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Reward Systems and Market Orientation of Service Firms in Tanzania

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Abstract

Research on market orientation has produced empirical evidence of the positive influence of market orientation on various performance measures of business firms. Despite this evidence, firms have been observed to implement market orientation in varied degrees. Literature on factors influencing implementation of market orientation is scanty, which could arguably explain the lethargy in the implementation of this strategic orientation. This article examines the influence of market-based reward system on market orientation of service firms in Tanzania. Using data from 178 service firms in Tanzania, the article concludes that reward systems positively influence market orientation of service firms in Tanzania. It recommends that organizations to use market-based reward systems to evaluate and compensate employees so as to stimulate market orientation culture and improve firm performance.

Keywords: *market orientation, reward systems and service firms*

Introduction

Vast research has been conducted to establish the link between market orientation and firms' performance. The findings of these studies produced doubtless relationships between market orientation and various firm's performance measures (Dubhlela, 2013; Grinstein, 2008; Jaworski & Kohli, 1993; Kyung & Kim, 2013; Narver & Slater, 1990; Saini & Makolobate, 2011; Simona & Gomezb, 2014; Ovwigho, 2014). Despite the empirically evidenced influence of market orientation on firm's performance, organizations have been observed to adopt market orientation at varied pace. Some organizations have been observed to be more market-oriented than others.The variations in implementing market orientation among firms could be due to the lack of conclusive empirical evidence on factors that influence the development of market orientation. Existing literature acknowledges few studies conducted to establish antecedents to market orientation (Akila & Hilal, 2017; Avlonitis & Gounaris, 1999; Chelariu et al., 2003; Dubhlela, 2013; Foley & Fahy, 2004; Horng & Chen, 1998; Jaworski & Kohli, 1993; Philemon, 2017). Among these studies on antecedents to market orientation, a handful studies focused on perceived environmental turbulence as antecedents to market orientation

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(Philemon, 2016),while others looked at organizational factors as antecedents to market orientation (Chelariu; 2003; Jaworski & Kohli, 1993; Ruekert, 1992).

Market-based reward system is among organizational factors considered by early studies as antecedent to market orientation. These studies argue that the use of market-oriented reward system to employees at all levels is likely to influence positively the development of market orientation (Chelariu et al., 2003; Horng & Chen, 1998; Jaworski & Kohli, 1993; Ruekert, 1992;). Empirical studies on the influence of reward systems on market orientation of firms have produced mixed results. For example, while Jaworski and Kohli (1993) have observed a positive relationship between market-based reward system and three market orientation components, others (Akila & Hilal, 2017; Suryani, 2012; Hong & Chen, 1998) have observed no relationship between market-based reward systems and market orientation. This article produces empirical evidence from a developing economy on the influence of market-based reward systems on market orientation of service firms. A clear and common understanding on antecedents to market orientation is crucial for developing tools to be used by practitioners in developing market orientation philosophy.

Market Orientation(MO)

Market orientation is viewed differently by marketers who have conducted research on the construct. Some considered it to be behavioral traits that focus on achieving long-term organizational profit (Narver& Slater, 1990); while others view it as a marketing culture that puts customers central to firm activities (Narver& Slater, 1998). Market orientation has also been seen as a process that facilitates information flow within an organization (Kohli & Jaworski, 1990). Based on field findings, Kohli and Jaworski defined market orientation as an organizational-wide generation, dissemination and responsiveness to market intelligence (ibid.). This article uses Kohli and Jaworski's (1990) definition and operationalization of market orientation as it offers operational definition of market orientation, which is essential in identifying tools for developing it.

Market orientation is considered to be an appropriate philosophy when customer needs and technologies are changing rapidly (Philemon, 2016). Whether in manufacturing or service sector, a market-driven organization must have an intimate knowledge of the market so as to identify unfulfilled market needs and provide market offering that will meet those needs, thereby satisfying both the customer and meeting organizational objectives. A firm operating in a competitive environment needs to create competitive advantage over competitors to succeed. This may involve increasing productivity to reduce cost of production and/or improving quality of a product to create something unique and differentiate itself from the crowd. At times it may be difficult to attain the duo in tandem because of the trade-off involved. All in all, market orientation can be a source of competitive advantage that can help a

firm to achieve superior performance in competitive environment through increased productivity and improved quality.

Theory of Antecedents to Market Orientation

This is one of the theories on market orientation that provides foundation for market orientation as a business philosophy. It was developed by Kohli and Jaworski in 1990, and considers market orientation as an organizational-wide generation, dissemination and responsiveness to market intelligence. The theory groups antecedents to market orientation into three. First group is top management factors which include risk aversion and top management emphasize on market orientation. The second group of factors posited to influence firm's market orientation is interdepartmental dynamics, namely, interdepartmental conflicts and connectedness. The third group of factors posited to influence market orientation of a firm is organizational structures and systems, which include formalization, centralization, departmentalization and reward systems. This article uses this theory as it clearly highlights activities that need to be performed in order to develop market orientation culture in the organization.

Reward System and Market Orientation

The existing literature on antecedents to market orientation posits organization reward system to influence firms' market orientation. Jaworski (1998) argues that reward system can shape the behavior of employees within an organization, including their attitude towards customers. It is further argued that if managers' rewards are based on customer satisfaction and market orientation, then they are likely to be keen on generating intelligence, disseminating it and responding accordingly to the market needs (Jaworski & Kohli, 1990; Pulendran, 2000; Suliyanto, 2011; Webster, 1998). Sharing the same view, Ruekert (1992) argues that the use of market-based reward system to employees at all levels is likely to positively influence market orientation. Arguably, an organization rewarding employees on the basis of market performance will encourage the development of market orientation within the organization.

The asserted relationship between reward systems and market orientation can further be explained by Porter-Lawler's expectancy model (1968). This is a multi-variate model that explains the relationship between job attitude and performance. According to this model, individual behavior is determined by a combination of individual and environmental factors. The model has six elements namely: effort, value of reward, perceived effort reward probability, performance, reward and satisfaction. According to this model, people try to figure out the value of the reward they are likely to get from doing a certain job. They also assess the probability of their effort leading to a desired level of

performance, which in turn will lead to certain rewards. If people associate their effort with some rewards, then they are likely to put a certain level of effort. Borrowing this model, this article argues that a market-based reward system can lead to the development of market orientation in service firms in Tanzania. If employees in service firms perceive that their effort to focus on generating information and sharing it so as to improve services they offer and satisfy customers will lead to certain rewards, they are likely to contribute to developing market orientation.

Relationship Between Reward Systems and Market Orientation

The posited relationship between reward system and market orientation has been investigated empirically by a number of studies, which came up with mixed findings. In their study, Jaworski and Kohli (1993) examined the influence of organizational factors, including market-based reward system, on firm's market orientation. The study utilized two samples: one sample comprised of 222 Strategic Business Units (SBUs); and the second sample -- which was meant to validate findings from the first sample -- comprised of 230 SBUs. The findings of the study from the two samples revealed a strong positive relationship between reward system and the three components of market orientation. In another research conducted in manufacturing companies in Bangladesh, Zebal (2003) observed a positive relationship between reward system and market orientation. Suliyato (2011) examined the influence of market-based reward system on customer and competitor orientations. The findings revealed positive influence of market-based reward system on the two orientations.

While findings from these studies suggested a positive link between reward system and market orientation, other studies have observed no link between these two variables. Akila and Halal (2017) examined the influence of market-based reward system on overall market orientation of small entrepreneurs in Sri Lanka. The findings revealed that reward system had no effect on the overall market orientation of curd small entrepreneurs. In another study, Horng and Chen (1998) examined the influence of reward system on market orientation of small and medium firms. The sample was drawn from 500 firm members of the National Association of Small and Medium Enterprises in Taiwan. The findings of the study revealed that market-based reward system influenced the responsiveness component of market orientation but did not influence the intelligence generation and intelligence dissemination components of market orientation. Suryani (2012) conducted a study to examine the influence of market-based reward systemson market orientation of banking industry in Indonesia. The findings revealed insignificant relationship between reward system and market orientation.

The mixed findings of the researches that have examined the relationship between market-based reward system and market orientation decelerate the

effort geared to developing tools to be used by practitioners in developing market orientation. This article provides further empirical evidence that shade light on the role of reward systems in developing market orientation.

In this article we strongly believe that market-based reward system might have an impact on attitudes of employees in Tanzania towards their customers, since wage income is still relatively low in both private and public organizations. We therefore, set out to test the following hypotheses:

Hypothesis1: *The greater the reliance on market-based factors for rewarding employees, the greater the market intelligence generation of the organization*

Hypothesis 2: *The greater the reliance on market-based factors for rewarding employees, the greater the market intelligence dissemination of the organization*

Hypothesis 3: *The greater the reliance on market-based factors for rewarding employees, the greater the responsiveness of the organization to market needs*

The above discussions can be summarized into the framework in Fig. 1.

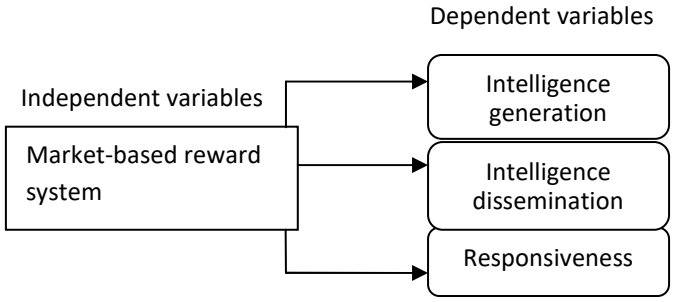


Figure 1: The influence of market based reward system on Market orientation

Source: Reviewed Literature

Methodology

The article uses data analyzed from 178 service firms in Tanzania. The service sector contributes largely to the country's GDP. In 2015 the sector contributed about 49% to GDP; while in 2016 it contributed 39.1 percent, which was below the 47.6 percent 2017 estimated contribution of the sector to GDP (Index Mundi, 2018). Therefore, enhanced performance of the sector can contribute to the growth of the economy. The sample comprised of hotels, tour operators, travel agents and insurance agents from seven regions in the country, namely: Dar es Salaam, Morogoro, Arusha, Mbeya, Kilimanjaro, Mwanza and Unguja. A multistage sampling procedure was used to constitute the sample. To ensure representation of the regions, the first step in the sampling process involved

dividing the country into six zones. Judgmental sampling was used to select regions from every zone. The selection considered regions with well-developed service firms. The final stage involved a random selection of firms that constituted the final sample. Finally, the study employed the quota method to determine the number of firms selected from each service category.

The article uses existing scales to measure variables. Reward system is measured by a 5 items scale that assessed the extent to which customer relations, customer satisfaction and market-oriented behaviors are used as a basis for employees' reward. It also uses the MARKOR scale, comprising of 28 items, to capture the three market orientation components. 8 items capture intelligence generation, 7 capture intelligence dissemination and 13 items capture responsiveness. All scales were tested for reliability and were all reliable with Cronbach Alpha above 0.7(Malhotra, 2009).

Data Analysis and Findings

Descriptive Analysis

The findings in Table 1 show that more than 50% of the firms whose data were analyzed were hotels. This is due to the fact that the population where the sample was selected comprised of more hotels than the other two business activities. The analysis further indicates that majority of firms in the sample were small. This is also in line with the situation in Tanzania, whose economy is characterized by many micro and small enterprises.

Table 1: Firms'Characteristics

Characteristic	Frequency	Percent
Business activity		
Hotel	100	56.2
Insurance	33	18.5
Travel & tour operators	45	25.3
Age of the firm(Years)		
0-5	76	42.7
6-10	38	21.3
11-15	40	22.5
16-20	5	2.8
More than 20	19	10.7
Size of the firm		
Small	153	86
Medium	19	10.7
Large	6	3.4
Distribution of the sample by region		
Arusha	19	10.7
Dar es Salaam	47	26.4
Kilimanjaro	30	16.9
Mbeya	13	7.3
Morogoro	5	2.8
Mwanza	31	17.4
Unguja	33	18.5

Firms' Reward Systems

Results in Table 2 indicate that firms across the three categories tie reward system to firms' market performance. This is not unusual given the nature of the firms involved in the study. In most cases the reward of insurance agents, travel agents and tour operators is based on commission. Likewise, in the hotel industry a certain percent of the reward to employees come from service charges imposed on customers.

Table2: Firms' Reward system

	Scale Item	Strongly disagree%	Disagree%	Agree%	Strongly agree%
1	People are rewarded for being creative	3.9	3.9	24.7	50.0
2	Customer pools are used to evaluate salespeople	5.0	13.0	18.5	48.3
3	People here are recognized for being sensitive to competitors' move	0.0	4.0	19.8	66.7
4	Reward i.e. promotion etc are associated with market intelligence generation	2.8	5.1	31.6	36.7
5	Senior managers' pay is based on customer satisfaction	2.8	1.7	23	54.5
	Average	3	6	24	51

Model Evaluation

The model was evaluated for accuracy using absolute fit measures, incremental fit measures and parsimonious fit measures. The RMSEA value was 0.070, RFI=.941, NFI= .928, IFI= .962, TLI= .971, and CFI= .943. The Normed Chi Square was 1.65 and PNFI= .830. All evaluation measures were within accepted range, which proved the model to fit well the data.

To test for the three hypotheses, the structural model was estimated using the analysis of moment structures, and squared multiple correlations were observed. Table 3 shows the results.

Table 3: Multiple Correlations Between Reward System and Market Orientation

MO components	Squared R
Intelligence generation	.729
Intelligence dissemination	.806
Responsiveness	.925

The results in Table 3 suggest a very strong correlation between market-based reward system and the three MO components. Specifically, the findings indicate a strong relationship between market-based reward system and intelligence

generation, with squared multiple correlation of .73.They also show a strong correlation between market-based reward system and intelligence generation, with squared R of .80; and responsiveness is correlated with market-based reward system at squared R equal to .92: hence the null hypothesis is rejected.

Further analysis was conducted to observe the nature and strength of the causality effect. To achieve this, Critical Ratio and regression weights were observed and the results are presented in Table 4.

Table 4: Market-Based Reward System and Market Orientation

Market Orientation Components	Estimate	S.E	C.R	Standardized Regression Weights
Intelligence generation	.711	.015	6.168	.796
Intelligence dissemination	.997	.035	7.382	.832
Responsiveness	.810	.016	6.968	.824

The results in Table 4 indicate high C.R values (above 2.0) and high Standardized Regression Weights (SRW) across the three components of market orientation. This suggests that market-based reward systems influence positively the three components of market orientation at $\alpha \leq .050$. Therefore, the three alternative hypotheses are supported.

Discussions and Conclusions

The article examined the influence of market-based reward system on market orientation of service firms in Tanzania. The analysis suggests that market-based reward system of employees in service firms positively influence the three components of market orientation. These results are similar to those of other studies which observed a positive relationship between reward systems and market orientation (see, Chelariu et al. (2003; Jaworski & Kohli, 1993; Ruekert, 1992; Suliyato, 2011; and Zebal, 2003). However, they contradict those by Akila and Hilal (2017) and Suryani (2012) who observed no relationship between market-based reward system and market orientation. They partly contradict Horng and Chen (1998) who observed that reward system influences positively the responsiveness component of market orientation but does not influence intelligence generation and intelligence dissemination components of market orientation.

The results are in line with the Porter-Lawler Expectancy model (1968) and assumptions made earlier. From the results, we expect that employees within service firms will work towards generating information, sharing information and designing and implementing response if they are certain that they are rewarded on the basis of market performance measures (Jaworski & Kohli, 1993, Ruekert, 1992).The results also support the reward systems practiced by the firms that were included in the sample. For example, in addition to their basic salary, employees

in the hotel sector in Tanzania receive a percentage of the service charge imposed on customers. Hence, the more customers they serve, the more the service charge they get. Likewise, tour operators and travel agents also get commission for tickets sold: hence, the more passengers, the more commission. In such a situation, rational employees would work towards attracting and satisfying more customers.

Such wide-ranging rewards mechanism to motivate employees is common to firms in these industries worldwide. For example, when asked about the reward system they use in China, one interviewee replied:

> *… We have different reward systems. For sales people, if they bring more business in we will give them a bonus as an incentive. As far as other employees are concerned if they are complimented by guest letter or comments, they will be given money reward. We also have employee of the month programme. We give financial reward to nominees. These are well received by employees. Monthly, we give them a party, vacation leave and a free stay at other hotels managed by our company* (Riling & Ennew, 2004: 14).

On the basis of the results this article, concludes that market-based reward systems influence positively the development of market orientation culture of service firms in Tanzania. This implies that managers should design market performance-based reward systems and make them explicit to all members of the organization. The market performance should consider both financial and non-financial performance measures (Day, 1999) so as to improve the quality of service delivered and customer satisfaction.

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