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DOI:10.2298/EKA0775009B

## ROLE OF THE REWARD SYSTEM IN MANAGING CHANGES OF ORGANISATIONAL CULTURE

### ULOGA SISTEMA ZARADA U UPRAVLJANJU PROMENAMA ORGANIZACIONE KULTURE

**ABSTRACT:** *The paper intends to investigate how companies can efficiently manage their organisational cultures through changes in the reward system. The paper is based on a research which has taken place in one Serbian company which decided to change its organisational culture, as a prerequisite for further organisational changes. As the main instrument for changing organisational culture, the top management used changes in the reward system. The findings suggest that in the short run only narrow changes of organisational culture are likely to occur. The influence of the reward system on cultural changes is quite limited, and therefore should be strengthened by using various HRM policies.*

**KEY WORDS:** *organisational culture, organisational changes, reward system*

**APSTRAKT:** *Rad ima za cilj da istraži kako kompanije mogu efikasno da upravljaju organizacionom kulturom koristeći promene u sistemu zarada. Rad je baziran na istraživanju u jednoj srpskoj kompaniji, koja je odlučila da promeni svoju organizacionu kulturu kao preduslov daljih organizacionih promena. Kao glavni instrument za promenu organizacione kulture, top menadžment je koristio promene u sistemu zarada. Rezultati pokazuju da su u kratkom roku moguće jedino male promene organizacione kulture. Uticaj sistema zarada na promene kulture je prilično ograničen i zato bi trebalo da bude osnažen primenom različitih politika upravljanja ljudskim resursima.*

**KLJUČNE REČI:** *organizaciona kultura, organizacione promene, sistem zarada*

**JEL Classification:** M14, M52

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## **1. Introduction**

Within European transition economies organisational changes are specifically seen as urgent and necessary, since a new market economy is rapidly replacing the old socialist system. Significant strategic and radical organisational changes cannot occur if they are not supported by the organisation's values and behavioural norms (Kerr, Slocum, 1987; Tushman, Romanelli, 1985). Some studies even suggest that the culture is shown to be the main barrier to radical organisational changes within the transition economies (Newman, Nollen, 1998). Transition of the ex-socialist countries, from central planning toward market economy, assumes changes in institutional and economic settings and, consequently, changes in how firms operate, and how managers and employees behave. Newman and Nollen (1998) offered significant empirical evidence using a multiple longitudinal case design in six Czech companies, arguing that radical changes in the transition economies cannot occur without radical changes in core values inherited from the central planning period.

The paper intends to investigate how organisations operating in transition economies can increase their capability to change within the specific, rather impeding cultural context. The paper is based on the research which has taken place in one Serbian company which decided to change its organisational culture, as a prerequisite for further organisational changes. As the main instrument for organisational culture's changes the top management used the reward system, because reward system is often seen as a powerful tool for promoting, shaping and managing organisational culture in line with business strategy (Balkin, Logan, 1988; O'Reilly, 1989; Kerr, Slocum, 1987; Henderson, 2006; Milkovich, Newman, 2002; Martocchio, 2001; Sono, Nel, 2004; Noe et al, 2006). Still the relevant literature does not provide for deeper understanding of the process of organisational culture's changes under the influence of the reward system. Therefore, in this paper we intend to investigate thoroughly the following research questions: (1) Does the reward system really represent a powerful tool for promoting, shaping and managing organisational culture? (2) How is this process of culture's changes taking place? (3) What is the time frame for desired culture's changes to take place?

In this paper we have addressed these issues in five sections. The first section, reviewing the relevant literature, defines the theoretical framework for analysis of organisational culture's change. In the second section we present research methodology and design, case study as well as the main characteristics of both the organisational culture and the new reward system aimed at changing

existing cultural values. The third section contains the results of the research. The discussion of the results is also provided. Finally, we address some of the implications for management, the potential limitations of our approach and identify some possible directions for further research.

## **2. Different Perspectives to Organisational Culture Research**

Research of organisational culture changes is possible only within a consistent theoretical framework, since acceptance of some theoretical perspective leads and frames any empirical research and presents framework for discussion and interpretation of research findings (Scott, 1992: 55). For an organisational culture change analysis theoretical approach to organisational culture research is especially important, since different perspectives in various ways define organisational culture, its sources, content and structure, its roles within an organisation and the potential for its change. However, any classification of theoretical perspectives must be accepted conditionally, since different authors suggest different categorisations, although often with different names for the same things. In order to provide for a deeper understanding of organisational culture research, we present some of them, since differences between various perspectives may explain for sources of contradictoriness of different statements and results offered in the relevant literature.

Meyerson and Martin (1987) identified three distinctive perspectives to organisational culture research. *Integration perspective* assumes that one organisation has only one organisational culture - "culture is monolithic" (p. 626), and culture is seen as the key organisational integrative mechanism (Geertz, 1973; Schein, 1985) which contains only those values, assumptions and beliefs shared by all organisational members. A leader has a central role in creating a culture, which tends to be a key instrument for gaining managerial control, employee commitment and organisational efficiency (Deal, Kennedy, 1982; Ouchi, 1981; Peters, Waterman, 1982). Consequently, culture can be managed, and its changes are rather radical in their nature - new cultural values replace the old ones, whereas the top management can influence and control that process. *Differentiation perspective* assumes that culture is an open system which is created under the influence of both internal and external environment. Culture is seen as a complex system of subcultures, whereas the change of culture is localised on subcultures and therefore rather incremental in its nature. Thus, cultural changes can be planned, directed and controlled. *Fragmentation perspective* accepts ambiguity as legitimate. Organisational members are often members of several

different subcultures, which are temporal in their nature. Individuals agree with some values, disagree with others, or ignore the third ones.

Second classification of theoretical perspectives has been offered by Hatch (1997). Reviewing the relevant organisational theory literature, she suggested three perspectives to be of special importance for the organisational culture research - symbolic-interpretative, modern, and post-modern, which, in great extent, encompass what Meyerson and Martin (1987) assume under integration, differentiation and fragmentation perspectives. *Symbolic-interpretative perspective* is concerned with describing how organisational realities are socially constructed. Research of a culture assumes a search for key symbols and their interpretation by the organisational members in order to glimpse cultural meaning from the native point of view (Hatch, 1997: 218). Changing the culture is a very hard and almost impossible endeavour. Hatch suggests to research into cultural context whenever attempting to implement any organisational change. *Modernists* follow symbolic-interpretativists in believing that assumptions and values influence behaviour through their expression in norms and expectations and communicate identity through symbols, tradition, and customs. The difference comes in the way in which knowledge about culture is used. Modernists interpret knowledge about culture as a tool of management, and culture itself as a variable to be manipulated to achieve desired levels of performance. Modernists believe that culture can be changed. *Postmodernist view* or *fragmentation perspective* focuses on ways in which organisational cultures are inconsistent, ambiguous, and in constant state of flux (p.230).

Schultz (1994) also identifies three theoretical perspectives. *Rationalism* assumes that culture is an instrument for efficient achievement of defined goals (Peters, Waterman, 1982; Deal, Kennedy, 1982; Kilmann et al, 1985). Culture is only one among many organisational variables which significantly influence organisational efficiency and performance. *Functionalism* studies functions of the culture in dealing with problems that an organisation is facing with through the processes of internal integration and external adaptation. It is possible to change or manage culture, whereas the key role in this process is given to the leader. *Symbolism (Interpretativism)* perceives culture as the map of different meanings and symbols (Geertz, 1973; Smircich, 1983a; 1983b; Pondy et al, 1983), so it cannot be accepted as an individual organisational variable. Everything that exists within an organisation is simultaneously source and manifestation of its culture. Consequently, culture cannot be changed or managed. Leader is a product of the culture and therefore cannot be the ruler of its changes.

At first glance, it seems that different authors recommend completely different classifications of perspectives, although it is not possible to put clear boundaries between them. What functionalism and rationalism are for Shultz, that is modernism for Hatch. Several arguments can explain the differences between classifications. First, it is obvious that authors use different criteria for differentiations between perspectives. Secondly, it is logical that new findings change and influence existing theoretical perspectives, so boundaries between them are moving and it becomes very hard to clearly differentiate between them. Certainly, no organisational phenomenon can be completely explained and understood only from the viewpoint of one theoretical perspective. Acceptance of any perspective blinds researchers through giving them only one fragment of much larger and more complex picture. Acceptance of one inevitably means ignoring other important aspects of the research phenomenon. However, any research of organisational culture's change necessarily means acceptance of the perspective allowing for organisational culture to be changed.

### **3. Research Methodology**

The paper intends to address the prospective for organisational culture change through introduction of a new reward system. The process of change of organisational culture under the influence of reward system has not been well understood yet, although relevant literature points out the high efficiency of rewards in managing changes of organisational culture. In order to investigate this process thoroughly, we used a case study method in research of one Serbian company. The selected method is considered as the most suitable for this type of research, focused on a new and relatively unknown phenomenon (Glaser, Strauss, 1967; Yin, 1989; Dyer, Wilkins, 1991). To select a company, we followed three criteria. The first criterion was to have an access to the company. Secondly, we wanted to select a company with a rich background of social ownership that guaranteed the existence of the socialist values, which reflect the Serbian national culture values. Finally, we needed the company intended to change its organisational culture. The Company "X" fulfilled all mentioned requirements. It was a socially-owned company producing and selling carpets and some other materials used in flats (stores, decorative materials). It was established in 1884. The company focused on diversification of supply led by customer preferences, with simultaneous expansion on selected market segments. In research time-frame, the company employed 1671 employees and achieved income of above 79 million US\$. It was organised according to the divisional organisational

model with six strategic business units (SBU) and seven common departments supporting SBUs.

In order to achieve the research aim, we used a quasi-experimental pretesting-posttesting research design. We measured organisational culture before and twelve months after the introduction of the new reward system, by using the same questionnaire on organisational culture<sup>1</sup>.

We analysed measurements of organisational culture from two samples. Sample 1 was selected for original measurement of organisational culture in the Company, before introduction of the new reward system, by using a stratified sampling technique. In order to provide for representativeness of the sample, employees were randomly selected from all organisational units proportionally to the share of each unit in the total employment. Sample 1 included 229 respondents, or app. 15% of the total employment. Sample 2 was also stratified on the basis of membership in different organisational units and employees were selected on the basis of table of probability numbers. However, due to objective circumstances (paid leaves, illness, maternity leaves etc.) this criterion has not been rigorously followed. In the case of absence of particular selected employee, the first next employee has been selected on the list with employees' names. Analysed sample included total of 211 respondents.

In our analysis we used multiple data sources (observations, semi-structured interviews with employees and professionals in HR Department, and internal documents) and statistical techniques. In order to investigate the strength of attitudes we used descriptive statistics. For investigation of differences in attitudes between two samples we used One Way ANOVA test<sup>2</sup>. In order to see whether identified differences in attitudes between two samples can be explained through differences between structures of two samples, we used the Z test for the analysis of differences between proportions of two samples regarding selected variables. Since Z test showed that there are differences between two samples, in order to see what differences may be explained through the differences between the structures of two samples, we used Simple Factorial ANOVA, where we took

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<sup>1</sup> Questionnaire is a product of a qualitative research on organisational culture in the Company done earlier and is not a part of this research design.

<sup>2</sup> We used a parametric test since prerequisites, such as sufficient size of samples to provide for normal distribution, both samples having the same variance, as well as the requirement of the variables being compared to be measured on an equal interval level (Reaves, 1992), were fulfilled.

attitudes as dependent variables, and education, term of office, age, job position etc. as factors, while as a covariant we used the belongingness to the sample.

In order to prove causality between the two variables, where the reward system is an independent and values and attitudes of employees a dependent variable, it is necessary that the following three conditions are satisfied: (1) we must show that the potential effect did not occur before the potential cause, (2) we must show that changing the first thing was related to a change in the second thing, and (3) we must show that there was nothing else that might have caused the change in the second thing (Reaves, 1992:147-148). It is then usual, when measuring effects of some variable, to determine a control and an experimental group. In our quasi-experimental research design, Sample 1 is taken as a control group, since measurement of organisational culture was done on Sample 1 before introduction of the new reward system. Sample 2 is taken as an experimental group, since the second measurement of organisational culture is done twelve months after the introduction of a new reward system. Such a quasi-experimental design allows for a number of possible extraneous variables that might provide alternative explanations, such as history effect, maturation effect, testing effect, instrumentation effect, mortality effect etc (Reaves, 1992). Control of history and maturation effects is provided through pretty short research time frame of only twelve months. Control of possible influence of testing and instrumentation effects is provided through the use of the same instrument (questionnaire) and through provision of app. same conditions in which employees filled-in the questionnaire. Mortality effect has not been relevant for our analysis, since we analysed two samples. We also assume that obtained results are free of potential effects of some other extraneous variables, since during the research period no significant changes within the Company or in its environment took place. Therefore we believe that obtained results about the influence of the reward system on the organisational culture changes may be considered as highly reliable.

### **A case of the Company "X":**

#### **Characteristics of organisational culture and reward system**

*Specific national cultural context.* Specific national cultural contexts for several transition economies are similar regarding Hofstede's (1980, 2001) four national culture dimensions: high Power Distance, strong Collectivism, high Uncertainty Avoidance and Femininity. These national culture dimensions are seen as deeply incompatible with market-oriented mechanisms as well as management techniques dominating in developed market economies. Moreover, high Uncertainty Avoidance (UA) is particularly impeding characteristic for any change to occur,

since it shows a degree to which members of the culture feel endangered in conditions of uncertainty, lack of clarity and ambiguity. In cultures with high UA people tend to be less tolerant to situations marked with uncertainty, changes, risk, differences and innovations. Implications of high UA to management are manifested as high formalisation and specialisation, as well as impaired flexibility and innovativeness. So, management of companies in transition economies face with a dilemma that has initiated the so-called convergence–divergence debate in relevant literature: whether the adoption of managerial methods and techniques necessarily requires the change of national culture and its convergence toward Western cultures where these methods and techniques have originated from, or, alternatively, whether it is also possible within cultural diversity and divergence. Within our research framework this dilemma is related to the following choice: To change organisational culture if compatible with described, rather impeding national culture dimensions, or to adapt the organisation change model (content, continuity of change and leadership style) to dominant cultural values?

*Characteristics of the organisational culture.* Content of organisational culture in the Company is identified by one earlier research. Content of organisational culture of the Company includes dominant cultural values (describing desirable state or aim) and attitudes for each identified value (describing means to achieve a desirable state). The relative strength of values and attitudes (at what extent employees accept identified values and attitudes) has been identified through average marks from 1 (no acceptance) to 5 (total acceptance), as follows:

- < 3 - weak value (attitude)
- From 3 to 3.5 - moderately strong value (attitude)
- From 3.5 to 4 - strong value (attitude)
- From 4 to 5 - very strong value (attitude)

Identified values and attitudes and their strength before introducing the new reward system are presented in Table 1.

**Table 1.** *Strength of cultural values and attitudes in the Company*

	CULTURAL VALUES AND ATTITUDES	Means	Standard deviation
<b>FLEX</b>	<b>I Orientation toward flexibility</b>	3.5	1.5
FLEX1	Diversification	3.6	1.4
FLEX2	International expansion	4.0	1.0
FLEX3	Organisational changes	3.6	1.5



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FLEX4	Using experiences of international companies	3.2	1.6
FLEX5	Investing abroad	3.0	1.5
<b>DEV</b>	<b>II Orientation toward continuous development</b>	3.9	1.3
DEV1	Learning and improvement	4.3	1.3
DEV2	Continuous investing in new technologies	4.7	0.9
DEV3	Recruitment of young professionals	3.2	1.4
DEV4	Acceptance of new competencies	3.6	1.5
<b>MARK</b>	<b>III Orientation toward application of market-based business standards</b>	3.5	1.4
MARK1	Systematic approach	4.5	1.0
MARK2	Teamwork	4.6	1.1
MARK3	Cooperation with competitors	4.0	1.3
MARK4	Democratisation	3.5	1.4
MARK5	Independence from the state	3.0	1.6
MARK6	Discipline	2.9	1.7
MARK7	Decentralisation	2.8	1.5
MARK8	Process-oriented organisation	2.5	1.6
<b>CUST</b>	<b>IV Orientation toward customer preferences</b>	3.3	1.4
CUST1	Widening supply	4.5	1.0
CUST2	Maximising Quality/Price Ratio	2.9	1.6
CUST3	Deep knowledge of customer preferences	2.6	1.7
<b>EMPL</b>	<b>V Orientation toward employee needs</b>	3.5	1.4
EMPL1	Secure employment	4.1	1.4
EMPL2	Collectivism	4.5	1.4
EMPL3	Nepotism	3.7	1.6
EMPL4	Egalitarianism	3.5	1.7
EMPL5	Secure income	3.4	1.6
EMPL6	External locus of control	3.4	1.6
EMPL7	Good social relations	2.1	1.2
<b>RESU</b>	<b>VI Orientation toward results</b>	3.7	1.4
RESU1	Promotions based on results	4.2	1.3
RESU2	Strategic and business planning	4.0	1.5
RESU3	Differentiation between organisational unit performances	4.0	1.3
RESU4	Evaluation of employee performance	3.9	1.3
RESU5	Reward system based on results	3.8	1.5
RESU6	Measuring results at the strategic business unit level	3.8	1.5
RESU7	Competition between employees	2.5	1.6
<b>PRIV</b>	<b>VII Orientation toward privatisation</b>	2.9	1.5
PRIV1	Ownership concentration	1.9	1.3
PRIV2	Management control	3.2	1.6
PRIV3	Separation of ownership and control	3.6	1.5
	<b>Organisational culture</b>	<b>3.48</b>	

*Characteristics of the new reward system.* In order to change the organisational culture the Company replaced seniority-based reward system with a performance-based reward system, which brought the following changes:

- The span of pay range was increased from 1:7 to 1:14;
- Introduction of performance-based bonuses;
- Introduction of the performance evaluation system;
- Introduction of competence as one of important criteria for determination of individual pay;
- Change of focus in rewarding employees and managers – linking their compensation with group performance – financial performance of the organisational unit in which they are employed;
- Job evaluation has changed the internal pay structure in favour of blue-collar workers.

#### **4. Research Findings**

In order to see whether and how the reward system influences characteristics and promotes changes of organisational culture, we firstly analyse compatibility of the new reward system with the desired changes of organisational culture. Does the new reward system send a clear signal to employees about what are desired cultural values? If not, it makes no sense to research its influence on organisational culture changes.

Compatibility analysis suggests that the new reward system contains only a few incentives for the planned and desired cultural changes (see Table 2).

*Table 2. Values and attitudes which can be influenced by the new reward system*

<b>VALUE</b>	<b>Direction of influence</b>	<b>Direction of planned changes</b>
✓ FLEX3	strengthening	strengthening
✓ DEV1	strengthening	strengthening
✓ DEV4	strengthening	strengthening
✓ MARK2	strengthening	strengthening
✓ MARK5	lessening	strengthening
✓ MARK6	strengthening	strengthening
✓ PRIV2	strengthening	strengthening
✓ CONS1	strengthening	strengthening
✓ EMPL3	lessening	lessening

✓ EMPL4	lessening	lessening
✓ EMPL5	lessening	lessening
✓ EMPL6	lessening	lessening
✓ EMPL7	strengthening	lessening
✓ RESU1	strengthening	strengthening
✓ RESU2	strengthening	strengthening
✓ RESU3	strengthening	strengthening
✓ RESU4	lessening	strengthening
✓ RESU5	strengthening	strengthening
✓ RESU6	lessening	strengthening

Table 2 shows that the new reward system contains incentives for influencing and therefore changing 19 out of identified 37 attitudes, but for 4 attitudes it promotes changes that are opposite to the desired ones (EMPL7, MARK5, RESU4 and RESU6), which justifies our research design.

We assume that organisational culture change takes place through changes of attitudes which can take three possible forms:

- *Increase of acceptance of an attitude*, which is manifested through changes in the distribution of answers in a sense that there is an increase of the number of employees who fully or partially accepts the attitude, and a decrease of the number of employees who do not partially or completely accept that attitude. This is manifested through increase of the means and considered as the attitude strengthening.
- *Decrease of acceptance of an attitude*, which is manifested through change in the answers distribution, but in the opposite direction. It is manifested through decrease of the means and considered as the attitude lessening.
- *Modification of an attitude*, which is manifested through answers re-distribution in a sense that the number of employees who fully or partially accept an attitude decreases, while there is an increase in the number of employees who are unbiased or do not accept an attitude. As a result, we cannot notice any attitude strengthening or lessening, but its modification and the means often remain unchanged or change in a very small degree.

For 37 attitudes results of One Way ANOVA<sup>3</sup> show that the hypothesis  $H_0$ : Means are equal in both samples can be rejected and an alternative  $H_1$ : Means of the two

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<sup>3</sup> We could not use any of tests of multiple comparisons, since they require minimum 3 samples.

*samples are not equal* can be accepted only for five attitudes for  $p < 0.05$ : FLEX3, DEV4, MARK4, MARK5, and MARK7. For all other attitudes  $H_0$  can be accepted and we may conclude that there is no statistically significant change of attitudes. Results of descriptive statistics show that all attitudes lessened except the attitude DEV4, which strengthened.

In order to see whether the identified differences between employees' attitudes in two samples can be explained through differences between structures of two samples, we used the Z test for the analysis of differences between proportions of two samples regarding various variables (see Table 3).

**Table 3.** Results of Z-test

Job position		Education		Age	
Blue-collar	-0.14828	Primary school	1.530323	20-29	-0.96943
Administrative	-0.87794	Qualified	-1.92634	30-39	-0.16888
Low-level manager	-1.60201	Highly qualified	-0.2116	40-49	-0.53189
Middle manager	-2.53486	Secondary school	0.021182	50-59	-0.20625
Professional	-0.45864	High school	-0.96982	60 and more	2.020267
Salesman	1.475279	University degree	1.273213		
Top manager	4.518317				
Term of office (years)		Organisational unit		Sex	
Less than 1	0.134136	Dekor	0.324869	Male	-0.10537
1-3	0.392025	Vinil	0.329545	Female	-0.08439
3 - 5	-0.39312	Telan	-1.1816		
5 - 10	-2.22413	Sintaf	-0.48515		
10 - 20	-0.97122	Usluge	-0.89808		
More than 20	1.867239	Servisi	-0.08917		
		Sint.plus	0.591194		

Data in Table 3 show that there is a statistically significant difference in proportions between two samples for  $p < 0.01$  regarding the portion of top managers, for  $p < 0.05$  regarding the portion of middle managers, employees older than 60 and employees with the term of office between 5 and 10 years, and for  $p < 0.1$  regarding the portion of qualified employees and employees with the term of office more than 20 years.

In order to see which factors possibly influenced the appearance of differences between attitudes of employees in two samples we used Simple Factorial ANOVA, where we took attitudes as dependent variables, and education, term of office,

age, job position etc. as factors. As a covariant we used belonging to the sample. Results show that differences between structures of the two samples regarding factors “job position” and “age” can explain identified differences between attitudes only for the following four attitudes: EMPL4, EMPL7, MARK7 and DEV3.

## 5. Discussion

Research findings, presented in the previous section, suggest the following:

- Change in attitude strength has been identified for the following five attitudes: FLEX3, DEV4, MARK4, MARK5 and MARK7, by using One Way ANOVA test.
- Results of the Z test suggest that there is a statistically significant difference between structures of the two samples regarding the share of top management for  $p < 0.01$ , managers of organisational units, older than 60 and employees with the term of office between 5 and 10 years for  $p < 0.05$  and qualified workers and employees with the term of office more than 20 years for  $p < 0.10$ . This can partially explain the identified differences in attitudes between the two samples.
- Results of Simple Factorial ANOVA suggest that structural differences between two samples can explain identified differences for the following four attitudes: EMPL4, EMPL7, MARK7 and DEV3, since variables “job position” and “age” (Z test identified different structures of the two samples according to these variables) significantly influences the differences in mentioned attitudes between employees.
- Changes in 4 attitudes - FLEX3, MARK4, MARK5 and DEV4 – cannot be explained by structural differences of the two samples, which is why these changes require additional explanation. For our analysis only three attitudes - FLEX3, MARK5 and DEV4 – are relevant, since the new reward system contains incentives for their change.

Noticed changes are partially expected (for attitudes DEV4 and MARK5), but also some are rather unexpected (change in FLEX3).

Expected strengthening of the attitude DEV4 (acceptance of new knowledge), manifested through the increase of its means from 3.62 to 3.9 after twelve months may be directly linked to the influence of the reward system. Incentive for its strengthening was built-in through implemented performance evaluation criteria.

In regarded time frame the Company's Training Centre has been launched and a number of training hours have been included, apart from performance evaluation and work experience, as one of the criteria for promotions. This actually means that changes of this attitude can be explained not only through the changes in the reward system, but also through changes in other HR policies such as training and development of employees.

Lessening of MARK5 (teamwork), although unplanned, is expected, since the new reward system contains a reverse incentive – reinforcement of individual work through implementation of individual performance based incentives. Although teamwork is communicated as important and applied on higher hierarchical levels, a clear signal supporting teamwork has not been sent, so its lessening is quite expected.

Unexpected lessening of FLEX3 (continuous changes of organisation and systems), manifested through the decrease of its means from 3.62 to 3.17 after twelve months, can also be linked to the influence of the new reward system. As we noted earlier, an incentive for reinforcement of this attitude has been built in the new reward system twofold: implicitly, by implementation of the new reward system *per se*, and explicitly, through the introduction of performance criterion “initiative, learning and development”. Significant measured lessening of this attitude can be also linked to some other surveys of employees' satisfaction with the new reward system, which suggest that majority of employees are dissatisfied with the new reward system, pointing out its inequality. Dissatisfaction with the new reward system could influence lessening of the attitude about desirability of organisational changes, since the new reward system obviously devastated individual interests and equity perceptions of employees.

Results also reveal lessening of the attitude MARK4. Although not relevant for our analysis, since it cannot be linked to the changes of the reward system, it means that in the research time frame some signals have been sent regarding centralisation of the decision making process.

The previous discussion implies several conclusions regarding the influence of the reward system on the changes of organisational culture.

*First*, the results of quantitative analysis show that out of 37 attitudes only 4 attitudes changed, which cannot be related to the structural differences between the two samples. Among these four, changes in only three attitudes can be linked to the influence of the new reward system, which suggests that the reward system

has a limited capacity to provide for wider changes of organisational culture in short term. Otherwise, results suggest that in the research period only narrow changes of organisational culture were identified. Therefore, we may conclude that in short term reward system can promote only narrow changes of organisational culture.

*Secondly*, out of three attitudes, the changes of which can be linked to the influence of the new reward system, the results show that only one attitude – DEV4 (acceptance of new knowledge) – was changed in the expected way. However, strengthening of this attitude cannot be explained only through the influence of the reward system, but also through the use of other HR policies such as training and career development. This suggests that reward system should not be used solely when changing organisational culture, but rather simultaneously with other HR policies and organisational instruments.

*Thirdly*, changes of attitude MARK5 suggest that absence of incentives within the reward system also has influence on attitudes toward their lessening. Significant lessening of attitude FLEX3, due to employees' dissatisfaction with the new reward system, shows that reward system plays an important role in building employees' attitudes. The introduction of a reward system which employees perceive unfair lessens their orientation toward changes in general, which together with high UA (as the characteristic of the Serbian national culture) may create strong resistance toward any changes. Perception that the system is unfair means that reward system does not have motivational potential to stimulate desired behaviour, so it could not be expected for such a system to promote wider changes of the organisational culture. In the same time identified changes in small number of attitudes, as well as changes of attitudes due to absence or weak involvement of incentives within the reward system, suggest that symbolic potential of a reward system (what is valued) is also important as its motivational potential (how much something is valued). Therefore, we may conclude that in managing changes of organisational culture, apart from motivational, symbolic influence of the reward system is also important – the lack of incentives for desired behaviour also generates cultural changes.

## **6. Conclusions and Implications for Management**

Relevant literature suggests that reward system is the most efficient instrument for organisational culture change (*Kerr, Slocum, 1987; O' Reilly, 1989; Brown, 1995*). However, our research findings suggest that such argument cannot be applied at

least in our case. In our case, the evidence shows that, in short term, only narrow changes of organisational culture which can be related to the influence of the reward system have been identified. This poses a question about the efficiency of the reward system in the process of organisational culture's change when used solely, as well as about the time frame of cultural changes. Our findings suggest that the influence of a reward system is much stronger if it is supported with other HR policies and continuous communication of desirable values to employees. Further, earlier research mostly regarded issues such as design of different incentives which will promote desirable behaviours. There were little or no attempts to see how absence of incentives may influence organisational culture and its changes. Therefore, we believe that our research presents a step forward suggesting that reward system sends signals not only about desired values, but also signals about what is not valued. Absence of incentives (planned or unplanned) which will promote desired values, attitudes or behaviours, also makes influence, but through their lessening. This has to be taken into account when designing the reward system.

However, this paper has some important limitations which need to be mentioned. *First*, the selected research method, a case study method, although suited to research aim, does not allow for generalisation of the research findings. However, it allows in-depth analysis of possibilities for managing organisational culture. *Secondly*, the selected time frame of research is relatively short (only twelve months), so there is a question whether incompatibility between cultural values and characteristics of the new reward system could be resolved in longer time period, either through further modification of reward system or through changes of organisational culture. *Thirdly*, an important limitation of this paper is related to the research design, actually to the absence of a control group. A certain degree of reliability was provided through close observation of the research phenomenon - organisational culture before and after the introduction of the new reward system. Although we did not use the same sample of employees in two successive observations, we provided for reliability through testing of two random samples. *Fourthly*, it is possible that other changes in the reward system could facilitate more prominent changes of the organisational culture in the selected company. However, our research design was based on the reward system implemented in the selected company, so proposition of elements and design of the new reward system were not part of our research framework.

*Finally*, shortly before our research, the company was faced with radical strategic and organisational changes, which could also influence changes of organisational



culture, so it was hard to control the influence of those earlier changes on the organisational culture.

Our findings imply that an important direction for further research certainly is more specific defining of organisational culture content, particularly regarding clear separation between different levels of culture, especially basic assumptions, and answering the question whether they can be related to the content of organisational culture or rather with the content of national culture only. It seems more acceptable that organisational culture contains upper level of culture, which are adopted through socialisation of organisational members, and related to organisational practices which actually make the content of a culture (Hofstede *et al*, 1990; Hofstede, 1998). Second direction for further research is related to organisational culture change. Research findings show that in short term changes of organisational culture are very narrow, so there is a question whether more radical and wider changes of a culture are possible at all. Additionally, there is a question whether radical changes are possible, since they assume changes of basic assumptions which make the content of national culture. Furthermore, there is a question whether reward system actually presents the most efficient instrument for the organisational culture change, especially if used solely. Further research should reveal whether reward system is more efficient in managing changes of organisational culture through the presence or absence of incentives for desired behaviour – whether its influence is stronger on strengthening the behaviour which is stimulated or on lessening the behaviour which has not been stimulated. This can have important implications for further use of a reward system as a managerial instrument.

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