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Market Orientation and Public Service Performance: New Public Management Gone Mad?

New Thinking about Motivating Public Employees

The backbone of theory of the market-based approach New Public Management is that market orientation improves public service performance. In this article, market orientation is operationalized through the dominant theoretical framework in the business literature: competitor orientation, customer orientation, and interfunctional coordination. Market orientation is examined from the vantage point of three stakeholder groups in English local government: citizens, public servants, and the central government's agent, the Audit Commission. Findings show that market orientation works best for enhancing citizen satisfaction with local services, but its impacts on the performance judgments of local managers or the Audit Commission are negligible. The conclusion discusses important implications of these findings for research, policy, and practice.

Many public services have forms of management and organization that are inspired by a market orientation—a businesslike model of governance that emphasizes an external focus on customers and competitors and internal integration of organizational functions (OECD 2005).[1] This movement toward a "market orientation" has taken more than 30 years, and sometimes reforms have been implemented with the intention of altering bureaucratic structures and managerial processes in an attempt to improve the productivity and performance of the administrative state (Hood 1991; Lane 1990; Pollitt and Bouckaert 2004).

Some scholars have been critical of this movement toward the adoption of private sector practices and have pointed to many flaws, such as poor accountability mechanisms, the devaluation of public sector values, a tendency to reduce political questions to administrative trivia, and lowered emphasis on the core administrative values of equity and fairness (Brewer 2000). Others, however, have welcomed such reforms—particularly overhead political officials who have led campaigns to implement them (Blair 2002; Gore 1993). Nevertheless, while arguments have been presented on these reforms, public management researchers have been slow to place the theoretical infrastructure of New Public Management (NPM) under the empirical microscope and test whether a more businesslike approach to managing public services leads to better results. This study attempts such a test. We operationalize the theory of market orientation and examine its effects on public service performance.

The study is located in English local government, and we take our measures of performance from three important stakeholder groups: citizens, the Audit Commission (the central government's regulator of local government), and local government managers. Market orientation is at the extreme end of the NPM reform movement, because it implies that government organizations will perform better if they behave like private organizations that compete with rivals to meet consumer demands. In this sense, the theory of market orientation can be seen as "NPM gone mad."

In the next section, the literature is reviewed and the theory of market orientation is introduced. Then, we develop an empirical model of public service performance and describe how the key variables—including market orientation and judgments of performance by different stakeholders—are measured. Our data and methods are described next. We then estimate three statistical models and report the results. The strongest results for the theory of market orientation are found when performance is measured by citizen satisfaction; by contrast, when performance is estimated by the central government's regulatory agency, the Audit Commission,

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and local government managers, it is weakly related to market orientation. Finally, we conclude by discussing some limitations of this study, some suggestions for future research, and some broader implications for public administration theory and practice.

Market Orientation

A variety of government publications over many years have argued for contestable markets, including choice and voice for citizens in service delivery and the rigorous and systematic use of information in public organizations (in the context of our U.K. study, see Audit Commission 2007; Blair 2002; Local Government Association 2005; Office of Public Service Reform 2002; Public Administration Select Committee 2005). This policy discussion typically emphasizes providing what customers want and offering them choices in a competitive market place. This implies listening to them and offering alterative forms of service delivery as necessary. The normative hypothesis that follows from this discussion is that public organizations should be market driven with a strong consumer or customer culture, and this will lead to public service improvement.

In this article, we draw on a theoretical framework from the business management literature known as market orientation. In short, market orientation is an attempt to strategically align an organization with its external environment and includes making the organization more "customer oriented" and proactive (Harris 2001; Shapiro 1988). The market orientation concept is further defined by Kohli and Jaworski as "organization-wide information generation and dissemination and appropriate response related to current and future customer needs and preferences" (1990, cited in Narver and Slater 1990, 21). Thus, market orientation is categorized as a management style that most effectively and efficiently creates the necessary behaviors that result in "continuous superior performance" (Narver and Slater 1990, 21)—that is, a long-term focus on business viability, the needs of customers, and profitability. These necessary behaviors include *customer orientation*—the sufficient understanding of one's customers to be able to create superior value for them continuously; *competitor orientation*—an organizational understanding of the short-term strengths and weaknesses and long-term capabilities and strategies of both its current and potential competitors; and *interfunctional coordination*—the coordinated utilization of company resources to create superior value for target customers.

Narver and Slater (1990, 22) argue that this approach has relevance to nonprofit organizations as well. For these organizations, the objective analogous to profitability is survival, which means earning revenues sufficient to cover long-run expenses and/or otherwise satisfying all key constituencies in the long term. In public service organizations, where the notion of performance has received more attention and has grown more important in recent years, it means achieving acceptable levels of performance in the eyes of key stakeholders, such as users or citizens, government overseers, and staff.

Market orientation has long been discussed in the business literature, but several developments in the early 1990s stimulated a flurry of empirical research on the market orientation–performance hypothesis. In particular, conceptual refinement of the market orientation idea by Kohli and Jaworski (1990) and Narver and Slater (1990) set the stage for subsequent empirical work testing the relationship between market orientation and performance (Jaworski and Kohli 1993; Slater and Narver 1994). These studies triggered an explosion of research that since has tested the hypothesis in many different contexts. Results from these studies show that the relationship between market orientation and performance is robust in business firms cross-nationally (Deshpande and Farley 1998, 221).

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In one of the most comprehensive reviews of this literature, Harris (2001) found that the relationship between market orientation and performance was based largely on the analysis of managerial perceptions of performance. On such measures, market orientation was associated with performance only in certain environmental conditions. However, when objective measures of performance were examined, the range of conditions narrowed. In Harris's study, these conditions included high levels of competition and low market turbulence. When the conditions were reversed, developing a market orientation had a detrimental effect on performance (see also Ellis 2006; Kirka, Jayachandran, and Bearden 2005; Shoham et al. 2006).

Thus, the impact of market orientation appears to be contingent on a range of organizational circumstances. It follows that conclusions about the effectiveness of market orientation in the private sector are unlikely to be directly transferrable to the public sector. Moreover, one crucial contingency seems to be *whose perceptions of performance* are used to test the effect of market orientation. As noted earlier, in the private sector, market orientation is more positively related to managerial perceptions of performance than to "harder" measures of success such as profitability and consumer satisfaction. Private managers seem to believe that the adoption of practices associated with market orientation will produce better results. In other words, their "private sector ethos" suggests that market orientation will have positive consequences for performance. Therefore, in testing for the effects of market orientation, it is important to examine both internal and external perceptions of performance, which is the approach taken in this study.

Market Orientation and Public Organizations

Many public organizations have a long history of competence in areas that are closely related to the behavioral components of Narver and Slater's (1990) market orientation model. Here, we sketch out some of these competencies and link them to the behavioral components of Narver and Slater's model: customer orientation, competitor orientation, and interfunctional coordination.

Perhaps the most striking competency of many public organizations is their attentiveness to client needs—particularly on the street level (Hill and Hupe 2002; Lipsky 1980). This is particularly true in social welfare agencies and other types of public organizations that provide a service or benefit to needful clients (Brewer, Selden, and Facer, 2000). However, it may be manifested in other forms of service delivery and found in some unlikely institutional settings, such as federal prison guards acting in the public interest and showing a concern for the general public's safety and welfare during prison sieges (DiIulio 1994). In its extreme form, client groups may co-opt or capture public agencies, compromising their ability to act impartially and in the public interest (Lilienthal 1944; Selznick 1949).

Market orientation is now part of the day-to-day practices of many public agencies: customer satisfaction surveys abound, data on the performance ratings of citizens influence the goals and operations of public organizations, and focus groups are held with users and their representatives on their needs and the quality of service delivery. In some instances, these practices are adopted voluntarily by public organizations, and in others, they are mandated. For example, in England, local housing authorities are required to undertake joint decision making with tenants on major policy issues, local governments are required to collect data on resident satisfaction, and the Community Planning process involves all stakeholders in a local authority's jurisdiction. Consequently, this public sector penchant for client orientation and concern for the public interest is closely akin to the private sector's notion of customer orientation, *and may in fact transcend it.*[2]

> As public agencies become embroiled in … internal and external market processes, they must develop strategies and behaviors that allow them to succeed.

In the public sector, the customer concept must be broadened to account for the more complex, ongoing, and dynamic relationship between the state and its citizen-owners. This complex relationship between state and citizen cannot adequately be depicted as a series of principal–agent relationships or short-term market transactions between suppliers and consumers. It encompasses far more—public agencies sometimes have to impose obligation on users who can rightly be referred to as clients, and sometimes users are consumers of public services (charged fees) and, on other occasions, customers (receiving a service free at the point of delivery). Thus, while progress has been made in developing a customer orientation, the nomenclature remains complex (Moore 1995).

Second, despite assertions to the contrary, many public organizations operate in highly competitive environments, and, in many instances, their environments are getting even more competitive. Such competition occurs both internally (inside the public sector) and externally (across the public, private, and nonprofit sectors). Internally, public agencies must compete for budget dollars, and some are known to be very effective in this process. Their strategies include jealously protecting their turf, carving out their niche, formulating a compelling mission, and currying favor with legislators (Wildavsky 1992). A classic example is the U.S. military, where the several service branches are engaged in ongoing turf battles and compete for scarce defense dollars and image-building missions. For instance, each branch is continuously developing new weapons systems and volunteering to lead military missions abroad. Public agencies also are drawn into policy conflicts as they try to implement controversial public policies. Such conflict is very similar to competition because the agencies must reach out to stakeholders, try to form coalitions, and work toward consensus (Matland 1995). Externally, NPM and various country reforms have emphasized sector-blending strategies that include privatization, contracting, outsourcing, and competitive tendering (Brewer 2000; Pollitt and Bouckaert 2004). These reforms thrust public agencies into intensely competitive environments, and the competition is ongoing as budgets are reformulated, contracts are renewed, and policy implementation occurs through government-led networks that consist of public, nonprofit, and private sector organizations.

As public agencies become embroiled in these internal and external market processes, they must develop strategies and behaviors that allow them to succeed. To compete in a market, a public organization has to systematically collect evidence on that market. In relation to external markets, benchmarking has become a frequently used practice in which information on others is collected and sometimes used. Some of the management practices identified here deal with competition in relation to supplies: public organizations have to make smart purchases, and they need to know about other organizations that populate the "marketplace" (public, private, and nonprofit) that might one day be providing goods or services on their behalf. These types of competition are very similar to the market orientation model's notion of competitor orientation.

Third, many public sector organizations exhibit a high degree of interfunctional coordination. For instance, recent reforms in the United Kingdom have sought to instill a degree of corporateness—that is, clarity of vision, identification of key priorities, and coordination and integration of service delivery to ensure organizational goals are attained. In the United States, agencies such as the General Services Administration, Social Security Administration, and Internal Revenue Service are considered model public organizations because they achieve a high degree of interfunctional coordination and are run with "businesslike efficiency." Recent executive and legislative reforms, such as the George W. Bush administration's President's Management Agenda (OMB 2001), the appointment of chief operating and management officers in federal agencies, and the enactment of the Government Performance and Results Act of 1993 (P.L. 103-62), promote the development of strategic planning and a corporate culture. In still another example from a different policy area, the National Aeronautics and Space Administration consistently is identified as one of the highest-performing federal agencies, and much of its success comes from having a clear mission and mounting a highly integrated and coordinated effort to achieve its objectives (Brewer 2005; Brewer and Selden 2000).

Interfunctional coordination implies the appropriate use of customer and competition information. Performance management and target-setting regimes have been launched with this aim in mind (Jennings and Haist 2004). These regimes do not simply argue that data should be collected, but that a management process should accompany data collection to ensure that the information is used to drive an organization toward higher levels of performance. Evidence suggests that such regimes are now widespread (Boyne and Chen 2007; de Lancer Julnes and Holzer 2001).

This review is meant to be illustrative and not conclusive or exhaustive. Our main purpose is to show that the market orientation model is not really alien to the public sector; rather, public organizations have some surprising strengths and competencies in this regard. These competencies range from a strong citizen/client orientation that has deep roots in the history and practice of public administration, the ability to survive and perform in highly competitive environments, and, in some instances, high coherence and integration. However, it is important to note that in many cases, elements of market orientation have been imposed by government reforms, and public administrators might not necessarily have adopted these. This, in turn, may affect their perceptions of whether market orientation is good or bad for performance.[3]

In summary, this study will use the dominant theory of market orientation from the business literature to operationalize and test the market orientation–performance hypothesis in a sample of public organizations. In the sections that follow, we describe the setting for this study, identify the data source, and provide information on the measurement of key constructs.

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Unit of Analysis

This study is situated in the English local government sector. English local governments are politically elected bodies with a Westminster-style cabinet system of political management, and they employ career staff.[4] They are multipurpose authorities delivering education, social services, regulatory services (such as land-use planning and environmental health), housing, libraries, leisure services, and welfare benefits in specific geographic areas. In urban areas, authorities deliver all of these services; in rural areas, a two-tier system prevails, with county councils administering education and social services on a broader scale and district councils providing environmental, welfare, and regulatory functions locally. Authorities are not all-purpose; for example, separate health authorities provide health care.

Data Source

Three data sources are used in this study. These sources are used for our dependent performance variables and reflect three key stakeholders of English local government: the Audit Commission (an important representative of the central government), citizens, and local government managers.

First, the Audit Commission is the key central government oversight body for local government, providing advice through value-for-money audits and inspections of corporate governance and service delivery arrangements. In its role as the regulator of local government, it acts on behalf of the central government, which creates and abolishes individual local government units, provides between two-thirds and three-fourths of their funding, and bestows or removes service responsibilities (for further details, see Hood et al. 1999; Power 1997). The Audit Commission has constructed an external measure of performance for all major English local authorities (London boroughs, metropolitan boroughs and unitary authorities, and county councils). This external measure, *core service performance* (CSP), is based on approximately 100 Best Value Performance Indicators (BVPIs) across seven service areas, and also on the judgments of Audit Commission inspection teams who visit each local authority. These inspection teams comprise a mix of Audit Commission employees, former local government managers, and officials from other authorities. This composition of the teams is important to achieve an understanding of the context and processes of local service management. It also means that the inspection team is likely to share the broad values of officials in the authorities that are being inspected and evaluated. In other words, local managers and Audit Commission inspectors may well have similar views on the effectiveness of market orientation as an approach to local service management. The CSP is the first dependent variable for our empirical analysis of public service performance; it has been collected since 2002.

The second groups of stakeholders is citizens. As part of the BVPI data set (Department of Environment, Transport and Regions 1999), local governments collect data on citizen satisfaction within local authorities as a whole. These data have been collected every three years since 2000–2001. We label this dependent variable *consumer satisfaction.*

The third group of stakeholders is local government officers, and the data source is a survey of local authorities that was conducted electronically.[5] It explored informants' perceptions of organization and management (including market orientation) together with performance.[6] The survey, therefore, provides measures of market orientation and a dependent variable labeled *managerial perceptions of consumer satisfaction.*

The survey collected data from multiple informants at the corporate center of each local authority and in the seven service levels noted above.[7] This strategy was adopted to address the weakness of prior studies consisting of elite surveys, which typically collect evidence on organizational leaders' aspirations rather than actual organizational activity, and overlook the range of different perceptions within organizations (Bowman and Ambrosini 1997; Enticott, Boyne, and Walker 2009). In each authority, questionnaires were sent to up to three corporate informants and four service officers in each of the seven service areas.[8] We focus on two echelons to overcome the sample bias problem faced in surveying large numbers of informants from one organizational level. For this sample, a simple organizational mean would drown out the voices of the smaller numbers of corporate officers surveyed. Corporate managers and service managers were selected because attitudes have been found to differ between these positions (Aiken and Hage 1968; Walker and Enticott 2004). Organizational means are calculated by first taking the mean of the average responses from the corporate and service level echelons, and second a mean of these two means.

At the core of the survey is a representative sample of 100 English local authorities. Representativeness is based on background variables, including level of service need, population, and performance (see Martin et al. 2003). The survey was conducted annually from 2001 until 2004. In 2001 and 2004, a census was undertaken, and in the interim years, only the representative sample was surveyed. We remove all district councils from our analysis because the CSP variable is only available for upper-tier authorities. The data set includes 121 localities in 2001, 76 in 2002, 73 in 2003, and 136 in 2004.

Measures

Dependent Variables

The CSP score embraces all the main areas of local government activity, as discussed earlier. Each service was given a score by the Audit Commission (2002), from 1 (lowest) to 4 (highest). These scores were based largely on archival performance indicators, supplemented by the results of inspection of services and service plans and standards (see also Andrews et al. 2005; Andrews, Boyne, and Walker 2006 for additional discussion). This is an external evaluation of performance that blends archival performance measures with the perceptions of inspectors.

After calculating the CSP score, the Audit Commission weighted services to reflect their relative importance, as judged by the central government, and their budgets. The weight for education and social services was 4; for environment and housing, 2; and for libraries and leisure, benefits, and management of resources, 1. The commission then combined these weights with the performance score (1–4) for each service to calculate the CSP. The resulting score ranges from a minimum of 15 (12 for county councils, which do not provide either housing or benefits) to a maximum of 60 (48 for county councils). These results were converted to an overall performance score that is comparable across all authorities by calculating the percentage of the maximum possible CSP result for the given local government. This is an "aggregate" measure that combines dimensions of performance and different services.

The measure of consumer satisfaction is collected triannually, and it is based on a random sample of local addresses drawn from the post office's small users address file. These surveys gauge the extent to which local authorities are having a positive effect on the quality of life experienced by local residents. The survey includes an item assessing residents' satisfaction with "the way the authority run things" as a whole (Department of Environment Transport and Regions 1999, 110). The surveys are conducted in accordance with guidance provided by the central government.[9]

The measure of local managers' perceptions of consumer satisfaction is one of eight dimensions of performance in the survey described earlier. Respondents were asked to rate their service in comparison to others on a four-point scale ranging from 1 (bottom quartile) to 4 (top quartile).

Independent Variables

Market orientation variables come from 21 measures in our survey of local government managers. Items were matched to the market orientation categories of customer orientation, competitor orientation and interfunctional coordination. Multiple items were identified for each category of market orientation. Within each category, groups of variables representing distinct conceptual areas were isolated to test reliability. Reliability was estimated using exploratory factor analysis and by calculating scale reliability values. All survey items loaded onto one factor and Cronbach's alpha coefficients were adequate (see table 1).[10]

In the private sector model of market orientation, customer orientation and competitor orientation includes "all of the activities involved in acquiring information about the buyers and competitors" (Narver and Slater 1990, 21). For public agencies, the most appropriate customer market is not buyers per se (as narrowly defined in the market orientation model), but stakeholders, who include a range of important actors who can influence and exert power of a local authority. In this study, we define customers at the local community level as service users, the public or citizens, local agencies, and local businesses. The measures identified fell into two distinct groups: those concerned with *customer focus,* that is, attitudes toward customers or a customer culture, and those associated with gathering information about the customer environment, labeled *consultation.* Measures of competitor orientation similarly fell into two groups, both concerned with searching or scanning the external environment for data and information. The measures focused on two specific groups in the environment: other local authorities and the private sector. The first set of measures are labeled *compare public* and are concerned with making comparisons with other local authorities in the areas of costs, outcomes, management and performance. The second variable is titled *competitiveness*; measures focus on market testing, externalization, and attitudes toward working with private agencies.[11]

Interfunctional coordination is concerned with "the coordinated utilization of company resources in creating superior value for target customers" (Narver and Slater 1990, 22). The central government has encouraged local government to develop corporate strategies because this is seen as a method to coordinate information and activities within local authorities. Notable has been the promotion of performance management regimes to manage information and integration to bring together different services and parts of the organization in meeting a common goal or mission (Audit Commission 2000). In order to achieve internal coordination, information technology, information systems, and communication are required. Such behavior is argued to result in higher levels of organizational performance. These three aspects of interfunctional coordination are measured by variables labeled *performance management, integration,* and *ITC.* Performance management captures performance management systems, linkages between the objectives and priorities of services and the whole authority, and information that allows managers to meet goals and targets. Integration measures flexible structures, coordination, joint and crosscutting work—all integrative methods promoted to break down internal barriers between professionalized service areas. ITC examines information technology hardware and software together with communication.

Control Variables

Three external constraint variables are used in this study. First, the level of *service need* is operationalized through a measure of deprivation. The average ward score on the Index of Multiple Deprivation (Office of the Deputy Prime Minister 2000) was used as a measure of the level or quantity of service need. This deprivation score is the standard population-weighted measure of deprivation in England used by the central government. It provides an overview of the different domains of deprivation (e.g., income, employment, and health). As the range of service providers becomes more varied, it becomes harder for local authorities to determine the relative needs of different groups and to provide standardized services that meet their requirements.

We use ethnic diversity to measure variations in the level of service need (*diversity of need*). A Herfindahl-Hirschman Index

Table 1 Reliability Analysis

Item	
Customer Orientation	
Customer focus (Eigenvalue/percent variance/Cronbach's alpha)	2.225/55.622 /.72
Most managers place the needs of users first and foremost when planning and delivering services	.65
Strategy is made in consultation with our external stakeholders	.79
Working more closely with users	.72
Users demands	.82
Consultation (Eigenvalue/percent variance/Cronbach's alpha)	2.177/54.429/.71
Consult—the public as a whole	.76
Consult—service users	.69
Consult—other local agencies	.77
Consult—local businesses	.73
Competitor Orientation	
Comparison Public (Eigenvalue/percent variance/Cronbach's alpha)	3.013/60.269/.82
Compare—other local authorities	.74
Comparisons—generic management	.64
Comparisons—costs	.76
Comparisons—outcomes	.83
Comparisons—performance	.89
Competitiveness (Eigenvalue/percent variance/Cronbach's alpha)	2.594/51.883/.77
Competitiveness—market test all or part of the service through open competition	.77
Competitiveness—test opportunities for strategic alliances and partnerships	.70
Competitiveness—test for externalization of the service	.83
Competitiveness—develop the market in order to encourage alternative providers	.78
The authority/service welcomes partnership with the private sector	.47
Interfunctional Coordination	
*Performance managemen*t (Eigenvalue/percent variance/Cronbach's alpha)	2.830/70.739/.86
There is a well-developed framework of clear performance measurement and targets to drive what we do.	.82
There are clear links between the objectives and priorities of the service and those of the authority as a whole.	.75
Our management information systems enable service managers to judge their progress toward meeting goals and targets.	.89
Our management information systems enable the authority's senior management team to judge their progress toward meeting goals and targets.	.90
Integration (Eigenvalue/percent variance/Cronbach's alpha)	1.783/59.420/.64
We frequently transfer or second staff to different departments/services	.68
Enhancing coordination and joint working	.83
Cross departmental/crosscutting working	.80
ITC (Eigenvalue/percent variance/Cronbach's alpha)	2.166/72.190/.80
New information technology	.80
New management information systems	.89
Internal communications	.87

was created by squaring the proportion of each ethnic group (taken from the 2001 census, see Office for National Statistics 2003) within a local authority and then subtracting the sum of the squares of these proportions from 10,000. The resulting measure is a proxy for "fractionalization" within the local authority area, with a high level of ethnic diversity reflected in a high score on the index. High and diverse levels of need result in lower levels of performance.

The final archival measure looks at change in population to measure *change in need*. This measure captures features of a dynamic area; evidence suggests that in areas of population growth new residents are likely to be economically skilled and socially enterprising (Armstrong and Taylor 2000). Thus, local authorities with higher levels of population change are likely to achieve higher levels of public service performance. Table 2 provides the descriptive statistics for all variables as well as the data source.

Prior Performance

Public organizations change incrementally from one year to the next (O'Toole and Meier 1999). Organizations create processes and operating systems designed to produce the same outputs over time. It is reasonable, therefore, to expect that current performance is the best predictor of future performance. To ensure that the coefficients for market orientation are not biased, it is important to include prior achievements in the statistical models. We control for the effects of prior performance by entering each of our dependent variables in the year before market orientation was measured in our analysis. The inclusion of autoregressive terms in our models means that the coefficients for our market orientation measures show how these variables affect changes in performance that have occurred since the baseline year.

Findings

We test the market orientation–performance hypothesis with three autoregressive models that estimate the effects of the market orientation and control variables on the three dependent variables measuring public service performance (see table 3). The difference in the nature of the data across the three dependent variables (panel data for CSP and managerial perceptions of consumer satisfaction, and cross sectional data for consumer satisfaction) prevents us from using the same type of estimator for each of the three dependent variables. Therefore, for the models with the dependent variables CSP (model 1) and managerial perceptions of consumer satisfaction (model 2), we are able to draw on four years of data for some of the localities, generating an unbalanced panel data set for 67 localities,

Table 2 Descriptive Statistics

	Mean	S.D.	Min.	Max.	Source
Dependent Variables					
Core Service Performance	68.01	9.11	36.66	90	Audit Commission
Managerial perceptions of consumer satisfaction	3.07	0.52	1.33	4	Survey
Consumer satisfaction	54.79	7.82	28	77	Survey
Customer Orientation					
Customer focus	5.20	.52	3.37	6.59	Survey
Consultation	4.76	.82	1		Survey
Competitor Orientation					
Compare public	5.41	.69	1.4	7	Survey
Competitiveness	3.55	.89	1.37	6.80	Survey
Interfunctional Coordination					
Performance management	4.99	.79	2.25	6.81	Survey
Integration	4.44	.67	1.83	6.16	Survey
ITC	5.22	0.7	1.66	7	Survey
External constraints					
Service need	24.08	11.46	4.89	61.34	Government department
Diversity of need	1947	1990	260	8452	Census
Change in need	.74	.76	–.69	4.51	Census

Table 3 Market Orientation Matters Most to Consumers' Assessment of Satisfaction

	Model 1 Core Service Performance[a]		Model 2 Managerial Perceptions of Consumer Satisfaction[a]		Model 3 Consumer Satisfaction[b]	
	B	se	B	se	B	se
Customer Orientation						
Customer focus	2.04	1.29	.17*	.07	–.26	.90
Consultation	.42	.60	.03	.04	–2.16**	.72
Competitor Orientation						
Compare public	–.42	.76	–.01	.04	3.20***	.86
Competitiveness	–.52	.64	.02	.03	1.34*	.64
Interfunctional Coordination						
Performance management	2.81**	.91	.15**	.05	.41*	.21
Integration	–.51	.93	–.04	.05	2.00**	.76
ITC	–.79	.92	–.04	.04	.41	1.04
Prior Performance	.64***	.05	.49***	.07	.59***	.07
External Constraints						
Service need (lg)	–.35	1.08	–.00	.05	.01	.00
Diversity of need (lg)	.86†	.47	–.06**	.02	.00	.00
Change in need (lg)	–.30	.42	.00	.02	1.36	.73
N	182		182		64	
F					13.12***	
R^2	.66		.61		.63	
N of localities	67		67			

[a]Random-effects (Huber-White standard error) with lagged dependent variable.
[b]Ordinary least squares with a three-year lagged dependent variable.
N = number of panels or authority years.
Coefficients for year dummies are omitted.
†$p \le .1$; *$p \le .05$; **$p \le .01$; ***$p \le .001$.

and thus we run random-effects models.[12] When the dependent variable is consumer satisfaction (model 3), we draw on one year of survey data (2002), and because the BVPIs are only collected every three years (2000 and 2003)—we run an ordinary least squares model with a three-year lag.

None of the models exhibits a high level of multicollinearity (VIF: 1.56, 1.59, 1.50), and the influence and leverage diagnostics reveal that no authority overly influences the estimations. The explained variance ranges from 61 percent to 66 percent, and a quick glance across the models reveals that prior performance is the most consistent and effective predictor variable. As might be anticipated, the past performance variable also captures much variation in the external constraints. In the internal consumer satisfaction model an effect from diversity of need is noted; otherwise, the controls are not having a strong effect on the change in baseline performance.

Across the three models, eight of the 21 market orientation coefficients reach statistical significance at the 95 percent confidence level. These are customer focus, consultation, compare public, competitiveness and integration, which are statistically significant on one occasion each, and performance management, which is statistically significant in all three models. Of these eight variables, only one—consultation—is not in the direction hypothesized, as it is negative. That just over one-third of the variables reach significance can be taken as an indication that the family of market orientation variables produce marginal effects when we test it on a number of stakeholders' perceptions of performance.

Performance management is significant across all three dependent variables. Thus, it influences the judgments of citizens, the central government, and local authority officials. Our measure of performance management includes mission and goal clarity, performance measures and targets, and information systems that deliver performance data to assist officers in meeting their goals. Performance management has been widely promoted in public agencies. While its merits have been debated (de Lances Julnes and Holzer 2001; Jennings and Haist 2004), few empirical tests of its efficacy have been conducted (for exceptions, see Boyne and Chen 2007). Next, the models are discussed in turn.

Model 1 provides a good test of the market orientation–performance hypothesis because the dependent variable is a multidimensional measure of performance—the CSP score. In this model, only one variable reaches statistical significance, performance management. The Audit Commission, as a representative of the central government, does not associate customer orientation, competitor orientation, or the interfunctional coordination variables of integration or ITC with higher performance. These results are somewhat surprising given that the commission, under its consultancy arm, has promoted competition, consultation, and integration (Audit Commission 2000, 2007). Nevertheless, the Audit Commission inspection teams (which, as noted earlier, contain former and current local authority managers) do not appear to share the view that organizations that adopt a market orientation are higher performers. We conducted a sensitivity test to determine whether these results are contingent on the inclusion of the prior performance measure in the model. When prior performance is excluded, the results remain very similar to those in table 3; the only change of any importance was that in model 3, the customer focus variable reached the lower 0.1 level of statistical significance.

In model 2, which also employs panel data, we find that two variables are statistically significant. Customer focus and performance management are positive influences on local managers' perceptions of performance. Again we conducted a sensitivity test (by dropping the measure of prior performance), and the main change was that competitiveness (i.e., market testing, externalization, and partnership with the private sector) was negatively related to managers' perceptions of performance ($p < .05$). As with the Audit Commission, the evidence from these data suggests that market orientation has little overall impact on the performance of public agencies.

In model 3, in contrast to the prior two models, five market orientation variables are significant predictors of externally measured consumer satisfaction. Four of the variables are positive as anticipated; however, consultation with local citizens has a negative effect on their assessment of performance. Our measure of consultation included citizens, users, other local agencies, and businesses. Citizens may perceive that there has been too much consultation over recent years. James (2009) presents evidence showing that consumer satisfaction is contingent on context, notably that expectations are an important determinant of citizen satisfaction, and that perhaps consultation forms part of this contingency. More precisely, the process of consultation raises citizen expectations, but services do not necessarily improve in the ways anticipated, leading to more negative assessments.

> [M]arket orientation does not explain public service performance very well when we consider the sparse number of statistically significant relationships across the three dependent variables—this is notably so in the models in which satisfaction is defined by local government managers and the local government regulator. The findings for the consumer satisfaction model, by contrast, were quite strong, particularly in respect to competitor orientation and interfunctional coordination.

Competitor orientation, by contrast, is associated with higher citizen assessments of performance. The "compare public" variable is highly significant at the .001 level, and it appears to be contributing to the model's explanatory power. This variable reflects the extent of comparisons with other local authorities in the areas of costs, outcomes, management and performance. Such benchmarking appears to be helpful in producing higher levels of consumer satisfaction. The competitiveness variable, which did not achieve statistical significance in the prior two models, is also linked to higher citizen satisfaction. Thus, the development of a competitive market leads to services that local citizens rate more highly.

Two of the three interfunctional coordination variables are significant. Performance management has been discussed earlier. Organizational integration is also associated with higher citizen satisfaction, perhaps because services are less fragmented and more focused on client needs rather than isolated departmental or professional concerns.

Overall, model 3 produces a fair number of statistically significant findings, most notably on the competition variables, which run in the hypothesized direction. Because similar results are not present in models 1 and 2, it appears that the public may hold different views from other stakeholders—regardless of whether those stakeholders are inside or outside of public organizations. Moreover, because the public sector version of market orientation theory seems to focus attention on the public as its customers, one can argue that model 3 provides reasonable support for the theory.

The models presented in table 3 are independent effects. A range of interaction effects also were specified to explore whether there were joint relationships between the variables in question and performance. In particular, we were interested in examining the combined performance effects of customer orientation and interfunctional coordination, and competitor orientation and interfunctional coordination. Our assumption here was that the information retrieved from the organizational environment is processed through interfunctional coordination and then influences performance. None of the tests that we ran led to statistically significant improvements in the models. Therefore, we concluded that there were no joint effects within this data set.

Conclusion

This study tested the backbone theory of New Public Management—that market orientation improves public service performance. We tested this proposition using three measures of performance that represent key stakeholders in English local government: the central government through the Audit Commission, citizens, and local government managers. Overall, our findings show that market orientation does not explain public service performance very well when we consider the sparse number of statistically significant relationships across the three dependent variables—this is notably so in the models in which satisfaction is defined by local government managers and the local government regulator. The findings for the consumer satisfaction model, by contrast, were quite strong, particularly in respect to competitor orientation and interfunctional coordination. Given that citizens may feel a degree of ownership in public organizations, and that they rate this approach positively for achieving higher levels of organizational effectiveness, these views cannot be taken lightly. Deshpande and Webster argued that the market orientation framework puts "customers in the centre of . . . [organizations] . . . thinking about strategy and operations" (1989, 3). Citizens' perceptions of performance, and the behavior of local governments in England, would appear to support this key notion.

By contrast, the model of managerial perceptions of performance offered weak support for the impact of market orientation, and the results were similar for the Audit Commission's measure of local authority performance. It is plausible that public officials are not enamored with the reforms that place emphasis on market orientation, as processes such as contracting out and externalization put their jobs on the line. Consumer focus places emphasis on services and users and not on more traditional professional aspects of public service organizations, while performance management requires public servants to identify targets and work in more integrative ways across different professional service areas. Evidence from the United Kingdom attests to the difficulties of introducing management reforms into professional public services (Kirkpatrick, Ackroyd, and Walker 2005; Walker and Brewer 2009). Thus, there is a clear difference between the impact of market orientation on the performance perceptions of different stakeholder groups.

Market orientation generally has a positive effect on consumer satisfaction, but very little effect on the performance judgments of local managers or Audit Commission inspection teams. This is the reverse of the pattern in the private sector, where the evidence suggests that market orientation is more likely to have a positive effect on managers' than consumers' perceptions of performance. Just as this apparent *over*estimate of the benefits of market orientation may reflect dominant values in the private sector, the proclivity of local government managers to *under*estimate the benefits of market orientation for consumer satisfaction may reflect skepticism about the relevance of market orientation to public organizations. Further research could usefully explore whether this is because market orientation is perceived as inconsistent with public service values, or because market orientation practices have been imposed on local organizations by higher levels of government.

One aspect of interfunctional coordination is associated will all three measures of performance. Performance management has been promoted, in England and elsewhere, as a tool to address the maladies of red tape and goal ambiguity. This appears to work; performance management clearly is associated with higher assessments of performance by all three stakeholder groups. The issue of performance management links strongly to the policy and practice implications arising from this study. No matter who makes a judgment about the performance of English local government, they all associate higher performance with management practices ensuring that goals set by the organization are widely owned and have targets. This widely promoted management practice has clearly bedded itself into the processes of public organizations and assists in the delivery of higher levels of organizational effectiveness. Therefore, it is likely to be a valuable tool in the repertoire of practices available to public managers.

The remaining results from this study signal the complexity of the job of the public manager—the variation in results across the three dependent variables reminds us of the multifaceted task of managing the expectations of different stakeholders and the likely trade-offs involved in this process. Further research could elicit the views of other stakeholder groups to determine whether they are consistent with the results reported here. Such stakeholders could include direct service users and their representatives and local businesses and voluntary organizations in the local jurisdiction. It could be that businesses assessments of performance are strongly related to competitor orientation, reflecting practices they know and are familiar with. Regional governments may also be included, as well as other actors that link the multilevel governance system in England. Such regional bodies may place more emphasis on interfunctional coordination in their performance assessments, as they sit between different tiers of government.

Our results suggest that each of the three elements of market orientation has an independent effect on performance. Nevertheless, we continue to believe that the effects of consumer orientation, competitor orientation, and functional integration are interactive. For example, information on consumer requirements may be unrelated to organizational results unless a sophisticated system of performance management is in place. It is possible that we were not able to identify these relationships because considered relatively short time periods and the number of organizations in our sample was quite small. Future research should build more extensive data sets that can withstand the demands that multiple interactions place on data. Future research also could examine these issues through detailed case studies, drawing on multiple methods.

Yesterday's NPM is today's public sector, meaning that many market orientation reforms already have been adopted and institutionalized in the public sector. Indeed, as we have allowed, the public sector already was quite proficient at some of these techniques before the advent of NPM, and it has continued to develop its skill and capacity in this regard. The recent wave of NPM reforms emphasizing more extreme forms of market orientation, such as contracting out government services and deregulating whole sectors of the economy, now look like a proverbial trial by fire for government, especially as this period of radical experimentation seems to be drawing nigh. With the global financial crisis and endemic market failures occurring in many parts of the world, a new wave of reforms is gathering. These reforms cast doubt on the power and efficacy of unfettered markets, and they tend to emphasize the role of government in stimulating economic growth, stabilizing the economy, and regulating markets in the public interest. Against this backdrop, some elements of market orientation, such as customer orientation, knowledge of markets, and the ability to integrate and deliver services smoothly, will remain important goals for business and government.

Notes

1. For opposing views of the value of the customer service concept in the public sector, see Wagenheim and Reurink (1991) and Fountain (2001).
2. Organizational sociologists and political scientists have long recognized that public organizations can be too responsive to "special interests" and client groups, which can lead to co-optation, eventual "agency capture," and the emergence of iron triangles and issue networks (Heclo 1978; Lilienthal 1944; Lowi 1969; Selznick 1949).
3. The majority of the management reforms implemented during the study period were top-down in nature. The majority of the reforms were piloted in the local government community prior to being rolled out across all authorities. However, the degree to which authorities were instrumental in promoting policies to the central government or involved in piloting the reforms is unknown to the authors. Such knowledge would allow the use of more experimentally orientated research designs, and we encourage future researchers to implement such designs.
4. Council members are elected by citizens registered to vote, and the party (or parties) with a majority form the ruling group. Once elected, members select the cabinet and leader of the council. In a small number of cases, a mayor is directly elected.
5. The survey was conducted by e-mail following a pilot in 17 local authorities that tested the survey administration technique and item quality. E-mail addresses were collected from authorities, and questionnaires were delivered as a Microsoft Excel file attached to an e-mail. Responses were self-coding. Informants had eight weeks to answer the questions and return the file by e-mail. During the survey period, three reminders were sent to informants who had not yet responded. There were no statistically significant differences between early and late respondents (Martin et al. 2003).
6. A copy of the full questionnaire is available upon request from the lead author.
7. Corporate managers (or the senior management team) include the chief executive officer and corporate policy officers with cross-organizational responsibilities for service delivery and improvement. Service officers include chief officers who are the most senior officer with specific service delivery responsibility and service managers or frontline supervisory officers.

8. Seven key services were surveyed: education, social care, land-use planning, waste management, housing, library and leisure, and benefits.
9. The Best Value Performance Indicators are based on common definitions, and data are obtained from councils for the same time periods with uniform collection procedures. Local authorities are expected to collect and collate these data in accordance with the Chartered Institute of Public Finance and Accountancy "Best Value Accounting Code of Practice." The figures are then independently verified, and the Audit Commission assesses whether the management systems in place are adequate for producing accurate information.
10. The alpha of .64 for integration is acceptable for new scales, those with a small number of items, and in exploratory research (Nunnally 1978).
11. At the time of the surveys, English local authorities were required to undertake environmental scanning activities associated with consultation, comparison, and competitiveness as part of the Best Value regime, referred to earlier in relation to the purpose of the study (Martin et al. 2003).
12. The *F*-tests for the pooled models as well as the LM test are significant, suggesting the presence of individual effects and thus the rejection of the ordinary least squares model. Although the Hausman test statistic for each regression favors the fixed-effect over the random-effect model, the random effect model is preferred for two reasons. First, as Baltagi points out, the fixed-effects model "cannot estimate the effect of any time-invariant variable" (1995, 11–12) —the three control variables included in our models are time invariant, and their inclusion is theoretically justifiable. Second, Baltagi states that "'if either heteroscedasticity or serial correlation is present, the variances of the Within and GLS estimators are not valid and the corresponding Hausman test statistic is inappropriate" (1995, 70). We also ran random effects estimation after excluding the lag of the dependent variable; results, however, are in line with the models that include the respective lagged dependent variable—whose inclusion is hence theoretically justifiable because a year's performance is a function of the previous year's performance. Moreover, for dynamic panel data (because of the inclusion of the lag of the dependent variable), the Arellano-Bond estimation is the most appropriate technique. If we adopt this estimation, the three time-invariant control variables are dropped, and the number of observations is reduced to 127 and 71—as result of lagging the dependent variable and taking the first difference of the independent variables—we opted for the random effect estimations. By doing this, the number of regressors across the three models is the same.

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