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## Cross-cultural differences in the behavioral consequences of imposing performance evaluation and reward systems: An experimental investigation

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### Abstract

This study explores the effects of national culture differences on the behavioral consequences of imposing performance evaluation and reward systems (PERS). It postulates that two cultural dimensions — individualism/collectivism and power distance — can modify employees' decisions under, as well as satisfaction with, imposed performance evaluation and rewards aimed at modifying their work-related behavior. In a laboratory experiment that focused on a teamwork setting, these cultural attributes were operationalized via a comparison of US vs. Chinese nationals in Taiwan (CNT). On the whole, the results were consistent with US nationals significantly changing the team orientation of their decisions in response to imposed performance measures and rewards, but a similar impact was not found for the CNT subjects. And, consistent with culture-based predictions, US nationals had significantly lower satisfaction under imposed, rather than self-selected, performance evaluation and reward structures, while their CNT counterparts did not have a similar adverse reaction. These results are consistent with prior Anglo-American-based research that the PERS significantly affects employee behavior. But they also suggest that this finding may not be directly generalizable to employees whose national cultures differ from those of Anglo-Americans. © 2001 University of Illinois. All rights reserved.

*Keywords:* Performance evaluation and rewards; National culture; Cross-cultural comparison; Employee decisions; Teamwork; Self vs. collective interest conflicts

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## **1. Introduction and overview**

A central concern of organizations is ensuring that employees' decisions and actions are aligned with their best interests (Merchant, 1985, 1989). A large body of research, primarily conducted in Anglo-American contexts, has shown that the performance evaluation and reward system (PERS) can significantly influence employee behavior (Young & Lewis, 1995; Young & Selto, 1993). This finding is taken to imply by both theorists and practitioners that organizations can use the PERS to ensure or increase the congruence between employee behavior and their own objectives (Merchant, 1989, 1998).

Yet a question that arises in the current era of global markets is whether this implication will hold across national boundaries. A growing body of research has consistently observed that national culture affects employees' work behavior (see Erez & Earley, 1993; Harrison & McKinnon, 1999; Hofstede, 1991; Trompenaars & Hampden-Turner, 1998). More specifically, it has been observed that similar controls have different effects on the work behavior of people from different cultural backgrounds (Birnberg & Snodgrass, 1988; Chow, Kato, & Merchant, 1996; Chow, Shields, & Chan, 1991; Daley, Jiambalvo, Sundem, & Kondo, 1985; Harrison, 1992, 1993). The potential implication of these findings is that the effectiveness and effects of PERS may differ across nations, with attendant implications for global firms' design of management systems and processes.

The objective of this study is to explore the effects of national culture differences on the behavioral consequences of PERS. In a laboratory experiment involving a teamwork setting, national culture dimensions hypothesized to be relevant to this phenomenon were operationalized via a comparison of US vs. Chinese nationals in Taiwan (CNT). We found that among CNT subjects, imposing PERS, which differs from individuals' self-selected ones, only minimally affected the team vs. individual orientation of their decisions. In contrast, and consistent with prior Anglo-American-based studies on the effects of compensation contracts, there generally was a significant effect on US subjects' decisions. And, as expected based on the cultural dimensions of individualism and power distance, US nationals who worked under imposed performance-based pay structures were significantly less satisfied than their compatriots working under pay structures that they had self-selected. Also consistent with culture-based predictions, a similar difference in satisfaction was not found among the CNT subjects. These results caution against a direct extrapolation of research results and practices relating to PERS across nations with significantly different cultures. They also may imply that the effect of PERS on employee behavior and reactions may be less powerful than is generally conceived.

The remainder of this paper is organized as follows. Section 2 reviews related prior literature on national culture, teamwork, PERS, and job satisfaction. Then we describe the empirical method, analysis, and results for the experiment. Section 4 discusses the limitations of this study and offers suggestions for future research.

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