the group with the largest representation. Of the 45 classified a priori, 28 (62.2%) were confirmed in that classification. This type of nonprofit exists to advance the interests of its members. If the members are professionals with special expertise, those interests can range from lobbying directed at various governments to give the members exclusive rights in a practice area to activities which enhance credentials or knowledge to providing specialized materials on a cost plus basis. Trade associations whose members may be businesses which compete for customers provide a similar range of services to members: lobbying, information, government contacts, input into legislation etc. All offer services which would be too costly and ineffective if undertaken by individual members and too difficult to evaluate if provided by a for-profit organization.

As became obvious from discussions with staff from various associations, all associations strive to keep their membership satisfied but the reasons have little to do with the reasons that businesses adopt a marketing orientation (reliable sales): most associations have no competitors and members are a captive audience who pay their fees in somewhat the same way they pay taxes. Satisfying the membership means juggling the interests of a heterogeneous group similar only in their common profession or trade. Staff in professional organizations in attempting to carry out multiple, often competing demands from the membership must assess the costs and effort and the probability of success of these various demands and convey that information tactfully back to the

membership and the board of directors. Thus the member roles of shareholder and customer are inextricably intertwined. Businesses, in contrast may have many shareholders who also buy its products but the two roles are not functionally collapsed as is the case in a nonprofit association. In associations, then, the agency problem takes the form of management attempting to discern which set of interests to promote at any given time.

6.1.2 Donative Entrepreneurials

This was the second largest group to respond to the survey and the group with the least misclassification - of the 32 originally categorized, 28 (87.5%) were correctly classified through the discrimination procedure. Donative entrepreneurials are usually registered charities which exist to provide services for end-users that those persons could not afford to purchase themselves. A wide range of social services aimed at education, the alleviation of poverty, religion and health are permitted to register as charities. Nonprofit marketing advice for these organizations frequently is targeted towards understanding the end-users better and improving the services they consume, on the grounds that the typical production orientation of these organizations results in services which are not optimal in some way or which lower cash flow or both. This formulation of the problem faced by charities is thus grounded in a business model which holds that improving service to the end-user is the key to improving organizational effectiveness.

However, this formulation of the issue ignores the fact that charities experience the essentially endless demand as predicted by economic theory for services which are free or virtually so. Hence a marketing orientation aimed at satisfying end-users in these organizations would if anything stimulate even more demand without increasing cash flow since the end-users typically pay nothing. The frequently cited solution of requiring the end-users to pay something for the service cannot really solve serious cash flow problems since end-users of these services are frequently but not always in lower income brackets. At best it can alleviate temporary difficulties but at the risk of discouraging those whom the principal funders wanted to serve. At worst user fees prolong a fundamental funding crisis for the service as well as adding the administrative costs and effort of assessing fees. Not only are energetic, capable administrators discouraged by these short-term efforts to solve a funding crisis, the real problem remains unacknowledged.

Many charities struggle to provide even minimal levels of service and react strongly to suggestions that they must improve service quality. A considerable number (29%) of the respondents took the trouble to provide written comments in the margins of the survey. The problem, as they saw it, was not lacking an understanding of the needs of the clients but rather having sufficient funds and resources to meet the needs. These reactions underline a critical concept in the role of marketing in charitable organizations - the problem of who is the customer at whom the marketing is aimed. Some comments suggested that, all other things being equal, finding out what the prime constituents wanted would be a good idea, however, all other things were not equal.

Hence the problem with a marketing orientation aimed at end-users for charities is that it recommends the wrong target market. The real customers of the services are the donors who buy these services for others, in a manner somewhat analogous to insurance. Agencies such as the United Way are increasingly concerned with issues such as donor fatigue because they rightly understand that only to the extent that donors are satisfied will charitable services be maintained.

In donative entrepreneurialism the agency problem confronted by the manager is not determining which interests of which member segment is paramount at which time as with associations but how to satisfy the different interests of donors and clients simultaneously. The fact that donors want to provide resources to a food bank and clients want food does not mean that these are common interests. Donor interests are rooted in the sometimes inscrutable motivations for benevolence but usually take the form of wanting to ensure that the needy become less so. Client interests are straightforward - food to supplement what their budgets do not permit. Satisfying these very different interests cannot be solved by adopting a marketing orientation aimed at end-users since the added effort and energy it requires would actually compound the organizations' problems.

Currently, agencies spend considerable effort convincing the various funding sources to continue supporting the programs and services they provide. While this is necessary it is also an exhausting and discouraging process for all the parties concerned because solving the agency problem in this way forces the manager into a conflict of interest. In order to

keep funding dollars flowing, managers must insist not only that the service is needed but that the form it takes is needed also. To do otherwise would be to invite investigations into program design and outcomes which these organizations are seldom equipped to manage and sometimes unwilling to do.⁴³ However, the manager is not a disinterested party to the results of this lobbying since jobs and reputation are at stake. Solving the agency problem requires a marketing orientation directed towards the funders who as a condition of continued funding can canvass the end-users as to the adequacy of the services.

6.1.3 Commercial Mutuals

Only 12 organizations categorized a priori as belonging to this group responded and this group had the lowest classification rate (58.3%) through the discrimination process. A commercial mutual is funded principally by sales of its products and services rather than fees hence it would seem that satisfying its customers is critical to maintaining cash flow. However, since these organizations offer specialized services such as health care policy development or specialty agricultural products for equally specialized consumers who are its members, it is most likely that the agency problem faced by these organizations resembles that of donative mutuals: which subset of interests should the manager attend to in what order? Further research with a larger sample is needed, however, in order to understand this issue in these nonprofits.

⁴³ One response to a question about willingness to change programs if clients were unhappy with the quality was "If legitimate and if necessary."

6.1.4 Commercial Entrepreneurials

There were only 6 of these nonprofits in the sample and 5 were correctly classified (83%). The respondents to this survey provided services such as accreditation for health professions or primary health care. Other examples in the literature cite organizations such as the Canadian Standards Association, universities and publicly funded day care centres and Ontario Hydro as commercial entrepreneurials. Theoretically, the agency problems faced by commercial entrepreneurials relate to the tensions inherent in the “duty of care” requirements of an accreditation process. How good, how safe, how knowledgeable should something or someone be to receive a stamp of approval or stay in business? Setting the bar too low throws those responsible into personal ethical dilemmas. If it is set too high, then inadequate numbers of professionals are certified at considerable waste of resources (financial and personal) - a result which usually precipitates political problems. Management must constantly juggle the demands of the funders (often the groups being certified) with those of the society at large whose agents they really are.

Businesses usually target commercial entrepreneurials as organizations which engage in unfair competition by virtue of their often sizable public subscription. They argue that these services could be provided more efficiently by businesses. If chronic funding and budgeting problems coupled with increased demand lead to a decrease in public confidence, pressure from government and business typically accelerates to put the organization on a for-profit basis. Frequently, commercial nonprofits can stay in

“business” longer than a firm because of the cushioning from reserves that are not required to be distributed. Solution of the agency problem requires careful disentanglement of the public policy aspects from those which could realistically be put on a for-profit basis. A recent example is the proposal to allow private production of electricity within a publicly controlled network.

This type of nonprofit was one of two in which the “needs awareness factor” was negatively and directionally related to the amount of funding from both market-like exchanges or donations. In other words, the more that these kind of organizations receive as grants or fees, the less aware they are of their end-users needs - certainly a point of view shared by many customers of Ontario Hydro to name one example. The explanation may lie in the sheer size of the funding for many commercial entrepreneurial nonprofits. Usually these organizations have a monopoly with respect to the services for which fees are charged and in addition they are often the recipients of large amounts in grant-like funding. It is a situation in which there is very little need for commercial entrepreneurial to worry about the impact of their policies and procedures on their end-users.

6.2 Needs Awareness Factor

The Principal Components analysis isolated 10 components accounting for 64% of the variance. The first component accounted for 23% and was the only significant component isolated. This needs awareness component did not differentiate nonprofit type, a result which indicates that there are no differences among these nonprofit types with

respect to the way they relate to their primary constituents in terms of the needs awareness factor. That is, the research confirms that nonprofit organizations differ, but that their attitude to their end-users does not. In order to understand this finding it is useful to understand how the constructs which MARKOR embodies are to be utilized.

MARKOR was developed from the work of Kohli, Jaworski and Kumar who have written extensively on the types of business environments, internally and externally in which a marketing orientation is feasible or possible (Kohli et al. 1990, 1993; Jaworski et al. 1993; Kumar et al. 1993). Initially, Kohli and Jaworski (1990) believed that while a “market orientation was likely to be related to business performance in general” they hypothesized that four situations made it likely that this approach to customers would not be cost effective (limited competition, stable market preferences, technologically turbulent industries and booming economies). However follow-up research using a 32 item scale of marketing orientation containing many similar items to MARKOR, to test these concepts lead the researchers to conclude that:

“these results do not support the hypothesized moderating effects of any of the three moderator variables. In other words, the linkage between a market orientation and performance appears to be robust across contexts characterized by varying levels of market turbulence, competitive intensity, and technological turbulence.” (Jaworski and Kohli, 1993).

Thus, MARKOR is indeed a valid measure of business performance and further, the scores are considered to be a useful management diagnostic. Measures on MARKOR, they observe, “could be used to establish a baseline level of market orientation” (and) “interventions targeted to certain areas as reflected in the scale items” (Kohli, Jaworski,

Kumar, 1993). Further, they observe that “if the firm scores poorly on the degree of intelligence generation, further analyses may reveal specific areas of improvement.” These comments make clear then, that 1. the scores can be used to pinpoint exactly how a firm can improve its marketing orientation and 2. the three areas in which improvements can be made corresponding to the three components which constitute the marketing orientation construct (intelligence generation, intelligence dissemination and responsiveness).are expected to be stable across businesses.

These components were validated in a study which used MARKOR to assess the market orientation of a large group of U.S. hospitals (Raju, Lonial, Gupta 1995). The only difference in the components found in the hospital study and the earlier research with MARKOR was that the third component, responsiveness, was split into responsiveness to customers and responsiveness to competition. Further, in the discussion of the non-traditional areas such as nonprofit organizations to which it was hypothesized that MARKOR could be extended, the researchers explicitly state that they expect “the component perspective and many of the scale items (to) be transferred directly to these less mainstream areas” (Kohli, Jaworski, Kumar, 1993). Hence, the developers of MARKOR anticipate that the nonprofit context will not affect the marketing orientation components - a view which corresponds to nonprofit marketing theory as outlined in the literature review (Kotler, 1982).

However, as previously discussed, these components did not emerge from the research for this thesis. Rather, only one component emerged, a component which measured

needs awareness. The items which loaded on it did not correspond to any of the items found in the hospital study and do not have the aggressive seeking from customers of information about programs and services that the marketing orientation literature says is critical to this construct. It bears remembering that not one item which loaded on the needs awareness component involved actually asking the end-users what they wanted. Given the extensive discussion in the various articles by Kohli, Jaworski and Kumar (1990, 1993, 1993) on the multi-dimensional nature of the marketing orientation construct and the excellent response rate from the nonprofit organizations (yielding adequate power), it is hard to conclude that this component measures any marketing orientation component. In other words, the results cannot be construed⁴⁴ to mean that nonprofits are so weak in two of the three activities integral to the marketing orientation that no components were extracted. The finding means that the nonprofit context so altered the way the marketing orientation questions were answered that the scores are measuring some other construct entirely⁴⁵. Clearly, the nonprofits in this study do not relate to their members, clients and beneficiaries along the lines envisaged for business organizations.

⁴⁴ Even if such an interpretation were validated by test construction principles, which it is not. See Morris, L., Fitz-Gibbon, C. T., Lindheim, E. (1987), "How to Measure Performance and Use Tests" Sage Publications Inc. CA

⁴⁵ This is like arguing that because a group of baseball players achieved scores on a test designed to measure the ability of teachers of sign language, that their scores mean what the teachers' scores mean. As is clear, the baseball players would score those items which happened to correspond because both occupations use signs but the meaning of the scores would be quite different because the contexts are different. For this reason, the developers of tests such as the Stanford-Binet are careful to insist that only those populations on which the test were normed are proper subjects for the tests.

Nor can the results be written off as naiveté on the part of the organizations who responded: fully 95% are run by a professional manager. However, these results should not be construed as proof that these organizations do not care about their primary constituents or that they do not know what kinds of services and programs they need. What is more probable is that they are responsive to end-user issues if not end-user wants.⁴⁶ This stance has been characterized as the production orientation (Andreasen 1982, Mitchell and Haines 1987). Mitchell and Haines explicitly point out:

“The manager with a production orientation is not insensitive to the needs and wants of the customer. The production orientation is not symptomatic of managers who are uncertain of what customers need and want. It is symptomatic of managers who have a dogmatic belief in their own knowledge of what the customer wants.”

Regarding whether the marketing orientation is necessary for organizational viability, Mitchell and Haines (1987) note that not only is it perfectly possible to be successful using a production concept, particularly when there is virtually no competition, but also that the marketing concept is fundamentally weak in situations where there is an “absence of competitive threat”. Hence nonprofits who wish to deliver services effectively might well adopt a strategy which consists of determining what is right for the “customers” without doing much market research and by paying attention to what their funders want. Interestingly, nonprofits themselves do not consider that they have competitors: one respondent, commenting on the ‘business lingo’ said, “We do not have competitors, we have colleagues.”

⁴⁶ The comments voluntarily supplied by some respondents support this construct. See Appendix C for a complete list.

Comments supplied by respondents from donative entrepreneurial support a finding that the needs awareness factor is not a marketing orientation. Without exception, the respondents were salaried employees in their organizations and 75% were executive directors, presidents or chief operating officers. Yet it was not uncommon for the marketing items to elicit bantering, if not downright hostile retorts pencilled in the margins. Appendix C provides a complete list of these comments. This hostility can be traced to two sources. First, for some charities, the idea that they would need to market to their clients was a ridiculous and frivolous idea. Given the hand-to-mouth operation of many of these organizations, questions which sought answers to how many more people they had tried to attract to an already overloaded service was merely evidence of business' inability to understand the real issues.

If then the scores do not mean that a marketing orientation exists, what do they mean? It will be recalled that the scores⁴⁷ did not vary by type, indicating a common approach to the end-users by all the organizations. This finding is consistent with the concept of the nonprofit as an organization which attempts to balance off the needs of a heterogeneous group of constituents and reflects the fact the relationships in nonprofits are not directed as marketing relationships are to pleasing the end-users in order to keep them involved. Rather the relationship is directed to providing a service which on balance meets the needs that brought the end-users into the orbit of the nonprofit initially. Primary constituents of nonprofits usually do not have much real choice about their continued

⁴⁷ Because the scores relate to a component which has had no validation, it is difficult to know how to interpret any particular organization's score.

involvement and it is this lack of choice (in varying degrees) which not only explains why the results do not show that marketing occurs in relation to end-users but also why no differences among the different types are in evidence. Marketing relationships are in the final analysis about providing reasons for those with choice to stay involved.

6.3 Summary

As this thesis has shown, nonprofits are truly “crude consumer protection devices” with all of the difficulty that phrase implies. Neither fish nor fowl, they attempt to manage contexts about which society at large has reached no consensus. In an environment characterized by fractured values, these organizations provide the vital function of maintaining a situation until the political and legal framework is sufficiently established for the services to be provided in a more efficient form. While agency problems are inevitable with nonprofits - it is why they exist - those which tax the skills of managers need not be so. This study examined some of these through the diagnostic of the marketing orientation. The negative results have allowed some light to be shed on a challenging and important field of management research.

7.0 Limitations of the Research

The research was weakened by sampling issues and problems related to nomenclature. These are described below.

7.1 Sample

It was hoped that the sample from the Ottawa Chapter of the Canadian Society for Association Executives would provide cases for three of the four types of nonprofits (donative mutual, commercial mutual and commercial entrepreneurial). While this proved true, there were not enough of each type of commercial nonprofit for some analyses to be performed. This meant that any differences which exist in these organizations with regard to funding, marketing or control could not be addressed. The sampling frames used did include all types of nonprofits but a better method of sampling which generated more of the missing types may have permitted a much more adequate analysis.

In addition, the entire chapter of the Ottawa branch of CSAE can be considered a cluster with unique characteristics which will limit the generalization of results to other nonprofits of the same types but without the cluster characteristics. For instance because the sample frame is Ottawa-based, quite a number of the nonprofits in the organization are national associations which represent provincial chapters. Hence these national nonprofits may have missions and other characteristics sufficiently different from locally

based nonprofits of the same type to limit the extent to which the results can be generated.

7.2 Nomenclature

A further lack was the problem of nomenclature and the constructs which particular terms reference. In order to use MARKOR and to use it across the board for each nonprofit, it was necessary to find a term for end-users that was specific enough to make sense in each nonprofit context but still general enough for the survey questions to retain their original sense. The term “constituent” was selected. However, this is not a term that any of the organizations actually use when thinking about the end-users of the services they provide. Thus it is possible that the responses are not those which a more familiar term would elicit.

The same problem was evident in the responses to the control variables. Terms such as “community” and “member” mean different things to each type: for example charities regard the community as an extension of their supporters. It was difficult for a number of these respondents to conceive of the community as the local taxpayers. However, this was the sense given to the term by the associations. Similarly, member is a term fraught with meaning in nonprofits. Even qualifying it with the phrase “dues-paying” did not differentiate those who are nominal members from those whose fees make their membership a substantial commitment. It is quite possible that the lack of multivariate normality which affected the distribution of all the variables was affected by these language issues.

7.3 Benefits of the Research

This research is a first in four different ways. First, it simultaneously tests two theories relevant to the nonprofit sector. Second, it is the first empirical test of a central concept of nonprofit marketing theory. Third it is the first test of Hansmann's typology of nonprofits. Fourth, it is the first test of MARKOR not only in the nonprofit sector but also across the range of nonprofit types. As such, the research provides baseline empirical data about the use of the marketing orientation concept in nonprofit organizations, a concept which has been debated in the literature for at least 20 years.

This evidence is especially valuable given the increasing interest in the sector as evidenced by the CPRN roundtable last January and the just announced panel under Ed Broadbent looking at accountability of nonprofits. As the role of nonprofits expands, policy makers and government need more data and less anecdote in crafting appropriate controls and regulations for the sector. By suggesting that funders rather than end-users are the more likely targets of nonprofit marketing, the research echoes the concern of a number of groups who are concerned about the ways that nonprofits attempt to fund their programs. This issue could well change the kinds of programs that are offered and the kinds of end-users who are served. Given the role of nonprofits in shaping the economic environment, these are issues which have serious implications.

Because of the heterogeneity of the nonprofit sector and the lack of any consensus on classification, the differing impact on various types of nonprofit organizations of the

adoption of a marketing orientation was unknown. Even for firms all of whom share the profit motive, the adoption of this orientation has not been without controversy. Its implementation has required considerable organizational resources and commitment from senior levels of management without any particular guarantee of success (Kohli and Jaworski, 1990) Consequently, research into the degree to which various types of nonprofits may have implemented facets of a marketing orientation and whether there has been an impact on the mission, the products and the stakeholders had the capacity to provide valuable information for the nonprofit managers who must decide how to allocate scarce resources and how appropriate a marketing orientation would be for their agency.

An extensive literature search has failed to discover any research exploring the validity of Hansmann's categorization scheme for nonprofits - i.e. its ability to differentiate nonprofits in meaningful ways. As the literature review indicated, this lack of a validated taxonomy severely inhibits the applicability of marketing theory to nonprofits because concepts tend to be applied in a very general way without regard to the degree to which they are a good fit for any particular organization. Hence exploratory research which tested these categories was able to supply some much needed evidence.

Only one study (Raju, Lonial and Gupta 1995) was found which utilized MARKOR (Kohli Jaworski and Kumar 1993), the proposed measure of market orientation to evaluate the degree to which a sample of hospitals exhibited a marketing orientation and its relation to performance measures. These authors report a few other studies looking at the concept in hospitals but using different instruments. The only other attempt to

research the implications of applying marketing concepts to charities approached the topic from the point of view of the perceptions of the general public (Banting and Mahatoo 1986) and assessed this via focus groups. With respect to tests of the marketing concept, the developers of the scale, Kohli, Jaworski and Kumar (1993) suggest that “the most exciting measurement extensions may lie in nonprofit organizations...(and that) the component perspective and many of the scale items can be transferred directly to these less mainstream areas (p.475).” The questionnaire was developed using this scale but with the language modified where necessary. Research using the constructs underlying this scale was thought to provide evidence of the extent to which such a scale is appropriate for all types of nonprofits and the ways in which it needs to be modified.

Finally, the theoretical ramifications of the marketing concept above and beyond its measurement, on the mission and services provided had not been researched in nonprofits. Yet as the literature reveals, there is every reason to believe that Canada’s nonprofit sector will experience strains similar to those experienced in the United States in the 80’s - downloading, increased competition for resources and donors and greater disparities between those served and those not. Given that the only study on the impact of this concept on a nonprofit was U.S. based, there was real utility in researching this with Canadian nonprofits, particularly since the social safety net, largely provided by nonprofits is the way that Canadians define a large part of their national identity. The fact that the sample included four types of nonprofits enhanced its value.

For the reasons sketched above, the research was very much an exploratory study. However, very little is known about nonprofit organizations in Canada - even basic descriptive statistics are missing. Therefore, this attempt to analyze the managerial implications of the application of a business concept to the nonprofit sector has yielded useful results, however faulty.

7.4 Strengths of the Research

The study's strengths lay in its theoretical grounding and its timely topic. These are explained below.

7.4.1 Theory

The study's principal strength lay in its theoretical grounding which supplied the rationale and direction for the research. Nonprofit enterprises are not well understood, either in terms of their role in the economy in general or in the way that business theory can be usefully applied to their operations. Consequently, difficulties encountered by nonprofit managers tend to be "solved" by the application of business theory whether or not the context is the same. Gassler's theory of the economic functions of nonprofit enterprise provided a broad framework within which to situate conceptually the types of activities that nonprofit organizations carry out. That framework in turn provided a window into current nonprofit and business theory and the degree to which it permits viable management initiatives and operations in nonprofits. Hansmann's typology of nonprofits and his analysis of the issues involved with the ownership of enterprise enabled a differentiated approach to the assessment of marketing activities within these organizations. Nonprofit literature does not recognize the distinctions among nonprofits and this in turn leads to very generalized advice and conceptualizing about their central dynamics. Finally, the utilization of a field-tested measure of marketing orientation,

MARKOR, to test marketing in nonprofits removed a source of controversy i.e. whether the measure was valid and reliable, so that the central issue could be freely joined.

7.4.2 Topic

Secondarily, the topic under study was also a strength. The enthusiastic support of the executives of the two sampling frames, the United Way and the Canadian Society for Association Executives is testimony to this. In addition, the 35% response rate is also a measure of the interest of managers in the nonprofit community in a study which attempted to understand marketing in these organizations.

8.0 Contributions to Management Theory

The validation of Hansmann's typology permits a much more close-grained analysis of nonprofit organizations and the particular issues which affect each one. As governments withdraw from programs and service delivery and nonprofit organizations fill the vacuum, it is crucial that a better understanding of these organizations be developed. These organizations are par excellence the creative well-springs of research, law and social service programs and services. Yet a great deal of duplication of effort, energy and resources occurs, all areas appropriately the purview of management. An application of the typology will allow the kind of detailed assessments of the pros and cons of various strategies available to the managers of these organizations in a manner that now exists for business.

8.1 Suggestions for Further Research

Research into the following areas is discussed below: the extent of marketing to funders; the nature of the agency problems in each type of nonprofit; exploratory research into commercial nonprofit marketing; research into marketing to funders by charities and the multiplier effect of nonprofits on the economy.

8.1.1 Research into the impact of Agency problems in each type

In researching marketing in nonprofits, necessarily the researcher is investigating agency problems. Agency problems are part of the given with nonprofits. Handling them is the daily fare for nonprofit managers. Yet very little is understood about the parameters of the specific issues that occupy each type of nonprofit and what constitutes best practice. Most nonprofit managers rely on business literature to supply some of these answers. For reasons outlined elsewhere in this document, research which developed practice targeted at nonprofits would aid the manager not only with necessary information but also with validation for what is a very difficult role.

8.1.2 Exploratory Research into Commercial Nonprofit Marketing

The poor response rate from commercial nonprofits leaves a gap which still needs to be filled. Investigations into the type of marketing used by commercial nonprofits and the dividends and costs of that effort would help these organizations to weigh within a theoretical framework the likely impact of marketing. These organizations sell important services to the population but do not yet have any way to estimate the impact of “success” or “failure”. These organizations are in flux because of reductions in their funding and public discontent with their service delivery. An empirical as opposed to a political investigation of these issues would permit some much needed light on these issues.

8.1.3 Research into Marketing to Funders by Charities

As broached elsewhere in this document, the study outlined the reasons why charities do not and should not market to end-users. However charities routinely market to funders. This activity affects every community in terms of “donor fatigue”, the credibility of funding agencies such as the United Way and municipal and provincial governments, and most importantly, the provision of social services to the needy. Understanding the broader implications of the dynamic forces in play will permit an informed policy debate concerning exactly how certain services are funded and by whom. In addition, the relationship, if any between the extent to which program changes are made to conform to funders’ expectations would allow an examination of the extent to which these nonprofits are providing services desired by the broader community. Currently, nonprofit managers of charities exist in a vacuum, assured on the one hand that the services are essential yet constantly coping with threats to funding levels. Without such information, not only will necessary decisions be put off, those that are made will inevitably be geared to short-term solutions at the cost of long-term charity relief efforts.

8.1.4 The Multiplier Effect of Nonprofits on the Economy

The value of nonprofit enterprise is unrecognized in the Gross Domestic Product. The work of universities, food banks and libraries might as well not happen were this index the only one consulted. The problem is sketched out in Gassler’s (1986) theory of the economics of nonprofit enterprise but not taken to its logical conclusion: that valuing nonprofit activity would have a revolutionary effect on economic theory because it would

require that techniques be developed to evaluate the outcomes of these organizations. Further, the exact way in those outcomes are utilized as inputs into businesses and governments and the equations that express these relationships has yet to be undertaken.

A first step in this project is a study of the differential impact of nonprofit activity on the economy in times of growth and times of contraction - what the current researcher has called the multiplier effect. This needs to be understood if better, more grounded approaches to nonprofit activity are to be undertaken.

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APPENDIX A

TABLE 1

DESCRIPTIVE STATISTICS - SCORES ON MARKETING SCALE
BY TYPE OF NONPROFIT

type		Statistic		Std. Error
SUM	donative mutual	Mean	90.3778	1.5223
		Median	88.0000	
		Variance	104.286	
		Std. Deviation	10.2120	
		Minimum	74.00	
		Maximum	113.00	
		Range	39.00	
		Skewness	.492	.354
		Kurtosis	-.662	.695
	donative entrepreneurial	Mean	88.0000	1.9813
		Median	87.5000	
		Variance	125.613	
		Std. Deviation	11.2077	
		Minimum	57.00	
		Maximum	125.00	
		Range	68.00	
		Skewness	.351	.414
		Kurtosis	4.335	.809
	commercial mutual	Mean	87.1667	2.3990
		Median	86.0000	
		Variance	69.061	
		Std. Deviation	8.3103	
		Minimum	71.00	
		Maximum	102.00	
		Range	31.00	
		Skewness	.243	.637
		Kurtosis	1.129	1.232
	commercial entrepreneurial	Mean	86.6667	3.1269
		Median	86.0000	
		Variance	58.667	
		Std. Deviation	7.6594	
		Minimum	76.00	
		Maximum	99.00	
		Range	23.00	
		Skewness	.431	.845
		Kurtosis	1.152	1.741

TABLE 2
EXTREME VALUES ON MARKETING SCALE BY
TYPE OF NONPROFIT^b

type			Case		Value
SUM	donative mutual	Highest		Number	
			1	60	113.00
			2	12	110.00
			3	33	109.00
			4	53	106.00
			5	37	106.00
		Lowest	1	46	74.00
			2	72	76.00
			3	79	76.00
			4	56	77.00
			5	69	78.00
	donative entrepreneurial	Highest	1	34	125.00
			2	14	99.00
			3	5	99.00
			4	21	98.00
			5	48	98.00
		Lowest	1	59	57.00
			2	38	67.00
			3	4	78.00
			4	1	79.00
			5	86	79.00
	commercial mutual	Highest	1	24	102.00
			2	18	101.00
			3	64	90.00
			4	19	89.00
			5	52	87.00
		Lowest	1	27	71.00
			2	66	80.00
			3	71	84.00
			4	26	84.00
			5	70	^a
	commercial entrepreneurial	Highest	1	30	99.00
			2	7	90.00
			3	23	87.00
		Lowest	1	32	76.00
			2	35	83.00
			3	58	85.00

^a. Only a partial list of cases with the value \$6 are shown in the table of lower extremes.

^b. The requested number of extreme values exceeds the number of data points. A smaller number of extremes is displayed.

TABLE 3
TOTAL VARIANCE EXPLAINED - MARKETING FACTORS

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	7.334	23.657	23.657	7.334	23.657	23.657
2	2.546	8.212	31.869	2.546	8.212	31.869
3	1.791	5.778	37.647	1.791	5.778	37.647
4	1.611	5.197	42.845	1.611	5.197	42.845
5	1.518	4.896	47.741	1.518	4.896	47.741
6	1.406	4.536	52.277	1.406	4.536	52.277
7	1.321	4.260	56.536	1.321	4.260	56.536
8	1.254	4.046	60.583	1.254	4.046	60.583
9	1.102	3.555	64.137	1.102	3.555	64.137

Extraction Method: Principal Component Analysis.

TABLE 4
COMMUNALITIES

	Initial	Extraction
MARKET1	1.000	.631
MARKET10	1.000	.569
MARKET11	1.000	.647
MARKET12	1.000	.723
MARKET13	1.000	.686
MARKET14	1.000	.738
MARKET15	1.000	.711
MARKET16	1.000	.646
MARKET17	1.000	.606
MARKET18	1.000	.731
MARKET19	1.000	.711
MARKET2	1.000	.603
MARKET20	1.000	.761
MARKET21	1.000	.553
MARKET22	1.000	.625
MARKET23	1.000	.673
MARKET24	1.000	.639
MARKET25	1.000	.631
MARKET26	1.000	.655
MARKET27	1.000	.628
MARKET28	1.000	.615
MARKET29	1.000	.662
MARKET3	1.000	.531
MARKET30	1.000	.616
MARKET31	1.000	.699
MARKET4	1.000	.623
MARKET5	1.000	.551
MARKET6	1.000	.710
MARKET7	1.000	.538
MARKET8	1.000	.643
MARKET9	1.000	.524

**Extraction Method: Principal
Component Analysis.**

TABLE 5
REVISED COMPONENT
MATRIX

	Component
	1
MARKET11	.737
MARKET12	.625
MARKET15	.569
MARKET23	.551
MARKET26	.626
MARKET29	.639
MARKET31	.556

Extraction Method:
Principal Component
Analysis.

TABLE 6
DIRECTIONAL MEASURES - NEEDS AWARENESS BY GRANT

type				Value	Asymp. Std. Error ^a	Approx. T ^b	Approx. Sig.
donative mutual	Ordinal by Ordinal	Somers' d	Symmetric	.234	.095	2.437	.015
			Needs Awareness Factor				
			Dependent	.287	.118	2.437	.015
			GRANT Dependent	.198	.081	2.437	.015
donative entrepreneurial	Ordinal by Ordinal	Somers' d	Symmetric	-.074	.126	-.582	.560
			Needs Awareness Factor				
			Dependent	-.075	.128	-.582	.560
			GRANT Dependent	-.073	.125	-.582	.560
commercial mutual	Ordinal by Ordinal	Somers' d	Symmetric	-.315	.209	-1.423	.155
			Needs Awareness Factor				
			Dependent	-.412	.269	-1.423	.155
			GRANT Dependent	-.255	.179	-1.423	.155
commercial entrepreneurial	Ordinal by Ordinal	Somers' d	Symmetric	.741	.122	5.477	.000
			Needs Awareness Factor				
			Dependent	.833	.170	5.477	.000
			GRANT Dependent	.667	.122	5.477	.000

^a. Not assuming the null hypothesis.

^b. Using the asymptotic standard error assuming the null hypothesis.

TABLE 7
DIRECTIONAL MEASURES - NEEDS AWARENESS BY FEE

type				Value	Asymp. Std. Error ^a	Approx. T ^b	Approx. Sig.
donative mutual	Ordinal by Ordinal	Somers' d	Symmetric	-.196	.102	-1.930	.054
			Needs Awareness Factor Dependent	-.203	.105	-1.930	.054
			FEE Dependent	-.190	.098	-1.930	.054
donative entrepreneurial	Ordinal by Ordinal	Somers' d	Symmetric	.048	.145	.328	.743
			Needs Awareness Factor Dependent	.049	.149	.328	.743
			FEE Dependent	.046	.142	.328	.743
commercial mutual	Ordinal by Ordinal	Somers' d	Symmetric	.315	.209	1.423	.155
			Needs Awareness Factor Dependent	.412	.269	1.423	.155
			FEE Dependent	.255	.179	1.423	.155
commercial entrepreneurial	Ordinal by Ordinal	Somers' d	Symmetric	-.733	.243	-3.012	.003
			Needs Awareness Factor Dependent	-.733	.243	-3.012	.003
			FEE Dependent	-.733	.243	-3.012	.003

^a. Not assuming the null hypothesis.

^b. Using the asymptotic standard error assuming the null hypothesis.

TABLE 8
TESTS OF NORMALITY - DEPENDENT VARIABLES

	type	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
		Statistic	df	Sig.	Statistic	df	Sig.
FEE	donative mutual	.283	45	.000	.630	45	.010*
	donative entrepreneurial	.249	32	.000	.688	32	.010*
	commercial mutual	.353	11	.000	.661	11	.010*
	commercial entrepreneurial	.300	6	.097	.851	6	.198
GRANT	donative mutual	.321	45	.000	.536	45	.010*
	donative entrepreneurial	.218	32	.000	.782	32	.010*
	commercial mutual	.413	11	.000	.607	11	.010*
	commercial entrepreneurial	.322	6	.052	.662	6	.010*
Needs Awareness Factor	donative mutual	.132	45	.048	.976	45	.616
	donative entrepreneurial	.108	32	.200*	.965	32	.459
	commercial mutual	.146	11	.200*	.913	11	.330
	commercial entrepreneurial	.200	6	.200*	.928	6	.507
board from dues-paying members	donative mutual	.430	45	.000	.564	45	.010*
	donative entrepreneurial	.241	32	.000	.817	32	.010*
	commercial mutual	.464	11	.000	.444	11	.010*
	commercial entrepreneurial	.492	6	.000	.511	6	.010*
number of funding sources	donative mutual	.229	45	.000	.889	45	.010*
	donative entrepreneurial	.245	32	.000	.860	32	.010*
	commercial mutual	.240	11	.076	.896	11	.223
	commercial entrepreneurial	.333	6	.036	.819	6	.091

**. This is an upper bound of the true significance.

*. This is a lower bound of the true significance.

^a. Lilliefors Significance Correction

TABLE 9
SKEWNESS AND KURTOSIS OF PREDICTOR
VARIABLES FOR FIRST RESEARCH HYPOTHESIS

	N	Skewness		Kurtosis	
	Statistic	Statistic	Std. Error	Statistic	Std. Error
FEE	94	-.681	.249	-1.310	.493
GRANT	94	.809	.249	-1.104	.493
Needs Awareness Factor	95	.163	.247	.258	.490
number of funding sources	95	.257	.247	-.699	.490
board from dues-paying members	95	.580	.247	-1.421	.490
Valid N (listwise)	94				

TABLE 10
TEST OF HOMOGENEITY OF
VARIANCE

	Levene Statistic	df1	df2	Sig.
Needs Awareness Factor	.189	3	90	.904
GRANT	4.873	3	90	.003
FEE	1.762	3	90	.160
board from dues-paying members	1.437	3	90	.237
number of funding sources	.999	3	90	.397

TABLE 11

**BOX TEST OF
EQUALITY OF
COVARIANCE
MATRICES**

Box's	
M	83.311
F	1.406
df1	45
df2	1221
Sig.	.041

TABLE 12

MULTIVARIATE TEST RESULTS - PREDICTOR VARIABLES

	Value	F	Hypothesis df	Error df	Sig.	Eta Squared	Noncent. Parameter	Observed Power ^a
Pillai's trace	1.019	6.318	21.000	258.000	.000	.340	132.688	1.000
Wilks' lambda	.205	8.486	21.000	241.753	.000	.411	168.390	1.000
Hotelling's trace	2.858	11.252	21.000	248.000	.000	.488	236.291	1.000
Roy's largest root	2.484	30.517 ^b	7.000	86.000	.000	.713	213.618	1.000

^a. Computed using alpha = .05

^b. The statistic is an upper bound on F that yields a lower bound on the significance level.

TABLE 13A
POST HOC COMPARISONS - FIRST HYPOTHESIS VARIABLES

Tamhane

Dependent Variable	(I) type	(J) type	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
board from dues-paying members	donative mutual	donative entrepreneurial	-1.8958	.318	.000	-2.7801	-1.0115
		commercial mutual	.2121	.462	.997	-1.0278	1.4520
		commercial entrepreneurial	-2.6667	.597	.052	-5.3606	2.727E-02
	donative entrepreneurial	donative mutual	1.8958	.318	.000	1.0115	2.7801
		commercial mutual	2.1080	.480	.001	.8027	3.4132
		commercial entrepreneurial	-.7708	.611	.901	-3.4150	1.8733
	commercial mutual	donative mutual	-.2121	.462	.997	-1.4520	1.0278
		donative entrepreneurial	-2.1080	.480	.001	-3.4132	-.8027
		commercial entrepreneurial	-2.8788	.697	.031	-5.5037	-.2539
	commercial entrepreneurial	donative mutual	2.6667	.597	.052	-2.7270E-02	5.3606
		donative entrepreneurial	.7708	.611	.901	-1.8733	3.4150
		commercial mutual	2.8788	.697	.031	.2539	5.5037

Based on observed means. The error term is Error.

TABLE 13B
POST HOC COMPARISONS - FIRST HYPOTHESIS VARIABLES

Tamhane

Dependent Variable	(I) type	(J) type	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
Needs Awareness Factor	donative mutual	donative entrepreneurial	.3800545	.229	.443	-.2242248	.9843339
		commercial mutual	.3380168	.333	.941	-.7904387	1.4664723
		commercial entrepreneurial	.7680603	.430	.458	-.6954632	2.2315837
	donative entrepreneurial	donative mutual	-.3800545	.229	.443	-.9843339	.2242248
		commercial mutual	-4.2037716E-02	.346	1.000	-1.1801122	1.0960368
		commercial entrepreneurial	.3880057	.440	.937	-1.0675212	1.8435327
	commercial mutual	donative mutual	-.3380168	.333	.941	-1.4664723	.7904387
		donative entrepreneurial	4.203772E-02	.346	1.000	-1.0960368	1.1801122
		commercial entrepreneurial	.4300435	.502	.957	-1.1325514	1.9926383
	commercial entrepreneurial	donative mutual	-.7680603	.430	.458	-2.2315837	.6954632
		donative entrepreneurial	-.3880057	.440	.937	-1.8435327	1.0675212
		commercial mutual	-.4300435	.502	.957	-1.9926383	1.1325514
number of funding sources	donative mutual	donative entrepreneurial	-.8188	.242	.004	-1.4443	-.1932
		commercial mutual	-.6000	.351	.667	-1.8660	.6660
		commercial entrepreneurial	.4000	.454	.965	-1.3883	2.1883
	donative entrepreneurial	donative mutual	.8188	.242	.004	.1932	1.4443
		commercial mutual	.2188	.365	.996	-1.0567	1.4942
		commercial entrepreneurial	1.2188	.465	.220	-.5570	2.9945
	commercial mutual	donative mutual	.6000	.351	.667	-.6660	1.8660
		donative entrepreneurial	-.2188	.365	.996	-1.4942	1.0567
		commercial entrepreneurial	1.0000	.530	.520	-.8523	2.8523
	commercial entrepreneurial	donative mutual	-.4000	.454	.965	-2.1883	1.3883
		donative entrepreneurial	-1.2188	.465	.220	-2.9945	.5570
		commercial mutual	-1.0000	.530	.520	-2.8523	.8523

Based on observed means. The error term is Error.

TABLE 13C
POST HOC COMPARISONS - FIRST HYPOTHESIS VARIABLES

Tamhane

Dependent Variable	(I) type	(J) type	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
FEE	donative mutual	donative entrepreneurial	65.9264	5.570	.000	49.0834	82.7694
		commercial mutual	-3.6475	8.102	.994	-22.4216	15.1267
		commercial entrepreneurial	-4.3444	10.469	.970	-21.5973	12.9084
	donative entrepreneurial	donative mutual	-65.9264	5.570	.000	-82.7694	-49.0834
		commercial mutual	-69.5739	8.419	.000	-90.8833	-48.2644
		commercial entrepreneurial	-70.2708	10.716	.000	-89.9561	-50.5855
	commercial mutual	donative mutual	3.6475	8.102	.994	-15.1267	22.4216
		donative entrepreneurial	69.5739	8.419	.000	48.2644	90.8833
		commercial entrepreneurial	-.6970	12.225	1.000	-21.8960	20.5021
	commercial entrepreneurial	donative mutual	4.3444	10.469	.970	-12.9084	21.5973
		donative entrepreneurial	70.2708	10.716	.000	50.5855	89.9561
		commercial mutual	.6970	12.225	1.000	-20.5021	21.8960
GRANT	donative mutual	donative entrepreneurial	-64.3750	5.232	.000	-80.8327	-47.9173
		commercial mutual	4.545E-02	7.610	1.000	-16.8562	16.9471
		commercial entrepreneurial	3.7500	9.833	.961	-10.2414	17.7414
	donative entrepreneurial	donative mutual	64.3750	5.232	.000	47.9173	80.8327
		commercial mutual	64.4205	7.907	.000	44.0032	84.8377
		commercial entrepreneurial	68.1250	10.065	.000	50.0596	86.1904
	commercial mutual	donative mutual	-4.5455E-02	7.610	1.000	-16.9471	16.8562
		donative entrepreneurial	-64.4205	7.907	.000	-84.8377	-44.0032
		commercial entrepreneurial	3.7045	11.482	.992	-14.7473	22.1564
	commercial entrepreneurial	donative mutual	-3.7500	9.833	.961	-17.7414	10.2414
		donative entrepreneurial	-68.1250	10.065	.000	-86.1904	-50.0596
		commercial mutual	-3.7045	11.482	.992	-22.1564	14.7473

Based on observed means. The error term is Error.

TABLE 14
TESTS OF NORMALITY - DEPENDENT VARIABLES

	type	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
		Statistic	df	Sig.	Statistic	df	Sig.
FEE	donative mutual	.283	45	.000	.630	45	.010**
	donative entrepreneurial	.249	32	.000	.688	32	.010**
	commercial mutual	.353	11	.000	.661	11	.010**
	commercial entrepreneurial	.300	6	.097	.851	6	.198
GRANT	donative mutual	.321	45	.000	.536	45	.010**
	donative entrepreneurial	.218	32	.000	.782	32	.010**
	commercial mutual	.413	11	.000	.607	11	.010**
	commercial entrepreneurial	.322	6	.052	.662	6	.010**
number of funding sources	donative mutual	.229	45	.000	.889	45	.010**
	donative entrepreneurial	.245	32	.000	.860	32	.010**
	commercial mutual	.240	11	.076	.896	11	.223
	commercial entrepreneurial	.333	6	.036	.819	6	.091
board from dues-paying members	donative mutual	.430	45	.000	.564	45	.010**
	donative entrepreneurial	.241	32	.000	.817	32	.010**
	commercial mutual	.464	11	.000	.444	11	.010**
	commercial entrepreneurial	.492	6	.000	.511	6	.010**

** This is an upper bound of the true significance.

a. Lilliefors Significance Correction

TABLE 15
TEST RESULTS

Box's M		70.060
F	Approx.	1.898
	df1	30
	df2	1309.294
	Sig.	.002

Tests null hypothesis of equal population covariance matrices.

TABLE 16
LEVENE TEST OF EQUALITY OF ERROR VARIANCES

	F	df1	df2	Sig.
FEE	1.762	3	90	.160
GRANT	4.873	3	90	.003
board from dues-paying members	1.437	3	90	.237
number of funding sources	.999	3	90	.397

TABLE 17
LOG DETERMINANTS

type	Rank	Log Determinant
donative mutual	4	10.054
donative entrepreneurial	4	12.162
commercial mutual	4	8.352
commercial entrepreneurial	4	5.940
Pooled within-groups	4	11.141

The ranks and natural logarithms of determinants printed are those of the group covariance matrices.

TABLE 18
CLASSIFICATION RESULTS - NONPROFIT TYPES^c

		Predicted Group Membership						
		type	donative mutual	donative entrepreneurial	commercial mutual	commercial entrepreneurial	Total	
Original	Count	donative mutual	28	2	9	6	45	
		donative entrepreneurial	0	28	2	2	32	
		commercial mutual	4	0	7	1	12	
		commercial entrepreneurial	1	0	0	5	6	
		%	donative mutual	62.2	4.4	20.0	13.3	100.0
		donative entrepreneurial	.0	87.5	6.3	6.3	100.0	
		commercial mutual	33.3	.0	58.3	8.3	100.0	
		commercial entrepreneurial	16.7	.0	.0	83.3	100.0	
	Cross-validated ^a	Count	donative mutual	26	2	11	6	45
			donative entrepreneurial	1	25	3	3	32
commercial mutual			5	0	6	1	12	
commercial entrepreneurial			1	0	0	5	6	
%			donative mutual	57.8	4.4	24.4	13.3	100.0
		donative entrepreneurial	3.1	78.1	9.4	9.4	100.0	
		commercial mutual	41.7	.0	50.0	8.3	100.0	
		commercial entrepreneurial	16.7	.0	.0	83.3	100.0	

^a Cross validation is done only for those cases in the analysis. In cross validation, each case is classified by the functions derived from all cases other than that case.

^b 71.6% of original grouped cases correctly classified.

^c 65.3% of cross-validated grouped cases correctly classified.

FIGURE 2
DISCRIMINANT FUNCTIONS

FIGURE 3
DISCRIMINANT FUNCTIONS

FIGURE 4
DISCRIMINANT FUNCTIONS

FIGURE 5
DISCRIMINANT FUNCTIONS
COMMERCIAL ENTREPRENEURIAL

FIGURE 6
DISCRIMINANT FUNCTIONS
MAP OF FOUR TYPES

APPENDIX B

Nonprofit Marketing Survey

You and your organization

The following few questions are designed to let us understand you and your organization better.

1. The name of our organization is: _____

2. Our organization is (please select one):

Unincorporated Nonprofit _____

Registered Incorporated Nonprofit _____

Registered Incorporated Charitable Organization _____

Other (please identify) _____

3. My position in the organization is: _____

4. Our mission and mandate is: _____

(If you prefer, enclose a copy of your mission and mandate).

Nonprofit Constituencies

Nonprofit organizations usually have a number of constituencies - groups whom they serve or for whom they provide services. These constituencies can include government departments or individuals and go by a variety of names, for instance client or member. Typically each nonprofit uses particular names to refer to its constituents. The list below gives some examples.

Some Examples of Nonprofit Constituencies

clients/customers/patients

donors, patrons, members, students

volunteers

government departments

professionals (teachers, doctors, social workers etc.)

provincial organizations/affiliates

Your Constituents

This question asks you **first** to identify **all** constituencies that are **served by you**. **Second**, it asks you to **check** if they are **primary** constituents - people for whom you develop programs and services or **secondary** constituents - people who fund these services or whom you consider to have a special interest, beyond that of the general public, in seeing the services delivered.

Names of Constituents whom you Serve	Primary	Secondary

How Your Organization is Controlled

The next set of questions ask you about the sources of control in your organization. In each case, you are asked to indicate how strongly you agree with the statement, by circling the appropriate number.

	Strongly Agree			Strongly Disagree	
1. The board of directors of our organization is selected only from the primary constituents	1	2	3	4	5
2. The board of directors of our organization is selected only from dues-paying members.	1	2	3	4	5
3. The board of directors of our organization is selected only from the community at large.	1	2	3	4	5
4. The board of directors of our organization is selected partly from the membership and partly from the community at large.	1	2	3	4	5
5. The day-to-day management of our organization is handled by a full-time, salaried manager.	1	2	3	4	5

Sources of Funding

Nonprofits must usually fund their programs and services from a variety of sources. This question asks you to check off in the **first** column all the sources of income **utilized** by your organization and in the **second**, to estimate what **percent of the total** funds is supplied by each source. Lastly, you are asked to estimate in the **third** column, the **percent** of funding supplied by these sources **five** years ago.

Source of Funding	Utilized by You	Percent of Total Now	Percent 5 Years Ago
Bequests			
Corporate Donations			
Fees for Products and Services			
Foundations			
Fundraising			
Funds from Head Office			
Government Contracts			
Government Contributions			
Government Grants			
Interest			
Investments			
Membership Fees			
Other (list)			

Organizational Change

The next questions ask you about changes your organization may have experienced over the past five years. As before, please indicate how strongly you agree with the statement by circling the number which most closely reflects your opinion.

	Strongly Agree					Strongly Disagree				
	1	2	3	4	5					
1. Over the past five years, the characteristics of our primary constituents have become more similar.										
2. Over the past five years, the characteristics of our primary constituents have stayed the same.										
3. Over the past five years, our organization has been able to meet the actual needs of our primary constituents.										

	Strongly Agree			Strongly Disagree	
4. In the past five years, our programs and services have changed to suit the requirements of funding sources.	1	2	3	4	5
5. In the past five years, the type of constituents we serve has changed to suit the requirements of funding sources.	1	2	3	4	5
6. In the past five years, our focus and mission has changed to suit the availability of funding sources.	1	2	3	4	5
7. In the past five years, the autonomy of our organization has changed in response to the need to adapt to funding sources.	1	2	3	4	5

Your Organization and Your Constituents

The last set of questions ask you about the way your organization responds to your **primary** constituents. As before, please circle the number which shows how strongly you agree or disagree with the statement.

	Strongly Agree			Strongly Disagree	
1. Our organization has competitors which offer similar programs and services.	1	2	3	4	5
2. In our organization we consult with primary constituents at least once a year to find out what programs and services they will <u>need</u> in the future.	1	2	3	4	5
3. We survey constituents at least once a year to assess the <u>quality</u> of our programs and services.	1	2	3	4	5
4. Individuals involved in our programs/services interact directly with our constituents to learn how to serve them better.	1	2	3	4	5
5. In our organization we do a lot of formal in-house market research.	1	2	3	4	5
6. We are slow to detect changes in our constituents' program/service preferences.	1	2	3	4	5
7. We often talk with or survey those who can influence our constituents' choices.	1	2	3	4	5
8. We collect industry information through informal means (e.g. lunch with friends in similar organizations).	1	2	3	4	5

	Strongly Agree			Strongly Disagree	
9. We are slow to detect fundamental shifts in the environment for our organizations (e.g. competition, regulations, demographics, technology).	1	2	3	4	5
10. We periodically review the likely effect of changes in our service environment (e.g. regulation) on constituents.	1	2	3	4	5
11. At least once a quarter, we meet to discuss market trends and developments.	1	2	3	4	5
12. We integrate marketing and program development issues when discussing constituents' future needs.	1	2	3	4	5
13. We periodically circulate documents (e.g. reports, newsletters) internally that provide information on our constituents.	1	2	3	4	5
14. When something important happens to a major constituency or market, everybody in the organization knows about it in a short period.	1	2	3	4	5
15. Data on constituents' satisfaction are disseminated at all levels in the organization on a regular basis.	1	2	3	4	5
16. There is minimal interaction between marketing and program/service delivery concerning market developments.	1	2	3	4	5
17. Key personnel (or departments) in our organization are slow to alert other key persons or departments when they find out something important about competitors.	1	2	3	4	5
18. It takes us forever to decide how to respond to our competitors' service changes.	1	2	3	4	5
19. Principles of market segmentation drive new service development efforts in this organization.	1	2	3	4	5
20. For one reason or another, we tend to ignore changes in our constituents' program or service needs.	1	2	3	4	5
21. We periodically review our program/service development efforts to ensure that they are in line with what our constituents want.	1	2	3	4	5

	Strongly Agree			Strongly Disagree	
22. Our business plans are driven more by the availability of resources than market research.	1	2	3	4	5
23. Several departments or facets of our organization get together periodically to plan a response to changes taking place in our service environment.	1	2	3	4	5
24. The programs/services we offer depend more on internal politics than real market needs.	1	2	3	4	5
25. If a major competitor were to launch an intensive campaign targeted at our constituents, we would implement a response immediately.	1	2	3	4	5
26. The activities of the different departments or key personnel in this organization are well co-ordinated.	1	2	3	4	5
27. Constituents' complaints fall on deaf ears in this organization.	1	2	3	4	5
28. Even if we came up with a great marketing plan, we probably would not be able to implement it in a timely fashion.	1	2	3	4	5
29. We are quick to respond to significant changes in our competitors' service structure.	1	2	3	4	5
30. When we find out that our constituents are unhappy with the quality of our service, we take corrective action immediately.	1	2	3	4	5
31. When we find that our constituents would like us to modify a program or a service, the departments or people involved make concerted efforts to do so.	1	2	3	4	5

APPENDIX C

Unsolicited Comments Provided by Respondents to Marketing Questions¹

Responses to Specific Questions

Question 1. Our organization has competitors which offer similar programs and services.

- disagree with terminology
- negative to view nonprofit sector as having competitors
- they are colleagues
- not in competition
- language?

*Question 2. In our organization we consult with **primary** constituents at least once a year to find out what programs and services they will need in the future.*

- we should!

Question 11. At least once a quarter, we meet to discuss market trends and developments.

- as we define that term

Question 12. We integrate marketing and program development issues when discussing constituents' future needs.

- not applicable
- there is no marketing
- we have too many clients without marketing

Question 19. Principles of market segmentation drive new service development efforts in this organization.

- not applicable

Question 22. Our business plans are driven more by the availability of resources than market research.

- we have been fortunate so far

Question 25. If a major competitor were to launch an intensive campaign targeted at our constituents, we would implement a response immediately.

- oh come on

Question 30. When we find out that our constituents are unhappy with the quality of our service, we take corrective action immediately.

- if legitimate

Question 31. When we find that our constituents would like us to modify a program or a service, the departments or people involved make concerted efforts to do so.

¹ Respondents comments are in bold

-if necessary

Responses to the set of Questions

- questions bizarre**
- do you really think we are going to tell you we are not serving our clients?**
- must shape creative solutions from funding limitations and need of community**
 - anything else totally incompetent**
- try rewriting this without the business lingo**
- community training program is customer and needs driven**

IMAGE EVALUATION TEST TARGET (QA-3)

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