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The role of individual variable pay in a collectivistic culture society: an evaluation

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ABSTRACT

With increasing worldwide use of individual variable pay (IVP) and thereby some theoretical suggestions to drop it in collectivistic societies it is worth examining the role of variable pay in such cultural surroundings. This paper aims at answering the following research questions: what kind of IVP systems are offered in collectivistic societies, is the implementation of IVP systems related to some specific company characteristic and what results can companies achieve by using IVP systems. A primary research of compensation practices was conducted among 58 Croatian medium and large companies. The research carried out shows that in Croatia, which is a highly collectivistic society, companies offer IVP such as pay for performance, sales commissions and occasional bonuses to its employees. Non-parametric testing has shown that the use of individual-based pay for performance is dependent upon the size and ownership structure of the company. However, contrary to some previous findings and expectations, our analysis reveals only minor differences in organisational outcomes between companies that apply or do not apply individual incentives. Research results support the thesis of global convergence of compensation practices and show that collectivistic heritage does not inhibit the implementation of IVP.

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1. Introduction

Compensation is a key element of the employment relationship and, in addition to being the single greatest operating cost for many organisations, it has been suggested as a tool for enhancing organisational performance and sustained competitiveness (e.g., Balkin & Gomez-Mejia, 1990; Hansen, 1997; Jenkins, Mitra, Gupta, & Shaw, 1998; Stajkovic & Luthans, 2001). Compensation choices are many but it usually incorporates three major components: 1) salaries/wages, the direct payment to the worker in exchange for competently performing assigned work, 2) incentive payments (including bonuses) made to the worker for high level of individual or group

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performance and 3) benefits, a combination of legally mandated costs (e.g., different forms of insurance offered to employees) and other non-wage compensation (e.g., company approved benefits like childcare, company loans, education and training opportunities, etc.) that figure in the total cost of compensating a given employee.

There is a high level of awareness as well as documentation of the differences in both human resources management and compensation management among countries (Schuler & Rogovski, 1998; Bloom & Milkovich, 1998). Since compensation practices are strongly related to work values and to other macro-environmental phenomena, national culture has been identified among sources of such cross-national variations in compensation policy and strategy (Bloom & Milkovich, 1998; Gomez-Mejia & Welbourne, 1991; Laurent, 1986; Newman & Nollen, 1996; Schuler & Rogovski, 1998; Stone & Stone-Romero, 2008; Tosi & Greckhamer, 2004; Townsend, Scott, & Markham, 1990). Wages, other compensation, and the ratio of the two, are all significantly affected by cultural affiliation (Townsend, Scott, & Markham, 1990). Furthermore, differences in culturally based values may be expected to influence individual reactions to perceptions about the work environment such that employees may be more motivated and satisfied by a particular compensation practice simply because it is consistent with their values (Lam, Schaubroeck, & Aryee, 2002). A mismatch between compensation strategies and cultural characteristics could result in a number of dysfunctional consequences for employers such as difficulty in attracting and retaining workers, higher labour costs, labour relation problems, violation of personal norms leading to resentment and even possibly destructive employee behaviour, inability to achieve strategic objectives, lower morale and a negative public image (Gomez-Mejia & Welbourne, 1991).

However, with globalisation and the growing importance of multinationals since the mid-1980s, there has been a noticeable trend towards worldwide convergence in reward strategies, which has been dominated by the impact of the United States practices (Gomez-Mejia & Welbourne, 1991; Kressler, 2003; Poutsma, Ligthart, & Schouteten, 2005). In Europe this influence was first observed in the United Kingdom and later continued its advance eastwards and southwards (Kressler, 2003). More specifically, globalisation of reward strategies represents what can be described as Americanisation (Kressler, 2003) or Anglo-Saxonisation (Poutsma, Ligthart, & Schouteten, 2005) since many countries partly withdrew from their traditional reward structures and adopted “Western world” approaches, namely compensation strategies based on the extensive usage of short- and long-term incentive compensation. However, many authors argue that practices that might work in the U.S.A., the most individualistic society in the world, may not work in other countries (Hofstede, 1983), so the attempts to export Western practices to other nations whose national culture is incompatible with such practices are likely to fail (Hodgetts & Luthans, 1993; Gómez-Mejia & Palich, 1997). The research on the effectiveness of such “exported” compensation practices (as described by Gomez-Mejia & Welbourne, 1991) to different national settings outside the Western world is very scarce. The question awaiting to be answered is: Can the same compensation strategies really be universally effective or must they be customised to national culture and other contextual factors? Our reasoning is based on the premise that the dominant focus of the theory and research in compensation management is based on the individualistic

national culture of the United States and possibly cannot be applicable elsewhere without caveat.

Not long ago, compensation practices in Croatia, an ex-Yugoslav society and EU member since 2013, were limited to egalitarian pay structures with the traditional pay system based on seniority. Such compensation system was similar to the compensation systems in other emerging countries, where most of these countries traditionally based compensation on seniority, group membership, and equality concerns rather than performance (Du & Nam Choi, 2010; Giacobbe-Miller, Miller, Zhang, & Victorov, 2003). The implementation of the market economy accompanied with the general development of HRM practices led to the applicability of Western-style compensation practices in compensation management of Croatian companies as well. As a critical part of the wage system revolution, one of the major changes was the initiative to put more pay at risk through implementing variable pay. With the rapid convergence and Americanisation in the application of compensation practices in Croatia and other emerging markets, it is crucial to investigate the outcomes of such practices.

The theory and research on compensation tends to be dominated by assumptions and values originating from specific developed parts of the world, but can all existing findings really be applicable in non-Western countries? This paper explores the outcomes of using IVP in a non-Western setting by using Croatia as a case. Croatia is not, originally, a capitalist country, but turned to a market economy only in the 1990s. Croatian national culture thus is characterised by collectivism, high power distance, femininity and high uncertainty avoidance, where all these features are quite the opposite of the characteristics of the national culture of the U.S. (Hofstede, 1980). In our investigation, we find lacking sufficient research on the issue of relationship between variable pay and organisational outcomes in organisational settings within collectivistic cultures. This paper addresses this gap by exploring the incidence of IVP in Croatian companies and establishing a relationship between IVP and several organisational aspects. For this purpose, an empirical examination of compensation practices, employee behaviour-based indicators and organisational outcomes was conducted among Croatian companies.

Following from the research problem presented above, a number of research questions can be identified:

- What kind of IVP systems are used in Croatia?
- Is the implementation of individual-based variable pay systems related to some specific company characteristic?
- What results are achieved by using the IVP system in Croatia being a collectivistic society?

2. Theoretical background

Culture, especially national culture, has been seen as a reflection of national history influencing different aspects of the society as well as the minds and behaviour of people (Moon & Choi, 2001). Therefore, it is necessary to understand that culture

will have an impact on aspects of business as well. Although several models deal with cultural differences (e.g., Trompenaars, 1993; Schwartz, 1999), the contribution of Hofstede in this respect is significant as his worldwide accepted research tries to describe the nature of cultural characteristics within a society and compare countries based on these characteristics. Hofstede (1980) defines culture as a patterned way of thinking, feeling and reacting that differentiates members of one group from members of other groups. It encompasses values, beliefs, and assumptions learned in early childhood.

Hofstede's model characterises culture in terms of six value dimensions, although most available research considers only the four original dimensions: 1) power distance (degree to which the less powerful members of a society accept and expect that power is distributed unequally), 2) individualism versus collectivism (a society's position on this dimension is reflected in whether people's self-image is defined in terms of "I" or "we"), 3) masculinity versus femininity (in the business context masculinity versus femininity is sometimes also related to as "tough versus tender" cultures), 4) uncertainty avoidance index (expresses the degree to which the members of a society feel uncomfortable with uncertainty and ambiguity) (Hofstede, 1980). The two dimensions added later are 5) long-term orientation versus short-term normative orientation (in the business context this dimension is related to as (short term) normative versus (long term) pragmatic orientation) and 6) indulgence versus restraint. Hofstede (1980) suggested that a society's positioning on any given cultural dimension was associated with specific work-related values (e.g., loyalty, achievement motivation, commitment, involvement, and well-being) and organisational factors (e.g., degree of centralisation, organisational structure, organisational type, and wage schemes) (Sama & Papamarcos, 2000).

In this paper we focus specifically on the role of individualism/collectivism in designing reward strategies due to the fact that the findings that govern compensation theory come almost exclusively from individualistic countries and mostly do not

Table 1. Country scores for individualism index.

United States	91	Lithuania	60	Bulgaria	30
United Kingdom	91	Poland	60	Mexico	30
Australia	90	Malta	59	Romania	30
Netherlands	80	Czech Republic	58	Portugal	27
Canada	80	Austria	55	Slovenia	27
Hungary	80	Slovak Republic	52	Malaysia	26
New Zealand	79	Spain	51	Hong Kong SAR	25
Italy	76	India	48	Serbia	25
Belgium	75	Japan	46	Chile	23
Denmark	74	Morocco	46	Singapore	20
Sweden	71	Argentina	46	China	20
France	71	Iran, Islamic Rep.	41	Thailand	20
Ireland	70	Russian Federation	39	Vietnam	20
Latvia	70	Qatar	38	Bangladesh	20
Norway	69	United Arab Emirates	38	El Salvador	19
Switzerland	68	Brazil	38	Korea, Rep.	18
Germany	67	Turkey	37	Peru	16
South Africa	65	Uruguay	36	Trinidad and Tobago	16
Finland	63	Greece	35	Indonesia	14
Luxembourg	60	Croatia	33	Pakistan	14
Estonia	60	Philippines	32	Colombia	13
				Venezuela	12

Source: Hofstede (1980).

acknowledge this as a study limitation. Furthermore, individualism is usually the most replicated value in cultural research (Newman & Nollen, 1996). Individualism reflects the degree to which people in a given society value independence versus group membership. Countries that are high on individualism dimension emphasise personal goals and autonomy whereas in countries with low individualism (high collectivism) values centre around groups or families such as loyalty to the group, commitment to group norms and involvement in group activities. A complete list of society scores for individualism index can be seen in Table 1.

Countries whose individualism index has a value under 50 are characterised as collectivistic countries. In these societies there is a preference for a tightly-knit framework in which individuals can expect their relatives or members of a particular in-group to look after them in exchange for unquestioning loyalty. Value over 50 indicates emphasised individualism which is characterised with a preference for a loosely-knit social framework where individuals are expected to take care of only themselves. At least 70% of the world’s population is socialised in collectivistic cultures so the interplay between individualism and collectivism should receive sufficient attention (Gully, Phillips, & Tarique, 2003).

Several authors emphasised that culture should be taken into account when designing compensation strategies (Bloom & Milkovich, 1998; Gomez-Mejia & Welbourne, 1991; Luthans, Marsnik, & Luthans, 1997; Newman & Nollen, 1996; Townsend, Scott, & Markham, 1990). Compensation strategies that have the highest potential to achieve congruence with the prevailing value system differ depending upon the level of individualism in a society, as shown in Figure 1. As argued by Gomez-Mejia and

	Dominant values	Corporate features	Compensation strategies
High individualism	<ul style="list-style-type: none"> • Personal accomplishment • Selfishness • Independence • Individual attributions • Internal locus of control • Belief in creating one’s own destiny • Utilitarian relationship with the employee 	<ul style="list-style-type: none"> • Organizations not compelled to care for employee’s total well being • Employees look after their individual interests • Explicit systems of control necessary to ensure compliance and prevent wide deviation from organizational norms 	<ul style="list-style-type: none"> • Performance based-pay • Individual achievement rewarded • External equity emphasized • Extrinsic rewards are important indicators of personal success • Attempts made to isolate individual contributions • Emphasis on short term objectives
Low individualism	<ul style="list-style-type: none"> • Team accomplishment • Sacrifice for others • Dependence on social unit • Group attributions • External locus of control • Belief in the hand of fate • Moral relationship 	<ul style="list-style-type: none"> • Organizations committed to high level of involvement in worker’s personal lives • Loyalty to the firm is critical • Normative rather than formal systems of control to ensure compliance 	<ul style="list-style-type: none"> • Group based performance is important criteria • Seniority based pay utilized • Intrinsic rewards are essential • Internal equity is key in guiding pay policies • Personal need (e.g. number of children) affects pay received

Figure 1. Individualism vs. collectivism and compensation.
Source: Gomez-Mejia and Welbourne (1991).

Welbourne (1991), firms that achieve higher fit among the two have the higher potential to be successful.

In collectivistic societies, there are tightly knit social networks in which individuals are integrated into (clan, work team, organisation, community, society). People expect their in-groups to look after them in exchange for absolute loyalty to the group. Employees with collectivistic orientation are, therefore, less concerned with individual standing or the amount that each individual receives than members of individualistic cultures. In terms of reward management, such countries will opt for those types of remuneration that are instrumental for group harmony and cohesiveness, avoiding differentiation of rewards (Kim, Park, & Suzuki, 1990). Group-based responsibility and action are consistent with the values in such cultures (Schuler & Rogovsky, 1998). Collectivistic countries emphasise equality or need as the guiding idea of the reward management since any form of differentiated rewards would contradict the fundamental objective of maintaining harmonious relationships or helping the needy (Sama & Papamarcos, 2000). For example, Latin countries and southern European countries, all traditionally collectivistic societies, put more emphasis on job security and fringe benefits as compared to the rest of the world (Sirota & Greenwood, 1971 after Tosi & Greckhamer, 2004). In collectivistic cultures group or team incentives are preferred over individual ones (Schuler & Rogovsky, 1998). In case individual incentives are applied, seniority and skills are preferred as the starting point for determining them (Bogićević Milikić & Janićijević, 2009).

Individualists, relative to collectivists, may consider rewards as a driver of productive work. Such societies are likely to make widespread use of individual performance-based contingent rewards and high performers are more likely to receive relatively greater rewards (Jackson & Schuler, 1995; Sama & Papamarcos, 2000; Schuler & Rogovsky, 1998). For example, the research performed by Tosi and Greckhamer (2004) confirmed that the ratio of variable pay to total pay among CEOs was related to individualism. Nevertheless, it has been found that employee attitudes toward incentive pay practices vary significantly across countries (de Waal & Jansen, 2013).

Existing theoretical and empirical results suggest that implementing IVP in a society that is highly collectivistic is contrary to their normative values and may even reduce employee performance in that cultural context (Chang & Hahn, 2006; Newman & Nollen, 1996). Pay for performance in a collectivistic society has been reported to be a source of negative outcomes such as dissatisfaction and high turnover intent, possibly owing to inappropriate goal-setting and unfair performance appraisal processes (Dowling & Richardson, 1997; Miller, Hom, & Gomez-Mejia, 2001) but also lower organisational commitment and interpersonal helping at the organisation (Du & Nam Choi, 2010). Research indicates that incentive schemes are in countries like Croatia used at a lower rate than among Western countries (e.g., for Serbia see Milikić, Janićijević, & Petković, 2008). However, some research results do indicate that the reactions to performance related pay can be positive (e.g., Chang & Hahn, 2006 in Korea). It is worth mentioning that group allocation schemes consistent with collectivistic values such as profit-sharing have been found to reduce employee turnover in the collectivistic research setting (Miller, Hom, & Gomez-Mejia, 2001).

Performance evaluation, as one of the requirements for pay for performance, is also influenced by national culture (Seddon, 1987; Brown, 1996 after Schuler & Rogovsky, 1998; Schuler & Rogovsky, 1998; Peretz & Fried, 2012). Individualism is compatible with the developed and formalised performance evaluation based on evaluation of individual performance. However, it is believed that explicit and public evaluation of individual achievement could harm a group's harmony, and therefore it is not well accepted or is even strongly resented within collectivistic societies. Performance appraisal systems developed in "individualistic" societies, when applied in collectivistic cultures, can cause unintended offence, or can even be incorrectly employed (Seddon, 1987). Organisations in collectivistic societies are more likely to use performance evaluation systems that focus on organisational purposes (e.g., human resource planning, identification of needs for training and development etc.) unlike organisations in individualistic societies that use it as the basis to differentiate among employees according to their performance policies (e.g., merit raises and individual career development paths) (Peretz & Fried, 2012).

Research performed in a collectivistic society found dissatisfaction of both employees and managers with their performance evaluation schemes (Bogićević Milikić & Janićijević, 2009). Moreover, cultural dimensions can explain why performance evaluation schemes are obstructed in collectivistic societies by the fact that raters inflate their ratings in order to avoid feedback interviews and to avoid confrontation with their subordinates (Bogićević Milikić & Janićijević, 2009). Allocators higher in collectivism were found to give significantly larger merit rises to low-performing subordinates than did more individualistic allocators (Gully, Phillips, & Tarique, 2003).

General worker preferences in motivational techniques vary and may be also explained by cultural differences (Sirota & Greenwood, 1971 after Tosi & Greckhamer, 2004). Hofstede (1983) argues that in individualistic countries the highest motivation is supposed to stem from the individuals' need to fulfil their obligations towards themselves. In a more collectivistic society, however, people will try primarily to fulfil their obligations towards their in-group: family, enterprise or their society. In terms of compensation, Luthans, Marsnik, and Luthans (1997) suggest that recognition and praise should be used as motivators in collectivistic societies, but also that pay for performance should be avoided or used with caution in these societies.

Research suggests that culture, based on Hofstede's (1980) cultural model, can influence what is perceived as a fair pay allocation system (Sama & Papamarcos, 2000; Fischer & Smith, 2003). Allocating rewards in a systematic manner is crucial to ensure that employees perceive pay decisions as fair and equitable (Fischer & Smith, 2003). Empirical research on reward allocation preferences mostly confirms Gomez-Mejia and Welbourne (1991) suggestions on the design of compensation strategies in order to fit the cultural features. In countries whose cultures have been identified as individualistic, employees exhibited a strong preference for equity in compensation, when compared to countries that are more collectivistic. The equity norm dictates that rewards should be divided in proportion to recipients' input or contribution and thus based on individual performance whereas the equality norm divides rewards

equally to all members irrespective of contribution. In relatively collectivistic societies equality among members is emphasised over equity based on individual effort (He, Chen, & Zhang, 2004; Kim, Park, & Suzuki, 1990; Leung & Bond, 1984; Sama & Papamarcos, 2000). Interestingly, in reward allocation individualists follow equity regardless of the group membership of their interaction partner, whereas collectivists are more likely to use equality when interacting with an in-group member but to allocate rewards equitably with outgroup members even more strongly than would individualists (Leung & Bond, 1984; James, 1993 after Fischer & Smith, 2003; Chen, Meindl, & Hui, 1998).

Some studies did not find any support for a moderating effect of national culture as a determinant for a preference for a certain type of allocation scheme (Kuhn, 2009). It might suggest that it is really individual and situational factors that cause differences in employee reactions or that individual, contextual and organisational factors have a greater influence on the values governing reward allocation decisions than the prevailing culture norms (Giacobbe-Miller et al., 2003; Lam et al., 2002).

3. Empirical research

This section is organised as follows: first, a detailed explanation of research methodology and research instrument is provided. Sampling procedure as well as sample characteristics is described in the same section. Secondly, general findings about presence of various individual incentives with regard to employee categories, as well as specific findings about association with outcomes expected from implementing these types of direct rewards are presented; and finally, research limitations and recommendations for future research are mentioned at the end of the section.

3.1. Research methodology

3.1.1. Research instrument

A questionnaire containing 46 questions was designed for the purpose of primary data collection. A majority of key questions about different reward management strategies were found or adapted in different journal articles as well as the *Chartered Institute for Personnel Development* internal materials. The allotted time for filling the questionnaire was approximately 30 to 45 minutes.

3.1.2. Measures

For the purpose of this research, one independent variable was used: the presence of individual variable pay which contained several variable pay subcategories (both subjectively and objectively-assessed practices) and were treated as binary variables. Respondents were asked to provide information on whether each variable pay practice existed in their organisations or not for three different categories of employees – managers, experts and other employees. On the other hand, other variables of interest that were related to various attitudes, behaviour-based indicators or organisational outcomes were of either nominal or continuous character. More precisely, organisational climate was assessed by an HR manager on a Likert-type 5-point scale

(1 = very unpleasant and with high degree of tensions among employees, 5 = very pleasant and without tensions among employees). Additionally, organisational outcomes in terms of productivity in the last three years as well as productivity compared to competitors was assessed on Likert-type 5-point scale as well (e.g., 1 – considerably lower than the industry average, 5 – well above the industry average). Problems in attracting, retaining and engaging employees were ranked for different categories of employees (1 – without problems, 2 – some problems, 3 – considerable problems). Finally, information on attrition and absenteeism rates was provided by selecting one of the five different options (1, designated rates up to 5% while 5 was the highest level of the same indicator). Control variables were designed almost exclusively as closed-ended questions, such as ownership type, profitability in the last three years and legal form of the company. Several open-ended questions were present as well (e.g., year of establishment, industry, number of employees).

3.1.3. Sample

The first step in designing our research was to select participants for the empirical research. As this research is part of a larger project funded by the Croatian Science Foundation that aims at covering an entire population of Croatian companies, the emphasis was on large and medium-sized companies as those are expected to have more sophisticated HRM practices in general (Kotey & Sheridan 2004), and reward practices in specific. The number of Croatian companies (excluding banking and finance sectors) that employ more than 100 employees was obtained through the Croatian Chamber of Commerce (CCC) where it was revealed that approximately 1700 companies in Croatia employ more than 100 people, out of which 386 companies employ more than 250 people (labelled as “large companies”).

3.1.4. Data collection and analysis

An e-mail with covering letter from the Project leader was sent to HR departments of all companies in the CCC database in April 2017. Reminders were sent out in May and June, followed by personal reminders to HR managers of different project members using professional networks. The primary data was collected from 58 companies. As the data collection phase was concluded a statistical analysis of the primary data with IBM SPSS 20.0 followed. Apart from descriptive statistics, inferential statistical methods were applied in the case of analysing differences in applying variable individual pay practices in different contexts (Chi-square test) and in the case of examining their relationship with organisational and behaviour outcomes (Mann-Whitney U-test and Chi square test). The independent characteristics of the companies in the sample are given in a summary table below (Table 2).

As can be seen from Table 2, both manufacturing and service companies are almost equally represented in the sample ($N = 30$ and $N = 28$, respectively), as are companies that employ less than 250 (50%) and more than 250 (50%) people, as well as those founded after (55%) and before (45%) the dissolution of the Yugoslav Republic. Regarding ownership structure, more than half of the sample is comprised of private domestic companies, one-third are privately-owned foreign companies, while state-owned and companies with mixed ownership are underrepresented in the

Table 2. Data distribution by sample characteristics.

Company characteristic	Data distribution
Industry	Manufacturing – 51.70% Services – 48.30%
Year of establishment	Before 1990 – 45.60% After 1990 – 54.40%
Number of employees	Less than 250 – 50.00% More than 250 – 50.00%
Ownership structure	Private domestic – 55.20% Private foreign – 32.80% State-owned and mixed – 12.00%
Legal form	Joint stock company – 34.50% Limited liability company – 65.50%
Profitability in the last 5 years	Cannot assess – 1.70% Unprofitable – 3.40% Around or below average – 24.10% Profitable – 70.70%

sample (12% combined). Limited liability companies form a majority (65.50%), while apart from joint stock companies (34.50%) there is no other type of company legal form represented in the sample. With regard to self-reported profitability in the last five years, 71% of the companies reported being profitable, one-quarter of them were around or below average, while less than 4% reported they were not profitable.

3.2. Research results

The first step in analysing data was exploring the prevalence of individual incentives in general and with regard to different employee categories, i.e., managers, experts and other employees. The results are shown in Table 3. As can be seen from the table, performance appraisal can be found in half of sampled companies for all three employee categories. Norm measurement, on the other hand, is only sporadically found while the prevalence of occasional bonuses based on the evaluation of a direct superior decreases from managers to other employees. None of the individual incentives was applied in one-third of companies in the case of “other employees”, as well as in 28.60% for experts. Since performance appraisal is central to high performing work practices, it was interesting to reveal that 75% of organisations are applying this practice for at least one category of employees.

Next, we were interested to explore characteristics of companies that apply individual incentives more frequently, i.e., to analyse their prevalence among different sample sub-groups as well as to test differences among sample characteristics and whether those incentives were applied or not (dummy variable). For the purpose of testing the differences in applying individual variable pay practices in different sample subgroups a Chi-square test was used. Results are shown in Table 4.

Generally, individual variable incentives or performance-related pay in general seems to be present in the majority of Croatian companies. At the level of individual company characteristics, not many differences were revealed. More precisely, company profitability in the last five years does seem to make a difference with respect to applying individual performance appraisal where companies that reported being profitable use individual performance appraisal for at least one category of employees more frequently ($p = 0.062$).

Table 3. The prevalence of individual incentives (II) with regard to different employee categories.

Type of individual incentive (II)	% of companies applying II for different categories of employees		
	Managers	Experts	Other employees
Norm measurement	0.00	5.20	10.30
Performance appraisal	53.40	50.00	48.30
Occasional bonuses based on superior's evaluation	44.80	31.00	24.10
Sales commission	22.40	19.00	19.00
Individual non-financial recognition	37.90	20.70	15.50
None of the above	13.80	27.60	31.00
<i>Individual performance appraisal in general</i>	74.10		

With regard to specific individual pay-for-performance practices, major differences were found with respect to the size and ownership structure of the company. More precisely, larger companies, i.e., those employing more 250 people more often apply individual performance appraisal for managers ($p = 0.065$) and experts ($p = 0.004$) as well as norm measurement for other employees ($p = 0.085$). Smaller companies, however, seem to apply more occasional bonuses for experts ($p = 0.023$). Private domestic companies are more likely to apply occasional bonuses for all three categories of employees. With regard to establishment or company age, norm measurement for experts can be found more frequently in older companies ($p = 0.052$). Industry revealed a difference in applying norm measurement in manufacturing ($p = 0.088$) as well as sales commission in services ($p = 0.071$), which is an expected result. With respect to legal form, sales commissions for experts ($p = 0.049$) as well as occasional bonuses for other employees ($p = 0.049$) were more frequently applied in limited liability companies. With regard to profitability in the last five years, the only difference was found in applying non-financial recognition which was more frequently found in less successful companies ($p = 0.057$).

Finally, we were interested in finding out whether there were any differences in motivational and organisational outcomes between companies that apply and do not apply IVP. Outcomes that were chosen for this research were: organisational climate, productivity compared to competitors, increase of productivity in the last three years, problems with attracting, retaining and engaging employees and, finally, rates of absenteeism and attrition. For the purpose of testing the relationships between applying individual variable pay practices and organisational climate and productivity, a Mann-Whitney U-test was used. On the other hand, a Chi square test was applied in order to test the relationship between individual variable pay and other behaviour-based indicators (attrition and absenteeism rates, problems in attracting, retaining and engaging employees). Differences are shown in Table 5.

At the level of descriptive statistics, organisational climate was found to be slightly more positive in companies that apply individual performance appraisal for at least one group of employees ($\bar{x} = 3.88$). Additionally, companies that apply individual performance appraisal compared their productivity relative to those of competitors much higher ($\bar{x} = 3.72$) than companies without this practice ($\bar{x} = 3.26$), which was also confirmed by a non-parametric test ($p = 0.072$). The assessment of the productivity rise in the last three years was found to be higher in the case of companies that do apply individual performance appraisal, both at the level of descriptive ($\bar{x} = 3.88$

Table 4. The relationship between applying individual variable pay and company characteristics.

Variable pay for different employees categories	Data distribution ⁺	Industry		Age		Size		Ownership		Legal form		Profitability		
		Manufacturing	Services	Before 1990	After 1990	<250	>250	Domestic	Foreign	Joint stock	Limited liability	Average or below	Profitable	
Managers	Performance appraisal	Yes	56,70	50,00	61,50	45,20	58,60	34,50	43,80	68,40	55,00	52,60	37,50	58,50
	No	43,30	50,00	38,50	54,80	41,40	65,50	41,40	56,20	31,60	45,00	47,40	62,50	41,50
Occasional bonus	test value	0,259 (0,611)		1,521 (0,217)		3,395 (0,065)**		2,913 (0,088)**		0,030 (0,864)		2,043 (0,153)		
	Yes	46,70	42,90	46,20	45,20	48,30	41,40	68,80	10,50	50,00	42,10	43,80	46,30	
Sales commissions	test value	0,085 (0,771)		0,006 (0,940)		0,279 (0,597)		16,222 (0,000)*		0,330 (0,566)		0,031 (0,860)		
	Yes	16,70	28,60	26,90	19,40	24,10	20,70	21,90	26,30	10,00	28,90	18,80	22,00	
Non-financial recognition	test value	1,180 (0,277)		0,460 (0,498)		0,099 (0,753)		0,131 (0,718)		2,705 (0,100)		0,071 (0,790)		
	Yes	40,00	35,70	34,60	38,70	37,90	37,90	40,60	31,60	30,00	42,10	43,80	36,60	
Experts	test value	0,113 (0,737)		0,102 (0,750)		0,000 (1,000)		0,417 (0,518)		0,816 (0,366)		0,249 (0,618)		
	Yes	10,00	0,00	11,50	0,00	3,40	6,90	6,10	5,30	5,00	5,30	0,00	7,30	
Performance appraisal	test value	2,953 (0,086)**		3,776 (0,052)**		0,352 (0,553)		0,021 (0,885)		0,002 (0,966)		1,236 (0,266)		
	Yes	60,00	39,30	53,80	45,20	31,00	69,00	56,20	36,80	45,00	52,60	37,50	53,70	
Occasional bonus	test value	2,486 (0,115)		0,427 (0,514)		8,345 (0,004)*		1,797 (0,180)		0,305 (0,581)		1,202 (0,273)		
	Yes	26,70	35,70	26,90	35,50	44,80	17,20	43,80	15,80	25,00	34,20	31,20	31,70	
Sales commissions	test value	0,554 (0,457)		0,480 (0,489)		5,153 (0,023)*		4,194 (0,041)*		0,519 (0,471)		0,001 (0,973)		
	Yes	10,00	28,60	19,20	19,40	24,10	13,80	18,80	21,10	5,00	26,30	12,50	19,50	
Non-financial recognition	test value	3,250 (0,071)**		0,000 (0,991)		1,010 (0,315)		0,040 (0,841)		3,874 (0,049)*		0,391 (0,593)		
	Yes	23,30	17,90	23,10	16,10	24,10	18,20	18,80	21,10	15,00	23,70	37,50	14,60	
Other	test value	0,256 (0,607)		0,431 (0,508)		0,420 (0,517)		0,040 (0,841)		0,602 (0,438)		3,620 (0,057)**		
	Yes	16,70	3,60	15,40	6,50	3,40	17,20	9,40	15,80	5,00	13,20	6,20	12,20	
Performance appraisal	test value	2,678 (0,102)		1,198 (0,274)		2,974 (0,085)**		0,473 (0,492)		0,940 (0,332)		0,432 (0,511)		
	Yes	56,70	39,30	42,30	51,60	37,90	58,60	53,10	42,10	40,00	52,60	37,50	51,20	
Occasional bonus	test value	1,752 (0,186)		0,491 (0,783)		2,486 (0,115)		0,579 (0,447)		0,837 (0,360)		0,869 (0,351)		
	Yes	30,00	17,90	26,90	22,60	27,60	20,70	31,20	10,50	20,00	26,30	18,80	26,80	

(continued)



Table 4. Continued.

Variable pay for different employees categories	Industry		Age		Size		Ownership		Legal form		Profitability		
	Manufacturing	Services	Before 1990	After 1990	<250	>250	Domestic	Foreign	Joint stock	Limited liability	Average or below	Profitable	
Data distribution ⁺	No	70,00	82,10	73,10	77,40	72,40	79,30	68,80	89,50	80,00	73,70	81,20	73,20
	test value	1,166 (0,280)	21,40	0,144 (0,704)	0,377 (0,539)	24,10	13,80	2,846 (0,092)**	15,80	0,285 (0,593)	5,00	26,30	0,405 (0,524)
Sales commissions	No	83,30	78,60	76,90	83,90	75,90	86,20	81,20	84,20	95,00	73,70	87,50	80,50
	test value	0,214 (0,644)	14,30	0,438 (0,508)	1,010 (0,315)	13,80	17,20	0,072 (0,789)	21,10	3,874 (0,049)*	20,00	13,20	0,391 (0,532)
Non-financial recognition	Yes	16,70	85,70	80,70	90,30	86,20	82,80	93,80	78,90	80,00	86,80	81,20	85,40
	test value	0,063 (0,802)	71,40	1,070 (0,301)	0,132 (0,717)	65,50	82,80	2,516 (0,113)	73,70	0,468 (0,494)	75,00	73,70	0,147 (0,702)
TOTAL SAMPLE (%)	No	23,30	28,60	26,90	25,80	34,50	17,20	25,00	26,30	25,00	26,30	43,70	19,50
	test value	0,207 (0,649)	0,009 (0,924)	2,248 (0,134)	0,011 (0,917)	0,012 (0,913)	3,487 (0,062)**						

⁺ First figure in the test value cell refers to the value of the difference between percentages, while the second value shown in the parentheses refers to a p-value.
 * p-value significant at the 0.05 level, ** p-value significant at the 0.10 level.

Table 5. The relationship between individual variable pay and organisational outcomes.

Variable pay for different employees categories	Data distribution and test values	Organizational climate ⁺	Relative productivity ⁺	Productivity in the last 3 years ⁺	Problems in: ⁺⁺						Attrition rate ⁺⁺				
					attracting employees		retaining employees		engaging employees			Absenteeism rate ⁺⁺			
					Some	None	Some	None	Some	None			>5%	<5%	
Managers	Performance appraisal	Yes	32,60	30,71	31,24	40,00	60,00	24,70	73,30	16,10	83,90	3,20	96,80	12,90	87,10
	No	26,33	25,19	27,50	25,00	75,00	14,80	85,20	40,70	59,30	11,10	88,90	7,40	92,60	
Occasional bonus	test value	333000 (0,157)	302000 (0,163)	364500 (0,359)	1,350 (0,250)	1,201 (0,273)	4,376 (0,036)*	1,397 (0,237)	0,470 (0,493)	7,70	92,30	15,50	87,50	0,357 (0,550)	
	test value	31,66	30,72	27,06	30,00	70,00	19,40	80,60	21,90	78,10	6,20	93,80	0,046 (0,829)	0,357 (0,550)	
Sales commissions	Yes	33,08	33,42	27,42	38,50	61,50	30,80	69,20	15,40	84,60	0,00	100,00	7,70	92,30	
	No	28,47	26,49	30,10	31,70	68,30	18,20	81,80	31,10	68,90	8,90	91,10	1,10	88,90	
Non-financial recognition	test value	246000 (0,357)	193000 (0,149)	265500 (0,583)	0,203 (0,656)	0,957 (0,328)	1,249 (0,264)	1,214 (0,265)	0,127 (0,721)	9,10	90,90	11,10	88,90	0,060 (0,806)	
	test value	26,98	27,78	34,39	47,60	52,40	31,80	68,20	4,50	95,50	9,10	90,90	0,305 (0,581)	0,060 (0,806)	
Experts	Piece rates	Yes	23,83	37,50	47,67	0,00	100,00	100,00	0,00	0,00	100,00	33,30	66,70	100,00	0,00
	No	29,81	27,45	28,51	47,80	52,20	52,70	47,30	29,60	70,40	11,10	88,90	14,50	85,50	
Performance appraisal	test value	65500 (0,570)	49500 (0,306)	28000 (0,056)**	0,899 (0,343)	2,570 (0,109)	1,236 (0,266)	1,303 (0,254)	13,517 (0,000)*	13,80	86,20	24,10	75,90	1,010 (0,315)	
	test value	28,72	31,42	26,24	44,00	56,00	48,30	51,70	37,90	62,10	10,70	89,30	20,00	80,00	
Occasional bonus	Yes	28,61	25,28	33,19	7,70	92,30	33,30	66,70	35,30	64,70	11,80	88,20	16,70	83,30	
	No	29,90	29,32	27,84	61,80	38,20	65,00	35,00	25,00	75,00	12,50	87,50	20,00	80,00	
Sales commissions	test value	344000 (0,775)	284000 (0,338)	293500 (0,223)	11,04 (0,001)*	5,033 (0,025)*	0,626 (0,429)	0,006 (0,938)	0,090 (0,764)	9,10	90,90	18,20	81,80	0,005 (0,941)	
	test value	25,77	29,60	30,32	50,00	50,00	63,60	36,40	27,30	72,70	9,10	90,90	19,10	80,90	
Non-financial recognition	Yes	30,37	27,64	29,31	45,90	54,10	53,20	46,80	28,30	71,70	13,00	87,00	0,005 (0,941)	0,005 (0,941)	
	No	27,83	28,18	35,83	0,052 (0,820)	0,393 (0,531)	0,004 (0,948)	0,129 (0,720)	0,000 (100,00)	25,00	75,00	0,00	100,00	25,00	75,00
Piece rates	test value	256000 (0,683)	240000 (0,963)	20000 (0,112)	44,40	55,60	66,70	33,30	25,00	75,00	0,00	100,00	17,40	82,60	
	test value	16,92	37,50	43,75	0,025 (0,874)	0,808 (0,369)	0,071 (0,790)	1,908 (0,167)	0,359 (0,549)	33,30	66,70	33,30	66,70	83,30	16,70
Other	test value	30,95	26,84	27,86	53,20	46,80	48,10	51,90	42,90	57,10	31,90	68,10	34,60	65,40	
	test value	80500 (0,052)**	90000 (0,130)	70500 (0,026)*	0,206 (0,650)	2,678 (0,102)	1,222 (0,269)	0,005 (0,944)	5,335 (0,021)*	0,005 (0,944)	0,005 (0,944)	0,005 (0,944)	0,005 (0,944)	0,005 (0,944)	

(continued)



Table 5. Continued.

Variable pay for different employees categories	Data distribution and test values	Organizational climate ⁺	Relative productivity ⁺	Productivity in the last 3 years ⁺	Problems in: ⁺⁺											
					attracting employees		retaining employees		engaging employees		Absenteeism rate ⁺⁺		Attrition rate ⁺⁺			
					Some	None	Some	None	Some	None	>5%	<5%	>5%	<5%		
Performance appraisal	Yes	29,70	31,78	31,84	34,80	60,70	39,30	50,00	50,00	50,00	33,30	66,70	42,90	57,10		
	No	29,32	24,85	27,32	44,40	43,30	54,70	41,40	58,60	30,80	69,20	36,70	63,30			
	test value	414500 (0,928)	280500 (0,082)**	354500 (0,267)	2,158 (0,142)	1,752 (0,186)	0,411 (0,522)	0,040 (0,842)	0,232 (0,630)							
Occasional bonus	Yes	27,11	26,82	29,64	75,00	50,00	50,00	42,90	57,10	46,20	53,80	35,70	64,30			
	No	30,26	28,40	29,45	50,00	50,00	47,70	46,30	53,70	27,50	72,50	40,90	59,10			
	test value	274500 (0,518)	270500 (0,728)	306000 (0,968)	1,691 (0,193)	0,022 (0,882)	0,051 (0,821)	1,567 (0,211)	0,120 (0,729)							
Sales commissions	Yes	27,68	29,60	30,32	44,40	45,50	54,50	50,00	50,00	30,00	70,00	36,40	63,60			
	No	29,93	27,64	29,31	56,10	43,90	53,20	46,80	44,40	55,60	32,60	67,40	40,40			
	test value	238500 (0,673)	209000 (0,704)	249500 (0,846)	0,403 (0,525)	0,214 (0,644)	0,102 (0,750)	0,024 (0,876)	0,061 (0,804)							
Non-financial recognition	Yes	22,61	25,75	34,00	75,00	25,00	66,70	33,30	55,60	44,40	25,00	75,00	44,40			
	No	30,77	28,38	28,67	50,00	50,00	49,00	51,00	43,50	56,50	33,30	66,70	38,80			
	test value	158500 (0,157)	170000 (0,682)	180000 (0,343)	1,691 (0,193)	0,953 (0,329)	0,443 (0,506)	0,217 (0,642)	0,102 (0,749)							
TOTAL SAMPLE	Yes	29,97	30,19	31,74												
	No	28,17	22,17	23,07												
	test value	302500 (0,706)	212500 (0,072)**	226000 (0,062)**												

⁺ First figure in the test value cell refers to the Mann-Whitney Utest statistics, while the second value shown in the parentheses refers to a p-value.

⁺⁺ First figure in the test value cell refers to the value of the difference between percentages, while the second value shown in the parentheses refers to a p-value.

* p-value significant at the 0.05 level, ** p-value significant at the 0.10 level.

compared to $\bar{x} = 3.46$) and inferential ($p = 0.062$) statistics. The analysis of each IVP practice for each category of employees revealed that productivity in the last three years was found to be statistically significantly higher in companies that do apply non-financial recognition for managers ($p = 0.060$) and norm measurement for both experts ($p = 0.056$) and other employees ($p = 0.026$). On the other hand, norm measurement and performance appraisal were found to be negatively related to organisational climate ($p = 0.052$) and relative productivity ($p = 0.082$) in the case of other employees.

Finally, behavioural outcomes such as attracting, retaining and engaging employees generally pointed towards positive figures, i.e., no substantive problems in what is often cited as the general aim of a reward system. A more detailed analysis detected several statistically significant differences in the relationship between various individual variable pay practices and behavioural outcomes. More precisely, fewer problems with attracting employees were observed in companies that do apply non-financial recognition for managers ($p = 0.078$) and occasional bonuses for experts ($p = 0.056$). Similarly, fewer problems with employee engagement were detected among companies that apply performance appraisal for both managers ($p = 0.036$) and experts ($p = 0.092$). As for absenteeism and attrition rates, it was revealed that higher rates of attrition were significantly related to the existence of norm measurement for both experts ($p = 0.000$) and other employees ($p = 0.021$).

4. Discussion

In this paper we have explored the role of individual incentives in a collectivistic society. Our first finding based on a recent research is that managers in 13.8% sampled Croatian companies do not have any form of individual incentives. Among expert-level employees, a high percentage of 27.6% of organisations do not have any form of IVP while 31% of all companies do not offer any form of variable pay to other (operational level) employees. Such results are mostly consistent with previous research results on this topic. The implementation of incentive compensation in Croatian companies was strongly encouraged by foreign-owned companies that transferred their home-society practices to subsidiaries operating in Croatia. Other private companies mostly followed this trend and we find that this rate of use is a reflection of ownership structure of sampled companies. This is because the state-owned companies in Croatia in most cases have not implemented the system of variable pay, although there are constant initiatives to implement performance based pay to all public services. Although Hofstede's work argues that individual performance based incentives will be more prevalent in individualistic versus collectivist cultures, we did not find that individual incentives are neglected in Croatia due to its collectivistic national culture.

Performance appraisal is the most often applied tool for determining variable pay. In general, 74% of all examined companies use it for at least some employee groups. Such result is expected since performance appraisal has other important functions in the context of human resource management (training and development, career planning, performance feedback, etc.). There are some suggestions that a performance

appraisal process can be obstructed in collectivistic countries since it can harm groups' harmony. Our research did not find any statistically significant difference in organisational climate among companies that apply individual performance appraisal and those who do not apply it. Furthermore, the research confirmed that it can be beneficial for productivity since there is a statistically significant difference in productivity compared to competitors between companies that do/do not apply individual performance appraisal. Similarly, statistically significant difference has been found with respect to growth in productivity in the past three years.

The evaluation of performance appraisal in terms of employee behavioural outcomes such as ease of attracting, retaining and engaging employees revealed lack of any beneficial effect of performance appraisal when comparing companies that apply and do not apply individual performance appraisal. Such finding is relatively consistent with attributes of collectivistic societies. This is because employees might avoid companies that apply such evaluation. On the other hand, due to the reverse application of the sorting rule, those companies that do not apply performance appraisal might also have a large pool of interested job candidates. Nevertheless, it has been found that problems with attracting managers were more frequently observed in companies that do apply performance appraisal. Since managers' performance is relatively often assessed and pay for performance for managers is strongly supported in the compensation theory this finding is difficult to explain. If we examine this finding from a cultural perspective, the probable reason for the finding could be the fact that managers in Croatia traditionally received only fixed pay. Furthermore, they had a high level of job security and received additional benefits. It might be that some managers still prefer such companies that offer job security over performance based pay.

5. Conclusions

The starting point for this paper is the question whether incentive compensation practices that are widely discussed and suggested are really effective in collectivistic societies? The motivational aspect of incentive compensation within human resource management (HRM) theory is well documented. However, the literature has failed to provide a clear idea of how employees that do not share national culture values with highly individualistic Western employees react to IVP and the outcomes achieved for organisations in these countries. This paper tackled the issue by exploring organisational outcomes of implementing different forms of variable pay by taking Croatia, a society whose national culture features measured by Hofstede's cultural metrics score are very different from U.S. values. To be more precise, Croatian national culture is defined by a fairly high level of collectivism which differentiates it from most Anglo-Saxon countries. Regarding compensation management, the literature on national culture models is implicitly prescriptive; it dictates that compensation and reward policies must be developed to align with and to reinforce national cultural attributes (Bloom & Milkovich, 1998; Gomez-Mejia & Welbourne, 1991; Hofstede, 1983). The result of such prescription would be putting emphasis on the use of group incentives relative to individual incentives in collectivistic societies. However, due to popularity

of the IVP, it is also critical to understand in which way will companies benefit from using this form of variable pay.

We acknowledge that people may be committed to smaller groups than “nation” who have distinct subcultures, for example organisational cultures, so national culture might not have the prevailing impact on shaping compensation strategies (Bloom & Milkovich, 1998). Also, national culture is just one of the many factors that define reward strategies and pay systems. Our intention in this paper had been to show benefits and drawbacks of using IVP in a collectivistic society. The research aimed at answering the following research questions: what kind of IVP systems are offered in collectivistic societies, is the implementation of IVP systems related to some specific company characteristic and what results can companies achieve by using IVP systems. Research results indicate that the IVP system is frequently used in collectivistic societies, which confirms the thesis of global convergence of compensation strategies. Individual performance evaluation is the most often used basis for determining variable pay which is consistent with expectations. The rate of use of individual pay for performance practices is dependent upon company profitability, size and ownership. IVP does have some positive effects on the productivity as well, although it does not have benefits for the behavioural outcomes such as attracting, engaging and retaining employees. Despite some expectations that equality should be emphasised over equity within collectivistic societies, this paper shows that companies in collectivistic societies do exploit some benefits from using IVP. Therefore, collectivistic values should not prevent companies from using IVP. Nevertheless, human resource managers must be aware of numerous drawbacks of IVP in collectivistic societies described throughout this paper: employee dissatisfaction, turnover intent, lower organisational commitment or perceptions of fairness.

5.1. Research limitations and recommendations for future research

The main limitation of this research is the cross-sectionality of data. Thus, future research should aim at gathering longitudinal data in order to establish causal relations among different variables. Additionally, the sample consists of only 58 companies, so representativeness might be lower than was initially aimed for. In future, scholars should try to cover a higher percentage of companies in order to be able to generalise research findings. Finally, the questionnaire was filled out by one person only, i.e., the HR manager, which implies a response bias. Certain steps were taken, however, in order to minimise the effects of single-method bias: respondents were guaranteed anonymity to increase the accuracy of the responses; criterion measures were placed in different sections of the questionnaire from predictor variables; the expertise of our respondents could be deemed unquestionable, as they were members of the corporate HR team. In future, the questionnaire could be distributed personally and be followed by an interview. Finally, additional, independent data could be impaired with data gathered by cross-sectional research, i.e., financial indicators from public reports which would add more strength to findings and avoid response bias in questions that referred to financial and organisational performance of companies in the sample.

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