Market Orientation and Organizational Performance in Not-for-Profit Hospitals

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This study explores market orientation in the not-for-profit hospital setting. The authors hypothesize a positive relationship between market orientation and four organizational factors, including professional commitment, professional education, and professional ethics of the senior management team, and organizational entrepreneurship, and three environmental factors, including perceptions of two states of competition and the state of demand. The study also examines the relationship between market orientation and hospital performance. Data from 237 top hospital administrators are used to empirically test the hypothesized relationships. Results provide evidence of a positive association between market orientation and both the professional commitment of the senior management team and organizational entrepreneurship. Furthermore, the study provides strong support for the relationship between market orientation and hospital performance. J BUSN RES 2000. 48.213–226. *© 2000 Elsevier Science Inc. All rights reserved.*

Market orientation is the organization-wide generation of market intelligence, dissemination of market intelligence across departments, and the organization-wide responsiveness to market intelligence (Kohli and Jaworski, 1990). The benefits of having a market orientation are pronounced in numerous scholarly papers, textbooks, and speeches (Kotler, 1988; Webster, 1988). High market orientation has been linked to higher business performance (Jaworski and Kohli, 1993; Narver and Slater, 1990). Simply stated, market orientation is theorized to be the central construct behind successful modern marketing management and strategy.

A body of empirical work on the topic of market orientation also is emerging. Researchers have focused on modeling the antecedents and consequences of market orientation, and developing a valid measure of the construct to test its effect on organizational performance (Jaworski and Kohli, 1993; Kohli, Jaworski, and Kumar, 1993; Narver and Slater, 1990; Siguaw, Brown, and Widing, 1994; Slater and Narver, 1994). Previous research, however, has several limitations. First, most studies used strategic business units (SBUs) of a few select corporations, particularly for-profit business corporations, as the unit of analysis. Although such settings provide valuable insights, the robustness of any model of market orientation should be studied using other organization types, specifically not-for-profit organizations (see calls for research by Kohli, Jaworski, and Kumar, 1993; Narver and Slater, 1990). Second, only one study (Jaworski and Kohli, 1993) tested the influence of antecedents on market orientation. The role of additional influences on market orientation within organizations needs to be investigated (Hambrick, 1987; Jaworski and Kohli, 1993; Siguaw, Brown, and Widing, 1994). Third, only two studies (Kohli, Jaworski, and Kumar, 1993; Narver and Slater, 1990) attempted to develop valid measures of market orientation systematically, with limited results. Narver and Slater's (1990) measure of market orientation was criticized for its narrow focus and inclusion of items that did not reflect specific activities and behaviors representing market orientation (Kohli, Jaworski, and Kumar, 1993). Similarly, realizing the psychometric shortcomings and the pragmatic limitations of their own scale of market orientation, Kohli, Jaworski, and Kumar (1993) strongly recommend additional and substantive attention be paid to market orientation. They suggest that the most promising applications of the measure may lie with not-for-profit organizations (p. 475).

As many practitioners will testify, the current environment confronting not-for-profit organizations is challenging. There is increasing demand for services (Kotler and Andreasen, 1991), pressure from the for-profit sector to curtail tax exempt

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status and other privileges (Unterman and Davis, 1984; Mason, 1984; Hodgkinson, 1989), enhanced competition among not-for-profits for privately contributed revenues (Schwartz, 1989), and significant shortages of professionally trained and experienced personnel (Wolf, 1984; Cruickshank, 1989). Faced with these conditions, not-for-profit hospitals are seeking ways to survive, to remain viable, and to grow in today's business environment. Although many specific suggestions have been offered to address these challenges, a number of authors have called for a broader approach, including a model of market orientation in not-for-profit organizations. Indeed, a number of calls have been made for this type of research specifically focusing on not-for-profit hospitals (Hansler, 1988; Wood and Bhuian, 1993).

This study is guided by these and other calls and critiques. Its results contribute to our over-all knowledge of market orientation by extending a host of earlier studies (e.g., Carbone, 1990; Hambrick, 1987; Hambrick, Fredrickson, Korn, and Ferry, 1989; Hansler, 1988; Kohli and Jaworski, 1990; Kotler and Andreasen, 1991; Morris and Paul, 1987; Narver and Slater, 1990; Wood and Bhuian, 1993). Specifically, the research reported here: (1) develops a model describing the relationships between market orientation, its antecedents, and resulting organizational performance (consequences); (2) tests the model by empirically examining eight specific hypotheses concerning the antecedents and consequences of market orientation; and (3) presents the results and implications for managers and researchers seeking prescriptive advice for improving organizational performance. The focus is on not-for-profit hospitals, addressing the call for more research focused in this area.

Background: The Model

In recent years, academicians and practitioners alike have increasingly focused on market orientation and the factors that engender this orientation in organizations. Narver and Slater (1990) and Jaworski and Kohli (1993) note that market orientation always has been of interest to individuals responsible for attaining higher organizational performance. Figure 1 displays the hypothesized model. It is outlined in the following pages.

Market Orientation

In an attempt to achieve both definitional precision and theoretical integration, Kohli and Jaworski (1990) described market orientation as the organization-wide generation and dissemination of, and responsiveness to, market intelligence. Market intelligence generation includes four distinct notions, including: (1) gathering, monitoring, and analyzing information pertaining to the current and future needs of customers; (2) monitoring and analyzing exogenous factors outside the industry that influence the current and future needs of customers (e.g., government regulations, technology, the general economy, and other environmental forces); (3) monitoring and analyzing competitive actions that influence the current and future needs of customers; and (4) gathering and monitoring market intelligence through both formal and informal means (Day and Wensley, 1983; Houston, 1986; Kohli and Jaworski, 1990). Market intelligence dissemination has two distinct aspects, including: (1) sharing both existing and anticipated information throughout the organization (i.e., ensuring vertical and horizontal flows of information within and between departments) concerning: the current and future needs of customers, exogenous factors, and competition; and (2) ensuring effective use of disseminated information by encouraging all departments and personnel to share information concerning the current and future needs of customers, exogenous factors, and competitors (Jaworski and Kohli, 1993; Slater and Narver, 1994). Market intelligence responsiveness entails three distinct activities, including: (1) developing, designing, implementing, and altering goods and services (tangibles and intangibles) in response to the current and future needs of customers; (2) developing, designing, implementing, and altering systems to promote, distribute, and price goods and services that respond to the current and future needs of customers; and (3) utilizing market segmentation, product differentiation, and other marketing strategies in the development, design, implementation, and alteration of goods and services and their corresponding systems of promotion, distribution, and pricing (Kohli, Jaworski, and Kumar, 1993; Narver and Slater, 1990). The domain and key elements of market orientation are summarized in Figure 2.

Antecedents to Market Orientation

Several theoretical studies have explored possible antecedents to market orientation (e.g., Kohli and Jaworski, 1990; Wood and Bhuian, 1993). As displayed in Figure 1, this study proposes that the degree of market orientation in an organization depends on seven major antecedents: (1) professional commitment of the senior management team; (2) professional education of the senior management team; (3) professional ethics of the senior management team; (4) organizational entrepreneurship; (5) perception of the presence and intensity of the competition; (6) perception of the competition as a threat; and (7) perception of demand as under and/or over the capacity of the organization to serve. In turn, the degree of market orientation directly influences organizational performance. A discussion of the seven major antecedents follows.

The *professional commitment of the senior management team* is a primary dimension of professionalism (Bartol, 1979; Carbone, 1990; Hall, 1968; Moncrief and Bush, 1988; Wood and Bhuian, 1993). It refers to the individual's dedication to a career and desire to remain with a particular profession, given opportunities to change professions. Several authors have suggested that professionalism of senior management teams is a key factor in developing a customer orientation and subsequently achieving greater organizational success (Drucker,