

INFLUENCE OF MARKET ORIENTATION AND STAKEHOLDER MANAGEMENT ON THE PERFORMANCE OF CROATIAN CITIES*

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Abstract

The implementation of market orientation plays a valuable role in the complex public sector, because it enables numerous entities responsible for the development of different levels of public administration to respond more efficiently to the demands of its users and other stakeholders. The current fragmented territorial structure and low level of decentralization reduce the developmental potential of local administrations in Croatia. However, these obstacles do not relieve the Croatian local administration of their responsibility to fulfil their social mission. The empirical measurement of quantitative and qualitative indicators in Croatian city administrations have determined a medium level of their market orientation. The results of correlation analysis have revealed a statistically significant difference

between market orientation levels towards each of the nine analyzed groups of stakeholders. As presumed, the city administrations exhibit the highest market orientation level toward citizens. Additionally, the research has confirmed the positive influence of higher multiple stakeholder market orientation of city administrations on their subjectively measured performance. These results should be observed and assessed, taking into account the fact that the Republic of Croatia does not prescribe a legal obligation to monitor the city administration performance nor directly encourages it.

Keywords: *city administration, market orientation, performance, stakeholder approach*

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1. INTRODUCTION

Market orientation, as considered by the majority of the authors, represents the level of adoption of the marketing concept (e.g., Kohli & Jaworski 1990, Deng & Dart 1994, Pelham 1997, Gray et al., 1998, Appiah-Adu 1998, Lafferty et al., 2001, Cervera et al., 1999, Perreault & McCarty 2002, Caruana et al., 2003, Liao et al., 2001, Baker & Sinkula 2005). Also, it is regarded as one of the “New Public Management” (NPM) principles, introduced in (mostly Anglo-Saxon) developed economies, on the national and local level, in the last three decades (e.g., Osborne & Gaebler 1992, Pollitt 1993, Kettl 2000, cited in Alonso et al. 2015). The underlying assumptions of the NPM theory are that market orientation improves public service performance and that citizens’ needs steer the public objective formulation (Molander, 2018). Such principles were implemented voluntarily, in some instances, and legally prescribed in others (see, e.g. a review by Kuhlmann, 2010).

For decades, the developed democratic countries have advocated for the citizens’ rights to be realized and for their needs to be satisfied, primarily on the local and regional level, where this can be done most efficiently. However, due to the multilevel government system, numerous stakeholders involved, and limited legal power of city authorities, the process of identifying and effectively, as well as efficiently meeting the needs of the citizens and other users of local public services, becomes much more complex, compared to the profit sector. This process is additionally strained, if the legal framework does not prescribe, or even encourage, the market orientation approach in the city administrations (such as in Croatia). Applicability of market orientation in this type of local public environment represents the research problem of this study.

The process of adjusting the market orientation construct to multiple stakeholder settings has taken different paths. Authors from the stakeholder theory field have successfully tested several stakeholder orientation instruments, both in profit and non-profit domains (e.g., Greenley et al., 2004; Yau et al., 2007; Maignan et al., 2011; Llonch et al., 2016). The market orientation researchers advocated for the inclusion of multiple stakeholders into the existing marketing perspective (e.g., Matsuno & Mentzer, 2000; Macedo & Pinho, 2006; Hult, 2011). However, to our best knowledge, so far there have been no studies of multiple stakeholder market orientation in the local public sector.

Although numerous studies confirmed the positive impact of market orientation concept on various performance indicators in the profit sector of different industries and economies (see. e.g. meta and mega-analyses of Shoham et al., 2005; Kirca et al., 2005; Grinstein, 2008; Vieira et al., 2010; Bıçakcıoğlu-Peynirci & İpek, 2020), the same effect has only rarely been confirmed in the local public sector (e.g., Cervera et al., 2001; Kowalik 2011; Walker et al., 2011; Rodrigues & Pinho, 2012).

Consequently, the purpose of this study is to corroborate the value of market orientation concept and its impact on city performance in a complex, multiple stakeholder local public environment, characterized by the lack of legal obligations to monitor and improve the performance, quality and availability of local public services. Accordingly, we proposed the following hypotheses:

H1: The levels of market orientation towards multiple city administration stakeholders are of different intensity and in mutual correlation.

H2: Market orientation of city administration has a direct, positive and substantial influence on the organizational performance of city administration and the performance of local public service users.

In this research, we have focused on cities, even though this issue may be examined within other territorial units (counties or municipalities). This choice was informed by the awareness of the importance of cities for socio-economic development, and the public management trends visibility.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1. Application of the market orientation in the public sector

Minor attention has, thus far, been given to the research of implementation of the marketing concept through market orientation in public, and, especially, the local public sector. For instance, Chad et al. (2013) have determined a very low intensity of market orientation research in the nonprofit and public sector, compared to the profit sector. The underlying reasons for such a situation can be found in the results of the studies, which indicate lesser importance of market orientation in certain circumstances. In fact, in cases of limited competition (which regularly occur in the public sector), stable consumer preferences, technologically turbulent industries, and growing economies, market orientation is not substantially positively correlated with business performance and negative correlations can also be found (e.g., Kohli & Jaworski 1990, Harris 2001).

At the same time, research indicates that the entities, implementing business strategies, which are uncommon for the practice

of a particular business sector will most likely achieve superior financial performance (Cano et al. 2004). Hence, the managers in the nonprofit and public sector may use the lack of other stakeholders' knowledge of the market orientation concept as a competitive advantage, which will result in improved business performance. Several empirical studies supported this claim and displayed the positive correlations between the market orientation and performance in the (local) public sector (e.g., Caruana et al. 1997, Caruana et al. 1999, Cervera et al. 2001, Kowalik 2011, Rodrigues & Pinho 2012, cited in Modi & Mishra 2010); educational institutions (e.g., Pavičić et al. 2007, Mihanović 2010, Alfirević et al. 2011, Mihanović et al. 2014.), institutions of arts and culture (Gluić & Mihanović, 2016), and others. The determined correlation varies between $r = 0.26$ and 0.48 in the local public sector range and do not show substantial deviations, compared to the profit sector, where the values (r) ranged from 0.26 to 0.46 (a broader review available in Širola 2017). Besides, the experience of applying specific marketing tools in the public sector pointed out that the adoption of the marketing concept through market orientation may facilitate the provision of services, which are better suited to the users' needs and focused more on the most salient stakeholders (Cervera et al. 1999).

The NPM doctrine advocates the introduction of profit sector principles, such as the performance measurement, cost management, outsourcing, downsizing, privatization and customer orientation, onto the public sector. In fact, all public sector reforms rooted in the market and entrepreneurial orientation paradigm, are considered as NPM (e.g. Pollitt 1990, Hoggett 1991, Hood 1991, Osborne & Gaebler 1992, cited in Zarzycka & Michalak 2013). These approaches induced a more extensive

application of market orientation in the local public sector (Mahmoud & Hinson 2012). Even though favouring competitiveness over cooperation has made the marketing concept seem almost harmful to public services (Laing 2003), the NPM has encouraged the convergence of scientific disciplines of public administration and marketing.

This convergence, however, has certain discrepancies. From the marketing perspective, the public administration equals bureaucracy, inefficiency and the lack of tendency towards performance-oriented management. Simultaneously, the public administration criticizes marketing as a non-productive and resource-consuming function, rooted somewhere between the notion of 'trade' and 'profit'. These notions are considered unethical for the ethos of public services, characterized by a social mission and public good (Butler & Collins 1995, Laing & McKee 2001, Parker et al., 2007, cited in Kaplan & Haenlein 2009). Such discrepancies cause some public administration scientists to doubt the relevance of adopting a comprehensive marketing approach in the public services sector. They even view marketing as counterproductive and potentially harmful for the public service entities (e.g. Walsh 1991, Caruana et al. 1997, Laing & McKee 2001, cited in Laing 2003, Kaplan & Haenlein 2009).

Profit sector activities are regarded as primarily aimed at satisfying the users' needs and expectations. In contrast, public administration is primarily focused on enforcing laws and other regulations; hence, the increase of the level of users' satisfaction is not the primary concern of public entities (Grimmer 2004, Goldkuhl & Lind 2008, Jurisch et al. 2012 cited in Jurisch et al. 2013). Besides, some authors claim that

public entities are less interested in reducing costs and increasing productivity, since they rely more on the allocation of budget funds and are less exposed to market conditions. The results of a meta-analysis (Jurisch et al. 2013), based on 92 profit sector and 36 public entities, did not confirm these claims.

The limited ability of public entities to apply the market-oriented approach is justified by legal restrictions, political philosophy, lack of organizational and financial resources and competition, especially in monopolized government sectors (Mahmoud & Hinson 2012). Moreover, the analysis of business cases of local administrations in England and Wales (Chew & Vinestock 2012) has found substantial differences in market orientation between two types of public services: mandatory (i.e., obligated by the law) and discretionary. Within the provision of discretionary services, the public service entities ensured that expected income and users' participation are the primary performance criteria. In contrast, these are not priority outcomes within the provision of mandatory services.

Even though numerous public sector reforms include the recommendations for a better adaptation of the public services to its users, public policies continue focusing on reducing the public costs of the provided services, rather than on improving service quality or creating value for money. In cases, where public reforms impose market orientation, the public administration does not necessarily need to implement them, which may create a less favourable, or even negative perception about the positive influence of market orientation on the performance and service quality (Walker et al. 2011).

Nowadays, in the so-called post-NPM period, local administrations still confront

the well-known issues of insufficient effectiveness and efficiency, which are especially challenging during severe austerity policies. Nevertheless, Europe is experiencing a value-driven sway, with many countries seeking to increase service quality, strengthen citizens' satisfaction and democratic participation (Schwab et al., 2017, Koprić & Wollmann, 2018). Many alternative paradigms emerged in the post-NPM times: new public service, public value management, digital era governance, the neo-Weberian state and new public governance (Çolak, 2019). These paradigms aim to correct some of the unintended outcomes of NPM (e.g., the analysis of the effects of NPM reforms available in Pollitt & Dan, 2011). Still, local administrations in Europe often achieve improvements through incremental reforms (like better transparency via new digital technologies, which enable citizen control and participation). Research indicates that local administrations should rely on a suitable practice, which enhances local performance, such as efficiency/savings; effectiveness/goal attainment; citizen orientation/satisfaction, etc. Even performance measurement, as a typical NPM reform, can be used for control, planning, and to increase efficiency in the post-NPM 'era' (Schwab et al., 2017). These suggest that the city administration should not wait for exogenous inducements from the local public sector reforms or legally prescribed obligations (Maleković & Puljiz 2010: 201; Kim & Short 2008). Instead, they should learn from best practices and modify them to their requirements, including market orientation implementation to ensure improvements in public service delivery (Schwab et al., 2017).

2.2. Market orientation in the context of multiple stakeholders

Abovementioned discrepancies between the public administration and marketing are considered obstacles to introducing the marketing concept into the public sector entities. It is considered that the conventional (transaction) marketing approach (with the emphasis on market dynamics, competitors and individual consumers) is not compatible with public values and responsibilities of the public sector. Similarly, due to its limited scope, the existing paradigm of market orientation has been criticized by several authors (e.g., Ferrel et al. 2010, Greenley et al. 2005, Kaur & Gupta 2010, Matsuno & Mentzer 2000 cited in Line 2013). Market orientation concept has been traditionally operationalized as a function of consumer and/or competitor-oriented activities (approach by Kohli & Jaworski 1990) of gathering market information, disseminating information within a business entity, and market-oriented response to the collected information. Otherwise, it was conceived as a culturally based behavioural perspective oriented towards consumers and competitors, and inter-functional coordination (in an approach by Narver & Slater 1990). The scope of these, both widely accepted, concepts of market orientation and accompanying measurement instruments is relatively narrow. Thus, it fails to include some other equally important stakeholders, such as employees, investors, suppliers, civil sector, universities and the government (Line 2013).

Many authors have recognized the need to adapt the market orientation concept to the multiple stakeholders' environment in the nonprofit context. Even at the theory inception Narver & Slater (1990) suggested that more externally focused market-oriented business entities are likely to have

more leverage in terms of their ability to recognize the influence of other stakeholders, apart from consumers and competitors. Cervera et al. (2001) also emphasized the need to expand the comprehension of market orientation construct (based on the findings of their research of market orientation in Spanish local public sector¹, from citizens as key stakeholders to other stakeholders like investors, visitors, civil servants and other people who interact with the local administration. Line et al. (2019) draw the same conclusion and advocate for multiple stakeholder market orientation approach upon reviewing the literature from market orientation, stakeholder orientation and stakeholder marketing fields.

The re-conceptualization of marketing through the stakeholder orientation represents a paradigm compatible with the prevailing characteristics of the public sector. This orientation is based on the stakeholder theory, which is essentially a theory about the most efficient way of operating a business; i.e. a stakeholder approach which advocates the creation of increased value for stakeholders without resorting to trade-offs (Freeman et al. 2010). Although the stakeholder theory originated in the 1980s, some of the most prominent research on stakeholder orientation emerged later: Maignan & Ferrell, 2004, Yau et al. 2007, Ferrel et al. 2010, Laczniak & Murphy, 2012, Mena & Chabowski, 2015 (as reviewed by Line et al. 2019).

Empirical research (e.g., Freeman et al. 2010, Duesing 2013) has found advantages of the stakeholder approach, within business entities (mostly in the profit sector) with a developed multiple stakeholder orientation (consumers, employees, competitors, unions and shareholders). These business entities exhibit above-average market performance (an increase of sales, market

share and new products success) and superior stakeholder identification and alignment with objectives and initiatives of the business entity (e.g., investors aware of sustainable development importance or energy efficiency requirements). Consequently, these qualities may lead to the enhanced commitment of employees, improved reputation and better business performance. Furthermore, Greenley et al. (2005) found that marketing executives with multiple stakeholder orientation profiles have a superior understanding of customers and networking potential, superior capabilities in financial, HR and marketing management, new product development and internal communications.

Combining the service-dominant logic of marketing, stakeholder theory and the market orientation paradigm, Line et al. (2019) proposed a comprehensive model of multiple stakeholder market orientation. This model integrates the so-called ‘operant resources’, like stakeholder orientation (includes stakeholder prioritization, stakeholder intelligence generation and stakeholder intelligence dissemination), systems orientation, and shared value orientation, with ‘total value creation’, which synthesizes the outcomes, measurable by reputation, innovation, and performance-based effects. Finally, the notion of multiple stakeholder market orientation was defined by Line in 2013, and revised by Line et al. (2019) as: *“set of organizational behaviours reflective of an organization-wide commitment to total value creation by (1) understanding and reacting to the needs of salient stakeholder markets and (2) generating and communicating information across these markets”*. Adoption of a broader perspective and the inclusion of multiple stakeholders resulted in the research of market orientation in the multiple stakeholder nonprofit and public sector environment (e.g. Croatian articles

by Mihanović 2006 and 2010, Mihanović et al. 2014, Pavičić et al. 2007, Alfirević et al. 2011, Gluić & Mihanović 2016, Širola 2017).

Profit entities, but especially nonprofit and public sector entities, have multiple stakeholders, with different and sometimes conflicting interests; therefore, the proportional significance these entities attribute to a specific group of stakeholders will also differ (Greenley et al. 2004). In this context, we should emphasize the ‘multiple constituency theory’, which acknowledges that a business entity has multiple stakeholders (especially in the nonprofit and public sector). Stakeholders vary, in terms of their goals and expectations, and they will, eventually, differ in terms of the criteria they apply for the assessment of business effectiveness, i.e. the level of realization of their expectations (Herman & Renz 1997). An issue is raised here of whether the nonprofit or public sector entities exhibit different levels of market orientation towards relevant groups of stakeholders, or they differ only as a result of the total level of external market orientation. If the levels of market orientation towards a single group of stakeholders differs, this may have a certain impact on the behaviours of nonprofit and public entities towards other groups of stakeholders. It is implied that the level of market orientation towards a particular group of stakeholders may have a different impact on organizational performance and users’ satisfaction indicators on a specific market, i.e. group of stakeholders (Padanyi & Gainer 2004). The discussion about this issue led us to formulate the following hypothesis:

H1: The levels of market orientation towards multiple groups of city administration stakeholders are of different intensity and in mutual correlation.

2.3. Main attributes of city development management

The advancement of modern societies is increasingly based on the development of regions and cities. Over the past decades, the contemporary democratic countries have advocated the obligation to meet the citizens’ rights and needs, primarily on the local and regional level, where their needs are most efficiently recognized and economically met (e.g. EU Charter of Local Self-Government, Art. 4 para. 3 or the Constitution of the Republic of Croatia Art. 135).

The significance of the cities keeps increasing in the modern economy and society. Economic power, citizens, expertise, and innovation are all concentrated in the cities. By offering education, particularly higher education, culture, and employment opportunities, they offer the possibilities for prosperity. Simultaneously, the cities are becoming the focal point for social instabilities, such as exclusion, segregation, housing issues, insecurity, addictions, pollution, unemployment, poverty, etc. Consequently, having a competent city management has become crucial, and cities have become the backbone of polycentric functioning of European countries (Koprić, 2018). The significance of the cities in the modern economy and society was one of the underlying reasons for choosing cities and city administration as the basis for this research of market orientation and performance, even though this issue is equally applicable to counties or municipalities.

City management has many constraints to confront. The legal framework, which governs the city administration within the multilevel governance environment, implies that the efforts aimed at achieving the set goals in a particular area may lead to the overlapping of competence and impact of

local, regional, and national level. For instance, there is a limited scope of functions at the local administration level in Croatia. Moreover, numerous stakeholders responsible for different segments of development decide on the activities at a particular level, which sometimes leads to discrepancies, doubling of expenses or process slowdowns. In fact, the stakeholders - providers of services in the cities, may be public, public-private or private (profit) entities with different missions, goals and scopes of legal competences, and sometimes with insufficient financial, organizational and human resources, necessary for the realization of their mission. Consequently, the consumers perceive the cities as products, through numerous unique services and experiences, over which the stakeholders responsible for the city development often do not have complete control (Warnaby & Davies 1997).

The process of meeting the users' needs on the market of public services is different and more complex than the process of meeting the consumers' needs on traditional markets for products and services. It is also more challenging to determine the appropriate target markets, within the implementation of market orientation in the nonprofit and public context since the nonprofit entities simultaneously participate in several markets and provide services to multiple stakeholders (Gainer & Padanyi 2005, cited in Stritch 2016). This situation and the frequent perception of the monopolistic position of local and public administration in general makes the city management substantially more complicated with respect to the profit sector management.

Local public service markets are polycentric since they form part of and interact with national and regional markets and the providers of local services (e.g.,

agencies, public companies, state administration, etc.). They mutually compete for the allocation of local resources, budgetary resources, and the services they provide (Paliaga 2008). Mutual competition does not mean that the public sector entities lose their consumers, because they can be either monopolists (Proctor, 2007) (e.g., communal services), or provide free or paid services or statutory services (e.g., tax and customs duty services).

In addition, the demands of target consumers are often numerous and various on the public service market and their expectations are sometimes mutually conflicting. Therefore, we often encounter the "owners" of the city administration (voters), who demand excellent levels of local public services, at a very low price or even for free. They also expect the public sector to operate effectively and efficiently, to deliver its services at affordable prices (e.g. subsidy of housing costs), without increasing their revenue by raising local taxes, or the prices of communal services (Gardiner 2005). Moreover, the complex relations between the providers and the users of local public services include the cooperation with the users, who have been imposed with a certain obligation (e.g., waste sorting) and the users who pay for some public services, and in other circumstance obtain certain public services for free, e.g., public goods (Walker et al. 2011). Managing the resources of these multiple (mainly 'primary') stakeholders may be an issue, particularly because of the partly conflicting interests and insufficient resources to meet all stakeholders' interests (Greenley et al. 2004).

Besides these general characteristics of the local public services market, the system of local administration in Croatia is additionally strained by the limited scope of jobs, defined by the Act on Local and

Regional Self-Government, and a series of specific characteristics, often emphasized by the researchers in this area (Koprić 2010 and Koprić 2012):

- *Extensive territorial fragmentation and insufficient stability.* From 1993 to 2016, the number of local administration entities increased by six times with respect to the pre-war period. The number of cities increased by 86%, i.e. 59 new cities were established, as well as ten new municipalities. Compared to other successor states of former Yugoslavia, Croatia has the most fragmented local self-government structure, with only 7.751 citizens per average local entity (Koprić, 2018). The EU Council has regularly criticized such extensive fragmentation in their annual recommendations; however, numerous improvement recommendations have yet to be adopted (list of Country Specific Recommendations issued by EU Council from 2014 till 2018, available in Koprić, 2019. Identical recommendations have been issued in 2019 and 2020 EU Recommendations (2020).
- *Overly complicated territorial structure* (two-level polytypic structure, which nowadays includes 429 municipalities, 127 cities, plus Zagreb as the capital city and the 21st county). Additionally, 2005 saw the introduction of the category of ‘large’ cities (17 cities with over 35.000 citizens) statistical regions, urban agglomerations, and urban areas.
- *Insufficient administrative and fiscal decentralization.* An overall evaluation of the Croatian decentralization process prepared by the World Bank (2016) concludes that “*despite legislative improvements, the degree of*

decentralization remains low”. The World Bank assesses that “*current fragmentation of local administrations makes it hard to serve citizens effectively*”. It finds “*inequality in service provision because small municipalities and cities with little fiscal capacity cannot provide residents with the same range and quality of public services as (17) larger cities which provide most decentralized public services*” (Koprić & Đulabić, 2018).

The consequences of these characteristics of the Croatian local administrations are as follows:

- *Inadequate effectiveness* – one of the critical complaints of entrepreneurs and analysts, which refers to public administration efficiency. According to the Global Competitiveness Report (WEF 2019), the inefficiency of the public administration presents a substantial obstacle to entrepreneurial business transactions, with the burden of government regulation ranked as the 139th of the total of 141 analyzed countries, and efficiency of the legal framework in settling disputes ranked as the 140th of the total of 141 analyzed countries.
- *Low level of independence* – reflected in many areas, namely (Ministry of Administration 2016): *fiscal* independence (rated as the second-worst on the five-grade scale), *financial* independence (rated as “limited”), and *institutional* independence rated as “partial” (medium level).
- *Reduced development potential* – resulting from the extensive territorial fragmentation and insufficient administrative and fiscal decentralization, thus preventing the cities and other local administration entities from achieving their investment potential.

The complexity of measuring and managing performance in the public sector contributes to the complexity of the public administration system. As the main cause of difficulty in measuring performance in the public sector, research has recognised the presence of multiple stakeholders with different expectations, mismatch of the mission and the programme, impaired harmonization of outputs and outcomes, or the limitations of using only the financial indicators of success (e.g. Duque-Zuluaga & Schneider 2008). Furthermore, the purpose of the public sector management (primarily, within mandatory services provision) is not to achieve the largest profit or return on investment, but mainly to meet the users' needs. In some cases, the users' demands and goals are unclear, which makes it challenging to find effective and efficient metrics for the achievement of their goals (Vitezić 2007).

The media, politicians, and reform advocates make the performance situation even worse, because they portray the public sector as inefficient, overburdened with demanding rules and inferior to the profit sector (Hvidman & Andersen 2015). However, Andrews et al. (2011) used meta-analysis to explore the influence of three factors of difference between the profit and the public sector: namely, property (public, profit or nonprofit), funding (budgetary resources as opposed to consumer-generated revenue) and control (by political authorities or the market) on the performance of public and profit entities (measured through three key indicators: effectiveness, efficiency and availability). They concluded that there is no actual consistent evidence of the differences between the public and profit sector entities, primarily in terms of effectiveness and efficiency.

The introduction of performance measurement in the Croatian public sector commenced in 2009, with the obligatory adoption of strategic three-year plans (for counties) and development plans for the local administrations. However, the inception of long-term, medium-term and short-term planning for central and local administration and establishing the information system for monitoring the achievements, was set to become legally binding from 2020. Hence, the analysis of the effects has yet to be performed. Although according to the Regional Development Act, local and regional administrations are required to draw up a series of reports, there seems to be no public interest for the use of information, provided by those reports. Moreover, mandatory semi-annual reports are often descriptive and formal, without obligatory structure and specific results tracking. Consequently, that impedes the broader effects of the performance monitoring system (Manojlović Toman, 2019).

The current system cannot provide a homogenous and consistent objective measurement of the impact of market orientation implementation on the performance of Croatian cities. Although the influence of market orientation involves both the objective and subjective approach of performance measurement, the research in the profit sector shows substantially higher levels of correlation with the construct of market orientation in subjective (self-reported) measurement (r from 0.26 to 0.41), with respect to objective measurement (r from 0.07 to 0.38). In fact, the self-reported performance is subject to the common method variance bias, as the informant answers questions about the performance measurement system and the organizational effectiveness within the same instrument, which may result in stronger correlations. Also, there may be a positive response bias, if the

respondents are responsible for introducing the performance measurement system and reporting on the perceived effectiveness (Gerrish, 2016). Such bias of the respondents can be avoided, if the users of public services are included in the research. However, considering the high level of correlation between the objective and subjective performance indicators in empirical research, we can conclude that the subjective approach is valid, especially in the cases when available objective indicators are inadequate (Cervera et al. 2001). As a result, the following hypothesis is proposed:

H2: Market orientation of the city administrations has a direct, positive and substantial influence on the organizational performance of city administrations and the performance of local public service users.

This hypothesis focuses on attesting the positive influences of higher levels of market orientation of city administrations on the performance of city administrations in the Republic of Croatia, which does not prescribe nor foster the application of market orientation, continuous measurement and comparison of performance.

3. EMPIRICAL RESEARCH

3.1. Research model

The analysis of the market orientation of city administrations should absolutely consider the environment of multiple stakeholders, within the local public sector operates and where, apart from the users of public services, other relevant groups of stakeholders have been recognized. The users of local public services include the citizens, who may act as employees, visitors, entrepreneurs or investors, following the Kotler's classification within the

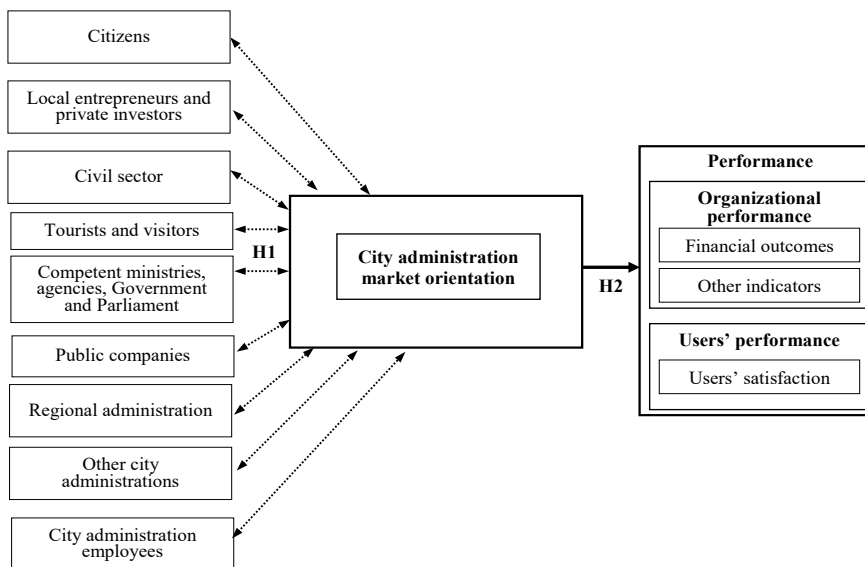
place marketing theory (Kotler et al. 1999). Moreover, the citizens of other settlements want their needs to be met, when they select the place of study, housing, work, business operation, investment or tourist visit.

The process of identifying and analyzing the relative significance of each stakeholder for Croatian city administrations was carried out by using the expertise of employees, selected from cities of different sizes and categories ('large cities' and other cities). Seven experts evaluated the final list of 27 possible city administration stakeholders (chosen from the original list of 31 proposed in the first step), generated following the previous research (e.g. Gomes et al., 2010) and expert suggestions. The analysis of the stakeholder salience applied the well-known concept of three attributes (criteria), developed by Mitchell et al. (1997), combined with Ackerman & Eden (2011) power-interest grid and modified, following the approach of Bryson et al. (2011). The city administration experts evaluated the proposed 27 stakeholders on a 1 to 5 scale, according to their importance (power), influence on city administration decision-making, and their role in managing the local resources. Following the results of the grading process, two stakeholder groups were retained (public companies and other city administrations), while other 18 stakeholder groups were integrated into seven 'umbrella' groups (the process is described in more detail in Širola, 2017). Finally, nine most salient stakeholders for the local public sector in Croatia were selected, namely: citizens, local entrepreneurs and private investors; tourists and visitors; civil sector; competent ministries, government agencies, central Government and Parliament; public companies; regional administration entities (counties); other city administrations (competitor cities) and city administration employees (further elaborated in Širola, 2018).

As previously stated, we can assume that these groups of stakeholders will have different goals and expectations and that they will mutually differ in the assessment of city administration efficiency, i.e. the extent to which their expectations have been met. At the same time, there is the question of whether the city administrations in Croatia exhibit different levels of market orientation towards specific relevant groups of stakeholders.

The first hypothesis emphasizes the need to observe the complexity of the environment within the local public administration operates, considering its specific monopolistic position and the social role, in the context of multiple stakeholders with various demands. These demands are commonly addressed, according to the achieved level of understanding of the city administrations' role in the Republic of Croatia, and only partly conditioned by the legal framework.

We have previously pointed out that numerous studies have successfully confirmed **Figure 1. Conceptual research model**



Source: Authors

the correlation and influence of market orientation on the performance of a business entity (in the profit, nonprofit and public sector). To design the model of the influence of market orientation on performance, we have implemented and adapted the model, developed by Jaworski and Kohli (1993). The subjective measurement comprises three groups of performance indicators, predominantly based on the approach implemented by Padanyi & Gainer (2004): examining the satisfaction of four groups of users (citizens, local entrepreneurs and private investors, tourists and visitors, and civil sector); organizational performance, comprising the measurement of two sub-groups of indicators, namely the resources (financial, natural, human) and other indicators (quality, employees' commitment, long-term orientation). Following the subjective (self-reported) approach, the second hypothesis has been The first.

The proposed hypotheses are shown within the conceptual model in Figure 1.

3.2. Research methodology

The instrument used in this research is a questionnaire, consisting of the constructs, presented in the conceptual model. We considered different approaches in the process of designing a scale for measuring the level of market orientation, but we were mostly focused on the activity-based approaches (primarily the Kohli & Jaworski approach) and the approaches from the aspect of organizational culture (Narver & Slater approach). These authors have developed the accompanying instruments, referred to as MARKOR and MKTOR, which were applied and tested by numerous researchers in their original or adapted version.

We considered the following in the process of selecting the scale for measuring market orientation in this paper:

- MARKOR scale was developed within the Jaworski & Kohli model (1993) which, according to Siguaw et al. analysis (1998, cited in Cervera et al. 2001), represents the most comprehensive conceptualization of the market orientation construct;
- Statistical analyses of validity, reliability and influence for explaining the performance (e.g., Oczkowski & Farell 1998; Deshpande & Farley 1998) favoured the Narver & Slater (1990) and Deshpande et al. (1993) instrument. However, the results of the analyzed meta and mega-analysis (cited in section 1) showed slightly lower reliability of the MARKOR scale (Jaworski & Kohli, 1993) compared to MKTOR (Narver & Slater, 1990), but also a substantially larger number of applications and higher level of measured influence on the results for the MARKOR scale;
- MARKOR scale was adapted for the public sector (Cervera et al. 2001) and

it has been extensively used and tested in the research of local public and non-profit sector (e.g., Caruana et al. 1997, Cervera et al. 2001, Kowalik 2011, Rodrigues & Pinho 2012). The multi-stakeholder approach was implemented as well (e.g. Mihanović 2006 and 2010, Pavičić et al. 2007, Alfirević et al. 2011, Gluić & Mihanović 2016, Širola 2017).

As a result, in this paper, we applied the MARKOR instrument for the verification of the hypotheses. In the second step, all statements from the original scale (Kohli et al. 1993) were adapted for the local public sector research, following the previous research in the local public sector (e.g., Cervera, 1999; Caruana et al. 1998; Kowalik 2011). The original statements were partly translated (from English and Spanish) and somewhat adapted from already translated statements for the nonprofit sector (Mihanović 2010). Eleven statements (out of 20), covering each dimension of the market orientation construct (i.e. generating, dissemination and market-oriented response to information) have been adapted to allow for a separate assessment, for each of the nine previously selected groups of stakeholders. We used the 5-point Likert scale for all variables (from 1: “strongly disagree” to 5: “strongly agree”), which had been used for the majority of previous market orientation research, as it facilitated comparisons.

The statements regarding organizational performance were partly adapted from studies, previously using it in the non-profit sector (Padanyi & Gainer 2004), the higher education sector, (Mihanović 2010) and the local public sector (Cervera 1999). Out of the original three groups of performance indicators, formulated by Padanyi & Gainer (2004): users’ satisfaction, resources and reputation, we kept the groups of statements, which referred to the users’ satisfaction and

resources (financial, natural and human) and other indicators (quality, employees' commitment, long-term orientation). We left out the group of statements for measuring reputation. The statements were formulated to allow the informants to assess the trends in the past three years, since the same administration had been in power for three consecutive years (from the elections in May 2013) in the majority of city administrations during this research (June-July 2016). In this way, we were able to account for the fact that market orientation should represent a long-term option and that the effects of market orientation take time to show, concerning when the action was taken, which is also called the "lag effect" (Stritch 2016).

The population of cities in the Republic of Croatia consists of 128 cities (city administrations). This situation complicates the collection of an appropriate sample, considering the target statistical method, which was mitigated by the inclusion of municipal service and other companies, founded and owned by city administrations (population of 167 entities). Within each city administration, we selected a multi-informant sample, consisting of managers, to avoid the shortcomings of the survey using a single-informant sample, which is usually a mayor (Kaur & Gupta 2010).

The online questionnaire was prepared with the LimeSurvey tool. We received 129 eligible answers from 79 cities located in all Croatian counties, which represents a 62% response from the city administrations. For the analysis of the collected empirical data, we used the statistical tool SPSS (Statistical Package for the Social Science), 16.0 for Windows, as well as GNU PSPP Statistical Analysis Software (Release 0.9.0-g3a3d58, version 2014). We used the methods of descriptive and inferential statistics for data analysis. The regression analysis was

selected among the multivariate methods, whereas the correlation and ANOVA were chosen among the univariate statistical analyses. The reliability verification of the measurement scales was performed by the Cronbach's alpha coefficient. The summary of results is shown in Table 1.

Table 1. Reliability indicators

Concept	Cronbach's alpha coefficient
Market orientation	0.966
Organizational performance	0.678
User performance (satisfaction)	0.878
Total (N) = 81 statements	0.970

Source: Research results

Reliability analysis shows that the value of the Cronbach's alpha coefficient for each concept in the measurement instrument is between 0.678 and 0.966. All coefficients are within the referential limits of reliability. The value of the coefficient for the concept of organizational performance is 0.678, which represents eligible reliability (in general, reliabilities less than 0.60 are considered to be poor, those in the 0.70 range acceptable, and those over 0.80 good, according to Sekaran 2003). Cronbach's alpha coefficients for all other concepts are above 0.80, which shows that the measurements of these concepts are highly reliable. The coefficient of reliability for the total measurement instrument is 0.970, which shows a high level of internal stability and instrument consistency.

3.3. Research findings

Within the first hypothesis (H1), we assumed that *"the levels of market orientation towards multiple city administration stakeholders are of different intensity and in mutual correlation."* To determine different intensities of market orientation

towards a specific group of stakeholders, we calculated the arithmetic means, standard deviations and variation coefficients for each statement in the questionnaire which

assessed market orientation towards particular stakeholders, and general questions (for all stakeholders). The results were presented in Table 2 (ranked).

Table 2. Ranking scale according to the levels of market orientation for all groups of stakeholders

Groups of stakeholders	Arithmetic mean	Standard dev.	Variation coeff.
Citizens	3.7635	0.928	0.2478
Local entrepreneurs and private investors	3.7424	0.914	0.2454
Civil sector	3.7171	0.928	0.2508
Regional administration entities (counties)	3.7169	0.933	0.2538
City administration employees	3.6730	0.895	0.2467
Competent ministries, government agencies, Government and Parliament	3.6600	0.938	0.2596
Public companies	3.6508	0.947	0.2622
Other city administrations (competing cities)	3.6482	0.902	0.2500
Tourists and visitors	3.6333	0.939	0.2609

Source: Research results

In addition to the levels of market orientation toward specific groups of stakeholders, we calculated the total average level of market orientation for all city administrations, which amounts to 3.69 (standard deviation = 0.565) or 73.79% of the maximum grade. It follows that the city administrations have reached the medium level of market orientation. The determined range from 3.633 or 72.66 % of the maximum grade (for tourists and visitors), to 3.7635 or 75.27% of the maximum grade (for citizens), indicates the inadequate recognition of the need for better satisfaction of the stakeholders' needs, especially the users of local public services (citizens, local entrepreneurs and private investors, civil sector and tourists). Moreover, the obtained results are similar to the levels of market orientation in other research conducted in the local public sector, e.g. 72.2% of the maximum grade in the Polish local administration or 68.43% in the Australian regional government bureaus (Kowalik 2011). These results *confirm the first part of the H1 hypothesis*, which states that “*the levels of*

market orientation towards multiple groups of city administration stakeholders are of different intensity”.

To examine the impact of the different economic structure of the cities on the importance of tourists and visitors as a stakeholder group, from the total sample, we extracted the results for 23 cities with the developed tourism sector (cities whose ratio of the average annual tourist arrivals, between 2013 and 2015, and the number of citizens is larger than two, with the sample average of 5.6). These cities have an average level of market orientation towards tourists and visitors of 3.7418, whereas the results for the entire sample amounts to 3.6333. Therefore, we modified the original ranking scale of market orientation towards the stakeholders in Table 2, with the result of market orientation towards tourists and visitors, for the group of 23 cities with developed tourism. Finally, we obtained a different situation: three first places are now assumed by citizens, local entrepreneurs and private investors, followed by tourists and

visitors. These are the groups of stakeholders that many authors classified among the most relevant groups of users of local public services (e.g. Kotler et al. 1999, Cervera et al. 2001, Braun 2008).

The second part of the first hypothesis (H1) states that the levels of market orientation towards specific groups of stakeholders are in mutual correlation, which was subject to the following correlation analysis performed on the sample of 129 respondents.

Table 3. Correlation analysis of market orientation towards specific groups of stakeholders

	Groups of stakeholders	1	2	3	4	5	6	7	8	9
1	Citizens	1								
2	Entrepreneurs and private investors	0.970	1							
3	Tourists and visitors	0.874	0.874	1						
4	Civil sector	0.925	0.926	0.907	1					
5	Competent ministries, government agencies, Croatian Government and Parliament	0.889	0.906	0.847	0.891	1				
6	Public companies	0.891	0.909	0.846	0.891	0.969	1			
7	County to which the city belongs	0.888	0.892	0.819	0.883	0.967	0.954	1		
8	City administration employees	0.899	0.913	0.842	0.883	0.943	0.928	0.930	1	
9	Other local administrations (competitors)	0.882	0.890	0.855	0.885	0.937	0.931	0.930	0.964	1

Note: All correlations significant at the $p < 0.01$.

Source: Research results

The results in Table 3 indicate positive and robust correlations between market orientations towards specific stakeholders, i.e. they show that one group of stakeholders has a considerable role in the realization of market orientation of the other group of stakeholders. All observed correlations are statistically significant at the significance level of 0.01. Here, we should also consider the possibility of the halo-effect (halo error), since on average 56% of informants (within the range of 40.3% to 72.1%) provided the same assessment for all stakeholders in multi-item statements for specific stakeholders, which may decrease variance significance. The conducted analysis confirms that the values of correlation coefficients are different and statistically

significant. Hence, it can be concluded that there is a statistically significant, positive and strong correlation of different intensity between the market orientation of specific stakeholders. *These results entirely support the H1 hypothesis.*

We conducted a correlation and linear regression analysis to examine the influence of market orientation on organizational performance of city administrations and the performance of local public service users, which is assumed by the H2 hypothesis. The correlation analysis of market orientation and total performance, as well as organizational performance and users' (satisfaction) performance, was conducted on the sample of 79 cities (see results in Table 4).

Table 4. Correlation analysis of total market orientation and performance (abbreviated form)

Correlations				
		Total performance	Organizational performance	Indicators of users' satisfaction
Market orientation	Pearson correlation	0.490**	0.407**	0.458**
	Reliability (two-sided)	0.000	0.000	0.000
	N	79	79	79

Note:** Significant correlation at the 0.01 level (two-sided).

Source: Research results

The results of the correlation analysis indicate a medium-strong, positive and statistically significant correlation between the market orientation of city administrations and the total performance of the cities, organizational performance and users' (satisfaction) performance, which *confirms the H2 hypothesis*.

To determine the intensity of this correlation, we conducted a regression analysis on the sample of 129 informants. Analysis of distribution normality demonstrated that all values comply with the suggested limits for normal distribution (see the results of the regression analysis in Table 5).

Table 5. The regression model

R	R ²	Adj. R ²	Standard assessment error
0.530 ^a	0.290	0.280	0.380

Note: a. Predictors: (Constant), market orientation

Source: Research results

The regression analysis revealed $R = 0.530$; therefore, it can be concluded that there is a high level of correlation between market orientation and total performance. The determination coefficient ($R^2 = 0.290$) implies that the market orientation variable may account for 29% of the variance of total performance. The analysis of variance was used to investigate the ability of market orientation to predict the total performance level. The result of F value ($2, 126$) = 50.69 at $p < 0.01$, confirmed that market orientation could successfully account for the total performance.

The value of t-test (Table 6) indicates that market orientation significantly contributes to the total performance ($p < 0.01$). The value of β coefficient (0.23) denotes that the market orientation variable has a considerable impact on total performance. In order to improve the explanatory power of the regression model, used in this study, it is possible to extend the model with an additional independent variable, such as the entrepreneurial orientation (such model available in Širola, 2017).

Table 6. Regression coefficients and indicators of co-linearity in the regression model

Coefficients ^a						
Model B		Non-standardized coefficients		Standardized coefficients	t	Reliability
		Standard error	β			
	(Constant)	1.85	0.23	0.00	8.12	0.000
	Market orientation	0.44	0.06	0.23	7.12	0.000

Note: a. Dependent variable: Total performance

Source: Research results

From the above present arguments, it can be concluded that the observed regression model yields eligible results, and that market orientation as an independent variable may be used for the assessment of total performance. *These additionally confirm the H2 hypothesis*, i.e. it determines the extent to which the market orientation directly, positively and significantly influences the total performance of city administrations.

4. DISCUSSION

Due to the lacking or limited market and competitive pressures on the one hand, and the legal obligation to provide most of the local public services on the other hand, city management (and public, in general) is a challenging task. It is characterized by the perception of a monopolistic position, which potentially attenuates the propensity of the city administration to improve its effectiveness, efficiency and the quality and availability of the local public services. Complex legal framework within a multilevel governance environment, along with budgetary funding, political philosophy, and social mission represent additional obstacles to adopting business-like approaches in city management. Mixed results of NPM-like reforms in the European public sector provide an unclear picture to

the policymakers about the possible future steps (e.g. Pollitt and Dan, 2011). Thus, the increase in the level of users' satisfaction is not the primary concern of local public entities. Moreover, due to the fragmented territorial structure, uneven level of economic development and huge variations in the capacity the local administration in the Republic of Croatia has inadequate effectiveness, low level of fiscal and institutional independence and consequently, reduced development potential.

In the context of overcoming these shortcomings in the local administrations, it should be noted that the administrative recommendations (issued by the EU Council) were partly included in the Croatian legal and development framework (primarily through the Regional Development Act and the 2015 Public Administration Development Strategy). These documents emphasize the preference of "good governance" approach in the public administration, the inclusion of stakeholders in the decision-making and implementation of developmental plans, and the criteria of effectiveness and efficiency of public administration. However, the comprehensive mechanisms for monitoring the adoption of these recommendations have not been implemented in practice (launched in 2020). Meanwhile, the budgetary performance is monitored only in specific segments. For instance, the State Audit Office may conduct periodic

performance audit or local administration debt level controls (Manojlović Toman, 2019).

Although the so-called post-NPM doctrines (incl. the “good governance”) also advocate the inclusion of performance measurement, their application in practice is not straightforward. Besides the apparent advantages (e.g. more transparency, rationalization, accountability and better results; de Bruijn 2002 and Vitezić 2007), there is a perception of some disadvantages, as well. For instance, local administrations are compelled to quantify their goals and then report on their achievements, which sometimes may be politically inconvenient. Politics aside, the benefits of the outcomes of some goals and programmes are hard to assess, considering numerous stakeholders involved and the presence of the lag effect.

Furthermore, the discrepancies between public administration and marketing perspectives potentially alienate the concept of market orientation further away from the city administrations. Consequently, the city administrations may hesitate to exploit the suitability of market orientation (and other proven profit sector management techniques) in the local public sphere. Moreover, the eventual (local) public sector reform should include the appropriate alternative for the notion of the market orientation (possibly more acceptable notion of the stakeholder orientation, although not the synonym).

5. CONCLUDING REMARKS AND IMPLICATIONS

Previously elaborated distinctions between the marketing and public administration perspectives of the (local) public management may explain the existing scarce

research of the market orientation in this context. The previous studies of multiple stakeholder market orientation in the local public sector have not been found, so the present study contributes to this field. The methodology of defining the relevant city administration stakeholders used in this research can provide a solid ground for determining the salient stakeholders in the practice of various local or regional administrations. Although the citizens remain the fundamental stakeholder for each local public entity, selecting other key stakeholders may follow the procedure designed for the tourist and visitor group of stakeholders in this study (with the separate criterion for each stakeholder group).

The perception of market and marketing concepts in the local administrations guided the research design in this paper. In order to avoid unwanted connotations, the research was designed to explore the existence of specific activities and behaviours, not the level of understanding and acceptance of the concept of marketing and market orientation. This approach was adopted, based on the previous research, indicating that certain marketing tools have already been applied in the public sector (e.g. Cervera et al. 1999), even though these tasks are not usually formalized in the organizational structure and are performed intermittently. The research on market orientation has found that this strategic orientation has been adopted in the Croatian city administrations to a medium extent (3.69 or 73.79% of the maximum grade), which, although inadequate, is similar to the levels of market orientation in the local public sector, found in other countries. As hypothesized, the research corroborated the fact that the levels of market orientation towards city administration stakeholders have different intensity (revised range from 3.65 for competitor cities to 3.76 for citizens), and very high level

of mutual correlations (r from 0.82 to 0.97). The established different levels of market orientation towards specific stakeholders indicate that the city administrations differentiate between their users and other stakeholders and allocate the available resources accordingly. Furthermore, these results also corroborate the value of market orientation concept in a complex multiple stakeholder local public environment, characterized by the lack of legal obligations to monitor and improve the performance, quality and availability of local public services.

The research also confirmed the second hypothesis and demonstrated a medium level of correlation between market orientation and performance (r from 0.407 for organizational performance to 0.490 for total performance) and the substantial influence of market orientation on analyzed organizational and user performance ($\beta = 0.23$, $t = 7.12$, $p < 0.01$). Although research findings highlighted the strong correlations between market orientation and performance, we should take into consideration that the performance evaluation was self-reported (subjectively measured). According to previous studies (e.g. Gerrish, 2016), this implies the possibility that objectively measured performance would not replicate the same level of correlation intensity or the influence of market orientation.

The market orientation benefits have been repeatedly proved in the profit sector (including the Republic of Croatia) and to a minor extent in the (local) public sector. However, to exploit these benefits in city administrations, certain changes will need to be implemented into the Croatian public administration. Although there are some indications of the national reform in the domain of the systematic measurement of performance of the regional and local administrations (since 2020), city

administrations should consider pursuing their own initiatives. They should follow the suggestions from the experts in the field, learn from best practices and modify them to their requirements, including market orientation implementation to ensure improvements in public service delivery. Because the city administrations already show a certain (medium) level of market orientation, they can rely on the faster and more available endogenous (bottom-up) development approach, instead of waiting for the reform to be carried out.

In the context of future research, the methodological contribution of this paper is a further adaptation and development of the original MARKOR scale for the local public sector environment. It involved introducing the statements from compatible measurement instruments of the market orientation construct and the statements used in the MARKOR scale adapted for the local public sector of other countries and the nonprofit sector in Croatia. Furthermore, the challenging direction of future research may be to compare the levels of market orientation towards specific groups of stakeholders and the invested resources for different marketing and other activities undertaken by city administrations for a more efficient satisfaction of needs, primarily of local public service users. The challenge here is to recognize the projects, programmes and segments of budgetary expenditures in general which are presumably undertaken to improve performance (or satisfaction level) of certain users of local public services and other stakeholders. Besides the accounting ambiguities in the publicly available data, another challenge here would be the separation of specific expenditures onto more users (stakeholders) and assessing the potential impact of activities from the regional or national level.

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UTJECAJ MARKETINŠKE ORIJENTACIJE I UPRAVLJANJA DIONICIMA NA PERFORMANSE GRADOVA U HRVATSKOJ

Sažetak

Implementacija marketinške orijentacije ima važnu ulogu u složenom javnom sektoru, budući da omogućava brojnim subjektima, odgovornim za razvoj različitih razina javne uprave, da efikasnije odgovore na potrebe svojih korisnika i ostalih dionika. Postojeća fragmentirana teritorijalna struktura te niska razina fiskalne i upravljačke decentralizacije slabe razvojni potencijal lokalne samouprave u Hrvatskoj, ali ne oslobađaju hrvatske gradske uprave odgovornosti ispunjavanja svoje društvene misije. Empirijskim istraživanjem kvantitativnih i kvalitativnih pokazatelja u hrvatskim gradskim upravama utvrđena je srednja razina njihove marketinške orijentacije. Rezultati korelacijske analize pokazali su statistički značajne razlike u marketinškoj orijentaciji prema svakoj od devet analiziranih skupina dionika. Slijedom očekivanja, gradske uprave iskazuju najveću marketinšku orijentiranost prema građanima. Pored toga, istraživanje je potvrdilo pozitivan utjecaj više razine marketinške orijentacije gradskih uprava prema višestrukim dionicima na njihove subjektivno mjerene performanse. Ove rezultate treba promatrati i procjenjivati, imajući u vidu činjenicu da Republika Hrvatska zakonski ne obvezuje, niti izravno potiče praćenje performansi gradskih uprava.

Ključne riječi: *gradske uprave, tržišna orijentacija, performanse, pristup dionika*