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# Lost in Translation: Cultural Interpretations of Performance Pay

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## Abstract

No pay system should be put into practice unless it is congruent with the values of the people it will affect. Cross-cultural research suggests performance pay is a poor fit for some cultures, although its actual use is rising throughout these very same cultures. This seeming contradiction is investigated through an exploratory, qualitative analysis to understand how performance pay translates across cultures. Findings call for (a) appropriate level of cultural aggregation, (b) focus on pay equity construal rather than preference and (c) attention to specific dimensions of culture identified as potentially most predictive of equity construal.

## Keywords

performance pay, cross cultural, equity, Eastern/Western, qualitative research

Cross-cultural research pertaining to performance pay presents a contradictory perspective. Whereas certain findings suggest performance pay is not an appropriate fit for some cultures, other findings show prevalent adoption and effective use of performance pay within the very same cultures.<sup>1</sup> Because of institutional pressures to conform to a global business culture of high performance and efficiency, pay systems are becoming more performance based even throughout cultures traditionally known for egalitarian and seniority-based approaches to compensation.

According to surveys by Hewitt Associates, performance pay use, spending and eligibility for nonmanagement-level employees have become remarkably similar from one country to another.<sup>2</sup> For example, approximately 91% of Asia-Pacific companies offered performance pay compared with 90% in the United States during 2007–2008.

This article examines this apparent contradiction through an exploratory, qualitative approach. The findings call attention to two factors that help explain confounding results and improve the understanding of the pay–culture relationship: (a) an overemphasis on national versus other more closely aligned subsets of culture and (b) culture-specific construals of performance pay. Finally, through these findings and review of the related literature, the article offers a platform for future empirical research.

From an applied perspective, no pay system should be put into practice unless it is congruent with the values of the people it will affect.<sup>3</sup> As organizations attempt to uphold this maxim in today's global business environment, an improved understanding of how performance

pay translates across cultures is essential. The following investigation offers theoretical and practical insights into this important topic.

## Conceptual Background

### *Equity Theory*

Pay for performance (PFP), in contrast to fixed pay, is contingent on some performance-related outcome at the individual, group or organization level. This approach to compensation generally follows an equity principle in that it seeks to differentiate rewards based on employee contribution to the organization rather than allocate rewards equally or based on need.<sup>4</sup>

Thus, PFP can be described through the lens of equity theory.<sup>5</sup> In equity theory, employees evaluate the ratio of outcome they receive in exchange for input they have contributed and compare this to a referent other's outcome–input ratio in order to determine the equity or fairness of the exchange.

Although various past studies have focused on cultural differences in use or preference of the equity allocation

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**Table 1.** VOM Orientations and Variations

Orientation	Variations		
Human Nature: What is the character of innate human nature?	Basically evil	Mixture of good and evil	Basically good
Environment: What is the nature of humans to the environment?	Humans subjugated by their environment	Humans in harmony with their environment	Humans the masters of their environment
Time: What is the temporal focus (time sense) of human life?	Past oriented	Present oriented	Future oriented
Activity: What is the mode of human activity?	Being (stress on who you are)	Being-in-becoming (stress on self-development)	Doing (stress on action)
Relationships: What is the mode of human relationships?	Lineal (i.e., hierarchical)	Collateral (i.e., group)	Individualistic

Note. VOM = value orientations method. Adapted from Robert Kohls, L. (2000). Comparing and contrasting cultures. In K.W. Russo (Ed.), *Finding the middle ground: Insights and applications of the value orientations method* (pp. 119-135). Yarmouth, ME: Intercultural Press.

standard, it is clear from the widespread global use of performance pay that equity is an accepted principle in the workplace across cultures. It seems the more pressing question today is not if but how equity translates across cultures. Two conceptual integrations of equity theory with cultural values suggest cultural context may influence how employees construe inputs and outcomes, in addition to potentially interacting with other aspects of the equity model.<sup>6</sup>

In other words, there may be systematic cultural differences in equity judgments because of differences in what individuals count as relevant contributions and differences in how individuals value the outcomes received. Relevant points from each of the two conceptual studies will be discussed throughout appropriate, subsequent sections.

### *The Value Orientations Method of Assessing Culture*

While "culture can best be expressed in the complex interactions of values, attitudes and behavioral assumptions of a society . . . much of our understanding of cultural variation has been achieved by reducing our analysis to the study of values."<sup>7</sup> Kluckhohn and Strodtbeck's value orientations method (VOM) represents a theoretically and empirically evolved framework that has influenced, and thus holds similarities to, subsequent culture frameworks commonly used in management research such as Hofstede's cultural dimensions, the GLOBE study and models by Schwartz and Trompenaars.<sup>8</sup>

However, VOM is distinct from traditional whole-culture perspectives and from typical bipolar measures of cultural values in that its identified value dimensions and levels within each dimension are conceptually independent. This aspect of the framework helps isolate subtle variations in cultural value orientations and allows researchers

to focus on the specific dimension or level of value orientation deemed most relevant to the research at hand. In keeping with the widely held belief that values reside within the individual, VOM measures culture at the individual level and allows for aggregation of individual scores to any relevant group level.

VOM classifies cultural values into five dimensions or "orientations," each with three levels or "variations" (see Table 1). A sixth dimension ("space") was later proposed by Kluckhohn, but has received little support to date and has relatively less relevance for management studies.

## **Investigation**

Given the speculative nature of the relationship between PFP and culture, and potentially differing cultural conceptions of what PFP actually means, the author conducted an exploratory, qualitative investigation with the primary goal of defining a more concrete basis for future empirical studies.

### *Phase I*

**Research approach.** I conducted a semistructured, 1-hour personal interview with the director of human resources for a multinational corporation. The corporation has 75 locations across 25 countries, including multiple locations in East Asia and the United States, and is headquartered in Amsterdam, the Netherlands. My primary objective was to ascertain if, how and why the organization varied its use of performance pay across national cultures.

In keeping with my opening review, I expected to find that performance pay was not precluded by national culture, but did vary in structure because of variations in performance pay construal across national cultures.

However, I also sought to maintain an inductive approach and allow the case findings to guide the conceptual framework.

*Interpretive findings.* The most surprising and relevant finding was that the use of performance pay was not deviated by nation. The use of performance pay did vary across the organization as a whole, but this varied use was tied to professions and divisions within the organization, which cut across national boundaries.

The most compelling example was the organization's sales force, for which pay is highly performance driven. This practice suggests two important points: (a) the role of national culture in constraining the use of performance pay is not as prominent as some practitioners and researchers suggest and (b) professional culture may play a stronger role in predicting use of performance pay than national culture.

Of course, some professional cultures are likely to be more tightly aligned in values than others. Because of self-selection, those professions in which values are salient will naturally attract and retain individuals with the requisite value fit. For instance, a profession such as sales signals priority values of doing (success is typically measured by performance), individualism (success is normally measured at the individual level) and mastery (sales success is a matter of individual skill).

Furthermore, these values are ones that are likely to influence attitudes toward PFP, as the above case suggests. A profession such as university professor is likely to embody a less unified set of individual values because the field embraces diversity.

## Phase II

*Research approach.* Although the basic adoption of PFP does not appear to be constrained by national culture, it is still feasible that employees of distinct national cultures perceive or translate the concept of PFP differently. To further explore this possibility, I conducted online, written interviews of currently or formerly employed individuals (largely drawn from a pool of graduate business students) within China and the United States regarding their experience with team rewards.

Using structured, open-ended questions and a critical incident framework, each participant was asked what type of team they are currently or have been a part of in the workplace, how the team was compensated and whether they felt it was fair. China participants were also asked to distinguish the country in which they worked and the country they considered home, in order to confirm affiliation with the Chinese culture. After eliminating two cases that did not meet the critical incident parameters, the sample consisted of 20 cases from the United States

and 9 cases from China. Data were qualitatively analyzed to search for dominant themes (see Table 2).

Culturally, East Asian cultures (Confucian-influenced cultures and China in particular) and Western cultures are generally considered highly distinct, particularly with regard to East Asia's emphasis on collectivism and hierarchy over individualism, concern for harmony, and emphasis on being over doing.<sup>9</sup> Thus, I expected these cultural distinctions to be evident in views regarding team rewards.

For instance, earlier empirical studies tended to show a harmony-preserving deference toward in-group members by Chinese and other East Asian cultures when it came to reward allocation.<sup>10</sup> However, more recent empirical validation of national cultural rankings indicates a shift from earlier measured rankings toward between-country convergence of values.<sup>11</sup> Thus, differences in equity and PFP attitudes identified in earlier studies may no longer be as distinct.

*Interpretive findings.* Qualitative analysis of participant narratives suggested that both cultures construe fair team rewards as rewards that consider individual contribution to the team, consistent with an equity standard of outcome fairness. This was inferred from the use of positive terms to discuss reward systems that considered individual contribution and the use of negative terms to discuss team rewards that failed to appropriately consider individual contribution.

This is consistent with findings in which, in contrast to the researchers' hypotheses, a sample of white-collar Chinese workers, across various departments within the same organization, reported a more positive attitude toward equity than equality with regard to rewards and a positive attitude toward an individual performance reward.<sup>12</sup> To see this pattern in the more tightly defined work groups that I interviewed, however, is even more surprising.

Rewards are consistently described by both country groups in tangible, monetary terms (e.g., bonus, promotion, etc.), suggesting a broad common ground on how outcomes or rewards are defined. However, responses show a stronger concern for the collective, in combination with the individual, for China versus the United States.

Two quotes from the China sample exemplify this position: "I am sure it's fair because it not only considers the individual but also the collectivity." And, "I think it is unfair. That's because this method considered only everyone, with no considering of the group." These attitudes are more consistent with, although not as extreme as, the cultural divergence and related preference for harmony-preserving allocations indicated by early studies as discussed above.

**Table 2.** Interpretation of Phase II Cases: Views of PFP in China and United States

Dominant Themes:		Representative Quotes from the United States			
1. A general standard of equity seen as most fair by both China and United States respondents.		2. A stronger preference for consideration of the collective reported by China versus United States respondents.			
Representative Quotes from China		Representative Quotes from the United States			
Reward Description	Fairness Evaluation	Reward Description	Fairness Evaluation	Research Interpretation	
"The reward was ... at the whim on the leader of the department or the coordinator. Performance plays no part."	"No ... it's just an extension of endemic Chinese cheating that one must accept if one wishes to remain in China."	"The project manager commented that he did not intend for individual bonus amounts to be public information ... We felt that he favored members of his organization (project engineers) and neglected members of other disciplines."	"At the time many team members, myself included, did not feel that the project manager's distribution was fair."	Both report arbitrary allocation of rewards across group members as unfair (consistent with equity standard).	
"B [each member rewarded differently based on their contribution to the team], but the difference is not suitable to match different contribution."	"It's no fair I think. The reason is clear."	"In the end the working group and senior management got the recognition. Internally in the company people knew I was involved with it, but little reward was received by me other than 'good job.'"	"I found this unfair ... It had a HUGE impact on my decision to leave the company."	Both report differentiated recognition or rewards across group members as unfair when difference not relative to difference in contribution (consistent with equity standard).	
"Each member rewarded differently based on their contribution to the boss of strategy dept."	"Yeah, it is fair, because no pains no gains."	"Each team member's bonus percentage is exactly the same."	"I know that the higher performing operators do not feel that this methodology is fair."	Both feel team member rewards should be differentiated based on individual contribution (consistent with equity standard).	
"The salesman was rewarded by her performance, and the rest of us were seldom rewarded. But at the beginning of last year, the boss decided to see the overall team performance. He set a sale goal for us to achieve. If we achieve the goal through cooperation, all of us would get rewarded. But if we fail to achieve the goal, the salesman could still get compensated partly, and the rest of us would get punished through deducting our salary."	"I felt unfair and very disappointed, and I talked to the boss, trying to persuade him to reconsider about the policy, but it did not work, so at last I resigned ... Second, except the salesman, the rest of us got our fixed payment. I know, for a company, sale is very important. But that does not mean the other department is not important."	"Two of the three members of procurement staff on the team were promoted to procurement mgmt. All procurement received their bonuses ... The logistics staff, mgmt, and myself did all of the non-programming work, and to my knowledge, not one of us received a bonus, raise, or promotion."	"As you may have discerned, I in no way felt this was fair. Ultimately, I left the company."	Both see failure to recognize and reward their group's contribution to the project or goal as unfair (consistent with equity standard, although applied at the group versus individual level).	
"Our compensation system is complex with one part is each member rewarded differently based on their contribution to the team, another part is come from whole team performance."	"I am sure it's fair because it not only consider the individual but also the collectivity."	"In the end, the executive assistant and I did the lion's share of the work, with some participation from the engineers."	"I believe a fairer plan would have had a component for individual contribution so that those of us on the team that performed above the norm could have received more of a bonus or, conversely, those that did not contribute as much could have lost part of their bonus."	Both suggest a combination of individual and collective reward is fair; but inclusion of collective considerations stated as a necessary condition of fairness per the China respondent.	
"The team members compensated is differently based on their contribution to the team."	"I think it is unfair. That's because this method considered only everyone, with no considering the group."	"They should not have received the team reward ... but who is going to be 'that person' and say something to management?"	"In times where no effort was made by some team members, I felt that the reward was very unfair."	Again, China respondent suggests combination of individual and collective reward is necessary condition of fairness. In contrast, U.S. respondent suggests a collective reward is unfair, but defers to social pressure in tolerating it.	

Note. PFP = pay for performance. Grammar and spelling errors reflect direct quotes.

**Table 3.** VOM Ranking Instrument Used in Phase III Investigation

Order of Agreement	A	B	C
1 _____ 2 _____ 3 _____	Most people can't be trusted. People are basically bad and need to be controlled.	There are both evil people and good people in the world, and you have to check people out to find out which they are. People can be changed with the right guidance.	Most people are basically pretty good at heart; they are born good.
1 _____ 2 _____ 3 _____	People really can't change nature. Life is largely determined by external forces, such as fate and genetics. What happens was meant to happen.	Man should, in every way, live in harmony with nature.	It the great human challenge to conquer and control nature. Everything from air conditioning to the "green revolution" has resulted from having met this challenge.
1 _____ 2 _____ 3 _____	People should learn from history, draw the values they live by from history and strive to continue past traditions into the future.	The present moment is everything. Let's make the most of it. Don't worry about tomorrow: enjoy today.	Planning and goal setting make it possible for people to accomplish miracles, to change and grow. A little sacrifice today will bring a better tomorrow.
1 _____ 2 _____ 3 _____	It's enough to just "be." It's not necessary to accomplish great things in life to feel your life has been worthwhile.	The main purpose for being placed on this earth is for one's own inner development.	If people work hard and apply themselves fully, their efforts will be rewarded. What a person accomplishes is a measure of his or her worth.
1 _____ 2 _____ 3 _____	There is a natural order to relations, some people are born to lead, others are followers. Decisions should be made by those in charge.	The best way to be organized is as a group, where everyone shares in the decision process. It is important not to make important decisions alone.	All people should have equal rights, and each should have complete control over one's own destiny. When we have to make a decision as a group it should be "one person one vote."

Note. VOM = value orientations method. Adapted from Gallagher, T. (2001). The value orientations method: A tool to help understand cultural differences. *Journal of Extension*, 39(6), 6TOT1.

### Phase III

**Research approach.** Cultural distinctions in PFP construal are suggested from the Phase II findings. The Phase III investigation seeks to uncover variations in the patterns of cultural orientations that relate to differences in PFP construal. I chose a sample in which cases were subject to the same pay system but likely to vary with regard to individual cultural values, thus helping narrow cultural values as a potential key causal difference in how individuals construe the pay system.

Accordingly, I surveyed 30 university professors (nine responses), within the business school of an urban, U.S. university—a typically diverse group. The survey included a VOM assessment instrument to determine participants' rank order of values for each orientation (Table 3) and contained open-ended questions pertaining to their pay system. Participants were asked to respond in narrative detail to two statements: (a) I am satisfied with the way the pay system is structure here where I work and (b) The pay system recognizes accomplishment.

The PFP aspect of the university pay system consisted of merit pay; annual increases and merit pay differentials across professors were historically modest. In terms of the equity model of inputs and outcomes, the pay system may be objectively described as modestly recognizing achievement and performance oriented inputs and inherently considering contribution to group harmony as an input, based on its minimal level of differentiation.

Bolino and Turnley propose that variations in value rankings within the Activity and Human Relations orientations will drive differences in how inputs and outcomes are valued when it comes to individual assessments of equity.<sup>13</sup> Although they offer numerous propositions, most relevant to the present analysis they associate doing with emphasis on inputs related to task performance over inputs that contribute to the well-being of the group and emphasis on material outcomes over social-relationship outcomes.

**Interpretive findings.** Despite the small sample, the ranking of cultural values discriminated two distinct groups. Systematic variation of the value rankings within the

Environment and Activity cultural orientations defined the groups. Value rankings within the Environment orientation showed two distinct patterns of variation, as did value rankings within the Activity orientation. Furthermore, these two value orientations covaried with each other and with views of the pay structure. The other three cultural orientations showed nominal variation (Time and Human Nature) or no distinct pattern of variation (Relationships).

Individuals with a rank order of mastery, harmony and subjugation for their Environment orientation also had a rank order of doing, being in becoming and being for their Activity orientation (three respondents). This is in keeping with traditional western cultural values.<sup>14</sup> These individuals were relatively less satisfied with the pay system and viewed it as relatively less sufficient in recognizing accomplishment.

When asked if satisfied with pay, these individuals answered no and/or made comments with negative connotations (e.g., “I believe there is insufficient merit pay” and “Merit portion is so small that it does not encourage research active people to do more”). When asked whether the pay system recognizes accomplishment, these individuals had a moderate view (e.g., “only partially,” “represents cost-of-living adjustment” and “sometimes”).

Individuals with a rank order of harmony, subjugation and mastery for their Environment value orientation also ranked doing as third (last) for their Activity orientation (four respondents). This has more in common with traditional Eastern than Western cultural values.<sup>15</sup> These individuals were relatively more satisfied with the pay system and viewed it as relatively more sufficient in recognizing accomplishment.

These individuals all indicated full or some degree of satisfaction with the pay and did not offer a negative comment regarding satisfaction with the current pay system. When asked whether the pay system recognizes accomplishment, these individuals answered yes and showed a more positive view (e.g., “the merit part does” and “yes—most of the time”) than the group more indicative of Western cultural values.

The two remaining respondents were outliers. One was consistent with the Eastern value group for Environment orientation and consistent with the Western value group in Activity orientation. Interestingly, this respondent expressed an attitude toward the pay system that was between the two identified groups, not positive or particularly negative. The other outlier matched the Western value group in value rankings but was more similar to the Eastern value group in view of pay system.

In summary, cultural value orientations pertaining to Environment and Activity appear to correlate with construals of performance pay. Those that rank harmony

with the environment over mastery of the environment, and place greater emphasis on who you are than what you are doing, construe reward for achievement through a nominally differentiated merit pay system, whereas those reversed in these two value rankings tend to find such a performance pay system insufficient to recognize achievement.

## Platform for Future Research and Practice

The primary contribution of the above investigation is its potential to guide future empirical research. Below, I discuss three key recommendations for continued cross-cultural research of PFP.

### *Focus on Appropriate Level of Aggregation*

Greater mobility in terms of working across national boundaries and the shifting economies of various national markets suggests culture may now be less distinct between industrialized nations than in the past. Indeed, recent cross-cultural validation of VOM found a striking pattern of similarities in certain value rankings that was not evident or expected in VOM’s early samples.<sup>16</sup>

In addition to cultural convergence across nations, cultural divergence within nations is a noted shortcoming of using nation as a proxy for culture.<sup>17</sup> Cross-cultural pay studies have largely ignored the issue of cultural variance.

A high level of divergence of individual cultural values within a nation suggests that a different level of cultural analysis, one with relative less variance in individual cultural values, will be more relevant to predicting or explaining culture’s influence on management practices.<sup>18</sup> Professional culture may be a particularly relevant level of cultural aggregation for the study of PFP because, based on Phase I findings, it can take priority over national culture in determining the use of PFP. Also, because individuals select in and out of professions for fit, more readily than they might their nation, convergence of cultural values is more likely at the profession level.

### *Focus on PFP Construal Rather Than Preference*

Findings from Phases I and II support the notion that use and preference of PFP is not precluded by national culture. Despite this apparent cultural convergence regarding PFP, potential cross-cultural differences still remain in how PFP is construed. Past studies indicate stronger emphasis on ascriptive inputs such as seniority and less task specific inputs such as social connections in East Asian compared with Western evaluation of contributions.<sup>19</sup>

Phase III findings also suggest East Asian and Western differences in construal of PFP, ostensibly stemming from differences in how inputs or outcomes are construed or valued. Individuals more typical of Western cultural values viewed a nominally differentiating merit pay system as relatively less sufficient in recognizing accomplishment as compared with individuals more typical of Eastern cultural values subject to the same pay system. Phase II findings suggest little variation in which outcomes are emphasized (emphasis on tangible, monetary outcomes) in evaluation of PFP equity by the Western and East Asian sample.

### Relevant Dimensions of Culture

Phase III distinguished two cultural dimensions that appear interrelated with construal of PFP: Environment and Activity. In particular, a primary ranking of mastery and doing indicated an interpretation of PFP distinct from the interpretation associated with a primary ranking of harmony and a final ranking of doing.

The findings suggest greater emphasis on performance-related inputs for the former cultural group. It is not clear, however, if the latter cultural group values some other form of inputs over performance-related inputs or may simply be more inclined to rationalize inequity given their emphasis on harmony, in keeping with a proposition by Bolino and Turnley.<sup>20</sup>

The Relationships dimension of culture was not identified in the Phase III exploratory analysis as related to PFP construal, but should be further explored given past emphasis in the literature and the Phase II finding of stronger concern for the collective within the China sample as compared with the U.S. sample. For example, Bolino and Turnley propose that collaterality may be associated with a greater emphasis on inputs that contribute to the well-being of the group over inputs related to task performance and may relate to a greater emphasis on social-relationship outcomes over material outcomes when it comes to assessing equity.

Extending cultural measurement beyond rank order of value orientations to level of each value orientation or distance between rankings may be needed to uncover the relevance of the Relationships dimension to PFP. In a recent validation of the VOM model, a sample from Taiwan and the United States both ranked hierarchical last in their rankings of cultural values within the Relationships dimension although the Taiwan sample still had a higher level of preference for this value than the U.S. sample.<sup>21</sup>

In conclusion, this article offers an exploratory, qualitative investigation into the relationship between PFP and culture and interprets these findings, along with support from the extant literature, to suggest a platform for future

empirical research. This is a necessary first step for a nonestablished research area to guide relevant constructs, the appropriate level of analysis and potential relationships to be examined. Thus, this research has important theoretical implications and also has useful practical implications for organizations seeking evidence-based PFP practices.

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### Notes

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  21. See Maznevski et al. (2002), pp. 275-295.

### Bio

**Kimberly K. Merriman**, assistant professor of management at Pennsylvania State University School of Graduate and Professional Studies, is an authority on extrinsic motivators (pay, incentives, nonmonetary rewards, recognition, goals and feedback) and their influence on attitudes, behaviors and performance. She is particularly interested in the psychological and cognitive processes that underlie these relationships. Her research is published in a wide variety of academic and business journals, and she has given numerous talks on the subject. She holds a PhD in organizational management and human resources from Temple University in Philadelphia. She can be reached through her website: [www.kkmerriman.com](http://www.kkmerriman.com).