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Postprint

This is the accepted version of a paper presented at *Second International Conference on Emerging Research Paradigms in Business and Social Sciences (ERPSS 2013), Dubai, UAE, 26-28 November 2013.*

Citation for the original published paper:

Hyder, A. (2013)

Market orientation in non-profit organization.

In: *Proceedings of the Second International Conference on Emerging Research Paradigms in Business and Social Sciences (ERPSS 2013)*

N.B. When citing this work, cite the original published paper.

Permanent link to this version:

<http://urn.kb.se/resolve?urn=urn:nbn:se:hig:diva-17558>

Paper presented at
“Emerging Research Paradigms in Business & Social Research
26-28 November, 2013, Dubai, UAE

MARKET ORIENTATION IN NON-PROFIT ORGANIZATION

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Word length of the paper: 5775 words excluding abstract/ 20 pages including abstract,
tables, figures and references

Abstract

This study deals with market orientation and performance of an interest-free non-profit European bank. The research shows that creation of market orientation does not only depend on the organizational effectiveness but also how well the organization develops trust and network with the environment. A qualitative method has been used for data collection. Major actors have been interviewed face-to-face and on telephone. Complementary information came through e-mails, printed booklet, bank's newsletters and members' survey. Network and trust are found to be the major antecedents for ensuring market orientation and good performance in the bank. Ideology plays an important role and is communicated through workshops, community dialogs, informal contacts and small sized conferences. Members and customers who are the target groups may have different goals with varied superior values. This research work offers an understanding how a non-profit bank develops network and trust to ensure effective market orientation and good performance. The managers need to differentiate between members and customers when making their market plans. A classification of the values can be a good starting point to identify and satisfy the needs of the target groups. This study addresses social aspects relating to economic freedom, democracy and ecological development. This paper offers a rare insight of a European bank which exclusively operates interest-free and run its non-profit business with ideological values.

Keywords – Ideology, Trust, Network, Members, social marketing, Superior value,

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1. Introduction

This study deals with market orientation and performance in a special category of non-profit organization (NPO). One of the pioneers advocating application of marketing concepts in non-profit business is Kotler (1979) who very early recognized that marketing was seen as a threat by the non-profit sector. Padanyi and Gainer (2004) claim that market orientation is directly applicable to this sector. Although the non-profit sector has been under rapid growth in recent years (Zhao et al. 2010), use of market orientation has not been popular in NPOs. About 24 years ago, Drucker (1989) made it clear that non-profit organizations do not base their strategy on money as corporate executives do rather they start with the performance of their mission. It implies that message needs to reach the target.

Bhagat (2004), cited in Zhao et al. 2010, claims that the traditional non-profit marketing model does not work because non-profit organizations are not professional in targeting and satisfying their customers. Dolnicar and Lazarevski (2009) have shown that many NPOs still demonstrate a distinct lack of understanding of what the principles of marketing are and largely focus their efforts on sales and promotion. However, NPOs are experiencing increasing pressure to be more business-like and to focus on financial outcomes for sustainability and growth (McDonald, 2011). Through an empirical study, Andreasen and Kotler (2003) argue that NPOs have false belief that their products or services are needed by the market. There is a gap in thinking and practice between NPOs and for-profit organizations, which suggests that marketing in NPOs needs to be highlighted both in respect with conceptualization and realization of the marketing intents.

To focus on the implementation of marketing concept, Kohli and Jaworski (1990) have introduced market orientation (MO). They claim that a market-oriented organization is one in which the three pillars of the marketing concept (customer focus, coordinated marketing, profitability) are operationally manifest. Market orientation emphasizes the attainment of competitive advantages based on the correct identification of customer needs (Vázquez et al., 2002). The initial empirical works on MO have been conducted by Narver and Slater (1990) and Jaworski and Kohli (1993). Using a sample of 140 business units consisting of commodity product businesses and non-commodity business, Narver and Slater have found a substantial positive effect of MO on the profitability of both types of businesses. The findings of the other work mainly suggest that MO is related to overall business performance and employees' organizational commitments.

Some authors have studied different aspects of MO in NPOs. For example, Wood et al. (2000) focused on MO in relation to organizational performance, Vázquez et al., (2002) examined MO in connection to social services, and Marcedo and Pinho (2006) studied MO's relationship with resource dependence. These issues are further discussed later on. Vázquez et al., (2002) argue that studies on MO will help meet the real needs of the organizations' beneficiaries, and the expectations created by the resource donors with their contributions. But relatively little is known about the extent to which this construct has been applied effectively in NPOs (Zhou et al., 2009). This paper fills this gap by discussing how JAK, a non-profit bank, applies MO to provide superior value to the customers and members.

JAK is a Swedish cooperative bank which strictly follows the members' ideology to operate. It has been operating since 1970 and became a full-fledged bank in 1997. JAK customers need to be members of the bank but the members do not require to be the customers of the bank. A typical NPO has main obligations to two stakeholders i.e. donors and beneficiaries but in JAK there is no donor or beneficiary. JAK is run professionally like any other for-profit organization because it must meet the requirements of the customers. Further it needs to fulfil the ideology-based expectations of the members who own the organization. Dickinson-Delaporte et al. (2010) termed NPOs as hybrid firms which act commercially to pursue social agendas and have to deal with competing stakeholder interests. Thus, more specifically, this study addresses the following research questions:

- How does NPO combine its roles to pursue social agendas and to compete with other firms under the same market condition?
- How does NPO apply MO to offer superior value to its customers and members of the organization?

2. Market Orientation

Development of MO has broadly passed through different stages, first in connection with marketing concept (Kotler, 1979), then describing firms as “market oriented” (Shapiro, 1988) and finally the works of Kholi and Jaworski (1990) and Narver and Slater (1990) specifying different features of the MO. Based on the two later studies a lot of research works has been conducted in different areas including non-profit organizations (Wood et al. 2000), inter-firm network (Elg, 2008), performance (Kumar et al. 2011), new product development (Gatignon and Xuereb, 1997) and industrial marketing (Zhao and Cavusgil, 2006; Elg, 2002). Indeed, MO can be seen as how successful an organization is in actualizing the marketing concept (Liao, 2011).

Kholi and Jaworski (1990) have made a valuable theoretical contribution by conceptualizing MO. According to them, “market orientation is the organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments and organization-wide responsiveness to it (p.7)”. The focus is on the internal organization and how effectively it collects information and communicates and responds on the market intelligence to fulfil customer needs. Shapiro (1988) argues that MO is not only to come closer to the customers but also to fulfil their needs.

Narver and Slater (1990) describe MO in terms of three behavioural components – customer orientation, competitor orientation and inter-functional coordination and two decision criteria – long-term focus and profitability to give superior value to customers. This view is not in conflict with Kholi and Jaworski (1990) rather they complement each other. In both the studies, profits are perceived as a component of MO but Kholi and Jaworski view profitability as a consequence of MO whereas the other study treats it as an objective of a business. According to the literature, MO represents superior skills in

understanding and satisfying customers (Day, 1994). Thus, MO is the generation and dissemination of market intelligence and responsiveness to it for creating superior customer value.

A large number of studies have examined the link between MO and performance (Day, 1994). Like Kholi and Jaworski (1990) and Narver and Slater (1990), Kumar et al (2011) have found support for the assertion that MO has a positive impact on performance. However, MO affects performance either by providing a customer oriented focus or reshaping an organization's culture for developing superior value for customers (Liao et al. (2011)). The later approach is more justified as the goal is not only to be customer oriented but also to provide superior value to customers for gaining competitive advantage. Connor (2007), for example, has criticized the view of being customer oriented as it focuses on short-term goal (for example, profitability) and therefore can make a firm incapable to understand the changes in the market. In their literature survey, Liao et al. (2011) have found that MO can have direct and indirect impact on performance. Kumar et al. (2011) recognize that MO is vital to an organization because it helps assess the constraints and opportunities created by the environment. Industrial marketing researchers followed this line and successfully incorporated network and trust in MO discussion (Elg, 2002, 2008; Zhao and cavusgil, 2006).

3. Market Orientation in Non-profit Organization

Through a cross-sectional study, Macedo and Pinho (2006) have examined the relationship between resource dependence theory and MO, and found the appropriateness of resource dependence as an important theoretical tool for understanding MO strategies within the NPO sector. Compared to general MO research which targets the customers, this study addresses two stakeholder categories, i.e. members and customers. This approach is necessary as NPOs need to influence donors to raise fund and find the right customers they like to serve (González et al. 2002).

By using MO measurement scale in their empirical study, Vázquez et al. (2002) have found positive effect of MO on the non-profit outcomes and on the fulfillment of the organizations' missions. NPOs focus on other issues than profitability because for these

organizations, survival and fulfilling missions are very important. Wood et al. (2000) recognize that non-profit hospitals seek to survive, to remain viable and to grow in today's business environment. Padanyi and Gainer (2004) also see that implementation of MO appears to have different benefits in the non-profit and for-profit sectors. But it does not mean that growth in the financial resources and financial stability are not important for NPOs. They really suggest that growth in the financial resources and stability are the reward for management practices directed towards mission-based performance outcomes. MO can significantly increase the effectiveness of NPOs in achieving their mission (Dolnicar and Lazarevski, 2009). Thus knowing missions of the NPOs are important in understanding and implementing of MO in these organizations.

Salamon (1997) argues that NPOs create and sustain "social capital" which needs to be based on the bonds of trust and reciprocity, are vital for a democratic society and a market economy to function effectively. It means that the donors who contribute financial resources need to have trust on the organization that money goes to the target beneficiaries. We assume that two types of trust are applicable in case of JAK: it must gain trust from the customers for its banking service and trust is related to the fulfilment of missions set by the members.

A private non-profit organization's MO, as a philosophy of integral management, demands the adaptation of a particular form of conceiving the relationship of exchange (Gonzalez al. 2002). Wood (2012) argues that for social organizations, change of behaviour and relationships are important that involves upstream, downstream and across shareholders and organizational sectors. Social marketing is a process that applies marketing principles and techniques to influence target audience behaviours that benefit society as well as individual (Wymer, 2011). From this perspective JAK Bank is also a social organization because its mission is to offer interest-free banking and thus to help the society by changing the attitude of the people. JAK website also describes it as a social movement which combines economic and democratic processes. In the next section we will build our theoretical framework from the concept of market intelligence (Kholi and Jaworski, 1990) as how it is generated and effectively applied within the organization by creating trust and link with its environment.

4. Theoretical Framework

If the starting point of MO is market intelligence (Kohli and Jaworski, 1990), then end of the process is the attainment of superior value to the customer (Narver and Slater, 1990). Both studies discuss marketing effectiveness of the internal organization and emphasize customer and coordinated marketing so that superior value to target customers can be delivered. Slater and Narver (1998) have described MO as a form of business culture which is also relevant in NPO. To work for the ideologies and gain members' trust, it is necessary for a NPO to develop strong culture which can be spontaneously recognized by its customers and well-wishers. However, the challenge for a NPO is to keep its ideology and effectively communicate the marketing intelligence both internally and externally. Wood et al. (2000) recognize the link with environment significant in MO for non-profit organizations. For this study, we borrow the concepts "trust" and "network" from the industrial marketing and integrate them in the theoretical framework (Figure 1). Further in line with Elg (2008) and Zhao and Cavusgil (2006), we argue that MO does not directly lead to the superior value but is moderated by trust and network.

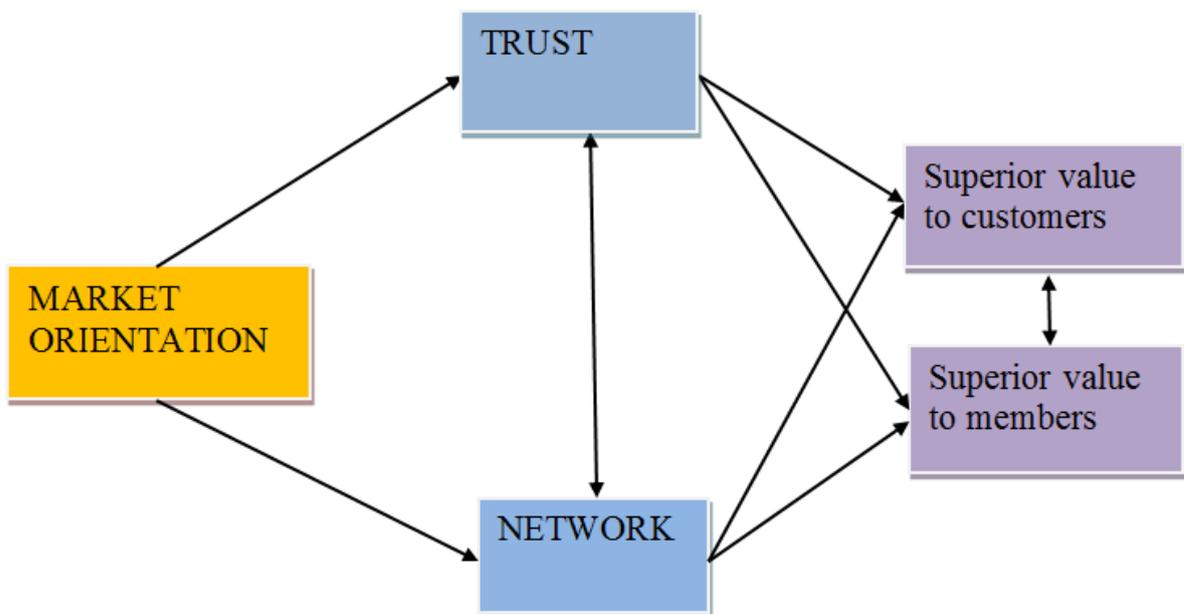


Fig. 1

A Conceptual framework of market orientation for non-profit organization

Wood et al. (2000) have offered a useful interpretation of market intelligence relating to its generation, dissemination and responsiveness. Market intelligence generation entails gathering, monitoring and analysing information pertaining to customers and environmental factors while market intelligence dissemination means sharing of information about customers and environmental factors. Responsiveness, the last dimension of market orientation, involves planning and implementation of marketing programs (Macedo and Pinho, 2006).

In marketing context, the presence of trust implies a firm's belief that the other party not only will perform actions resulting in positive outcomes for the firm but also will not take unexpected actions resulting in negative outcomes for the firm (Anderson and Narus, 1990; Zhao and Cavusgil, 2006). A firm's adoption of trusting behaviours will minimize the threat of opportunism (Zhao and Cavusgil, 2006) and this is particularly needed when donors/members and customers interact within the framework of non-profit organization. A high level of trust is likely to make the parties more receptive to collaborating marketing activities such as the sharing of information (Elg, 2008). Thus marketing intelligence is empowered by trust which can give customers and members a feeling that they are sincerely and trustfully served and ideologies are not marginalized.

The term "network" refers to a set of nodes and relationships that connect them (Ojasalo, 2004). Networking is particularly significant for non-profit organizations like JAK as they have to satisfy their customers and members by responding conflicting interests of social, political and economic nature. Ritter *et al.* (2004) recognize that firms are embedded in a network of on-going business and non-business relationships that both enable and constraint the firm's performance. Elg (2008) has shown that the systematic management of relationships with customers and suppliers is a necessary requirement if inter-firm MO is to become a source of competitive advantage. Resources are an important network element which make firms working efficiently and get involved in exchange relationships so that critical resources can be acquired. Resource acquisition is also growing in importance in NPOs as government funding declines and as competition for both available funds and qualified personnel increases (Padanyi and Gainer, 2004).

5. Methodology

This is an explorative research because it highlights a special category of NPO and further examines for the first time MO in this organizational setting. Explorative approach is helpful for understanding and theory building (Eisenhardt and Graebner, 2007; Elg et al., 2008) which the current study also deals with. A case study mainly was found relevant. According to Gummesson (2005), case study research is systematic and holistic.

Ideology and justice have been two basic conditions to establish JAK members' bank. It was therefore necessary to go back to the history of the bank to understand how it has developed from a member organization to a bank. For interviews, a relevant way was to use highly knowledgeable informants who viewed the establishment and development of JAK (Eisenhard and Graebner, 2007). The person who had been directly involved in the transformation process was the first managing direct (MD) of JAK during 1993 and 2003. This former MD was interviewed along with the president and other employees of the bank. The current MD who was previously in charge of IT, has worked as MD around seven years, was also interviewed. The MD has been asked to advise the names of the persons for possible interviews. As JAK functions through a country wide network, many of the interviewees work from distant places. The MD therefore personally called these people first before they have been contacted for interview. In this kind of distant organization, right reference is necessary to identify and reach the right people for interviews.

We tried to collect reflections from different groups of people attached to the bank. Therefore, it was not only the bank officials, even elected members dealing with ethical and strategy issues were included in the interview list. Each interview took between one to three hours. Ten people had been interviewed, two of them twice. All interviews were tape recorded. One of the interviewees took part in a conference on the earlier version of the paper and came up with useful comments. Further to this purposeful selection of the interviewees, an extensive use of secondary sources which includes company folders, quarterly magazines, minutes of board of directors meetings, member surveys and observation of the banking process helped triangulation of the data to check the accuracy of information both from historical and current perspectives (Miles and Huberman, 1994).

For analysis data has been discussed and interpreted in relation to trust and network as the antecedents of MO for gaining superior value to the customers.

6. Findings

JAK with 38000 members, offers services to the members who can also be customers of the bank. It operates through internet and telephone banking throughout Sweden. JAK has two main functions: (1) to provide members with interest-free savings and loans and (2) to spread information about interest-free economy, not only in Sweden but also in the rest of the world. It is described according to its website (2012) as “an economic association owned by its members, as an important part in the grassroots movement in Sweden, seeking to change the conditions of the economy and as a well working example of a financing system built upon cooperation than competition (p.1)”.

6.1 Market intelligence

Education program is a central issue for the bank, and members, who are interested, could be educated as ideal informers for JAK. To secure participation and exchange of views, it organizes JAK schools twice a year where interested members take part. During the school, JAK officials describe the bank’s operational activities and discuss issues which participants find relevant to take up. Usually the members who take part in two days schooling at the bank’s head office, become unpaid ambassadors who take the idea to the different parts of the country. JAK website (2012) describes its market intelligence in the following way:

On the external level we see how well prepared members are best ambassadors of JAK. Members who understand how JAK works and who have reflected on why they like JAK. For them it is natural to talk about JAK to their friends, family, colleagues, neighbours, etc. In that way JAK grows in size (p.1).

Like other banks JAK sells its ideas and wants that more people borrow and save with it. But it also wants, different from the traditional banks, that the people will understand the role of people’s education in marketing its ideas. It does not talk in terms of marketing but

it wants to sell the ideas both to increase the number of members and also customers using its banking services. The MD formulates:

We do some advertisement in the newspapers for giving some information but this is not their way to reach the target market. We believe in relationship marketing and interaction, and discourage one way communication. People must understand what we are saying not only what we are selling.

The technique of marketing varies as there is no “mainstream-way” to propagate for JAK. The members voluntarily do many of the activities on their own, for example they can be active on the markets, exhibitions, shows, informant meetings discussing JAK values and selling the ideas. JAK supports these activities by supplying books, folders and other related materials. Informant meetings are directed both to the new members and also to the people who are primarily interested in interest-free economy and ecological sustainability. Along with the selling ideas, information is given to the members how the banking system functions. It is not only the purpose that only number of members increases but more people save and borrow from the bank so that JAK can contribute to many people’s economic situation. JAK on its website has described with examples how savings, point earnings, borrowing, amortization of loan take place but it is not always easy for the customers to understand the whole system. Difficulty arises for two reasons: (1) the system is totally different from the traditional banking and (2) all transactions are made on distance. JAK bank officials therefore attend local district meetings to explain the basic principles of the banking system.

In 2012, JAK conducted one member survey on general satisfaction by the help of an independent statistical bureau. The study did not differentiate between members and members-come-customers. The survey showed that the respondents were largely satisfied by the offerings of the bank. The respondents however recognized four sensitive areas, i.e. kinds of offerings, (2) clear expectations from the bank, (3) clear terms of conditions and (4) rationality of the terms of conditions, where they were unhappy.

6.2 Network

JAK communicates with its members, customers, and other people and organizations, who have interest in JAK. This communication goes both through physical and digital modes. Networking must function as JAK operates on distance and need to satisfy members and customers, who are also members, do not usually have the same requirements. JAK Forum has been established to allow members to communicate and learn from each other. The Forum offers the members possibility to have dialog on their economic situations and find alternative solutions to their problems. JAK school brings together new ambassadors of the bank and bank employees and board of directors to exchange views. One important purposes of the annual meeting is to get ideas from the members to maintain the ideologies and improve the quality of services of the bank. The Member Director comments:

Courses and discussions at the annual meetings are highly motivated and give a feeling of being a part of a good people movement. It is all about creating a community that shares the ideology of economic justice, ecological sustainability and democracy.

The local network which is based on district organizations plays an important role for communicating JAK ideas to its members. The motivated members take active part in these organizations to spread JAK's ideology. These local organizations organize courses for local members and have also freedom to collaborate with any educational institutions, they find appropriate. Further active local organizations have an informal meeting every month to discuss JAK-related issues. Keeping contact with nature oriented organizations is an important part of JAK's network to actively support ecology friendly activities.

Recently JAK has started to develop its international contacts. There are all together 250 subscribers representing all the continents of their English bulletin. They arranged school in English by the participation of representatives from 30 countries. JAK Sweden collaborates with JAK in Denmark and JAK Italy and arranged a workshop in climate forum in Denmark, 2009. JAK do not have any intention to open branch in other country but it wants to help other nationals establish similar interest-free economic organizations and banks. JAK regularly arranges special seminars for foreigners interested in the bank's concept. It is active to spread the idea of interest-free economy in the remote areas of Sweden and in the international arena.

6.3 Trust

Initially, the JAK service was directed to a limited number of members who had the same ideology and had been trustful to each other. It took long time to attract more people to join JAK. To create trust on the idea of “interest free” and risk-free banking service, JAK took different initiatives. First, it took seriously from the beginning and worked to build the organization around the values. The idea of JAK came from a Danish cooperative, which had been working with interest-free concept in the 60’s. This Danish organization later divided its activities in two bodies, one dealt with ideologies and the other mainly concerned with financial activities. This gradually created a gap between the ideologies and running the financial activities based on the interest-free ideology. The MD of JAK treated it as a good lesson for them and explained why JAK did not expand its financial activities quickly considering its rising demand as an alternative bank. By keeping all functions within the same organization, JAK attempts to grow with its own organizational identity in creating members’ trust on it.

Second, in 1990, JAK employed for the first time a former banker to organize and manage the saving and loan systems. This recruitment has been important to bring efficiency in the banking and also to create trust on the bank. At that time the bank was operating like an economic association with totally motivated members on the ideologies of economic justice, ecological sustainability and democracy. To spread the thought of interest-free banking, two types of trust were relevant: (1) the bank truly practices the interest-free banking and (2) one can rely that their savings and transactions are secured. The trust on JAK further increased when it received full banking license in the late 90’s to operate as a full-fledged bank. The business continued as before but with a somewhat clearer distinction between the banking business and the development of the ideology.

Third, many new people joined the bank to take interest-free loan during financial crisis in 1990. When many of these new members discovered that it was not like traditional banks as account holders needed to save first before borrowing. They got disappointed and many left the bank. JAK management realized that they need to educate people about the bank partly to show how the JAK concept functions and to increase reliance on the bank’s financial activities. Further JAK community dialog was seen by the bank as an important

way to develop trust. This approach helped to spread knowledge on interest-free idea and encouraged word of mouth communication among people who knew each other.

7. Discussions and implications

From the beginning, JAK has made it clear that it works for the values and wants to maintain it. By keeping both the ideologies and the banking service within the same organization, it therefore first looked what its ideologies say and then went for the implementation of banking services. When many customers left the bank during financial crisis, JAK realized the need to disseminate market intelligence and to respond on that to meet customers' demands. With its current members, JAK has increased its size and appears as an alternative to traditional banking service with interest-free concept as foundation. But it is too small compared to the other banks to operate under their terms and conditions. JAK however is aware that it works within a niche and it fills an important gap. But we think this niche can be exploited effectively if JAK can also introduce some customer friendly measures such as ATM cards, easier banking system, small size of amortization within the framework of interest-free concept.

JAK is different because it has to give superior value to two groups, namely, members and members who are customers. Who are only members, can be described as the protectors of the values and want to identify themselves with the bank. Slater and Narver (1990) have argued that organizations with a strong MO culture can make proper use of market intelligence and give superior value to the customers. We have observed that JAK has over time established and maintained its basic values by creating trust and necessary networks for members and outside organizations. But a little focus is given on the customers as they have come under the shadow of members, values and ideologies. This is a dilemma for JAK as how to deal with two target groups who do not necessarily have the same goals in practicing MO (González et al. 2002).

We have understood that customers who save and borrow are the integral part of JAK, and if they do not exist, the implementation of interest-free concept will be difficult and JAK as an organization will have a problem of survival in the long run. Managers of non-profit organizations need to find a balance between maintaining fiscal health and accomplishing their mission (Chetkovich and Frumkin, 2003; McDonald, 2011). Slater and Narver (1998)

also argue that a business is market oriented only when the entire organization embraces the values implicit therein and when all business processes are directed at creating superior customer value. Superior value needs not to be the same for members and member-come-customers. Similarly all values do not have the superior characteristics, the importance can vary from products to products. A categorization of value is therefore important. In Table 1, three value categories are presented with some examples. Aim of MO is to offer superior value which gives benefits over the members/customers' expectations. Effective value meets upper level of expectations while satisfactory value corresponds to the lower level of members/customers' expectations. Superior value is innovative and appreciated whereas satisfactory value is the minimum which members/customers can accept. So what JAK managers need, is to find a balance between serving members and member customers to make proper use of market intelligence by creating trust and network to bring superior values for both the categories.

Table 1
Value categories in JAK bank

Target groups	Value Categories		
	Satisfactory	Adequate	Superior
<i>Members</i>	<ul style="list-style-type: none"> - Clear expectations from the bank - Respecting JAK ideologies - Spreading information - Local activities 	<ul style="list-style-type: none"> - Participation in decision making - Interest-free borrowing & saving - Community dialog 	<ul style="list-style-type: none"> - Ecological projects - Greater impact on society - Visible JAK banking
<i>Customers</i>	<ul style="list-style-type: none"> - Low cost loans - Interest-free loans - Clear terms & conditions - Easy banking & easy access to information 	<ul style="list-style-type: none"> - ATM banking - Favourable loans for housing - Reasonable terms & conditions - Visible & reliable JAK bank 	<ul style="list-style-type: none"> - Many offerings - Customer friendly terms & conditions - Banking professionalism - Normal banking activities

This study has not directly investigated members and customers of the bank. It is therefore needed to use their perspective in a separate study, particularly to identify three categories of values as suggested. Interest-free concept is also applied by Islamic banks which serve a

huge number of customers around the world. It could be interesting to compare JAK with some Islamic banks to observe how they apply this concept and how they use MO in their activities. This kind of study will be helpful to JAK employees for improving adoption of MO and will also contribute to theoretical knowledge on alternative banking.

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