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Organizational reward allocation: a comparison of British and German organizations

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Abstract

The present paper reports two studies investigating the use of reward allocation principles based on equity, equality, need and seniority by work organizations in Germany and the UK. The study sampled participants from various organizations to replicate some findings from laboratory studies involving students. Consistent with predictions, equity was more important in the UK than Germany. Contrary to previous laboratory studies, need was more important in the UK than Germany. Large differences between private and public sector organizations were found. More research focusing on real-life allocations is needed to develop a better understanding of cross-cultural differences.

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1. Introduction

Understanding cross-cultural differences in reward allocation is of great importance because of implications for managers around the globe (Erez & Earley, 1993). Managers frequently have to decide how to distribute pay raises, on what basis to promote employees or how to ask employees to leave. Not surprisingly, this research has enjoyed great popularity in the last two decades (Leung, 1997). Researchers have focused on what principles are used by individuals from different cultures when allocating rewards. The three most common allocation rules in cross-cultural research are equity (Adams, 1965), equality and need (Deutsch, 1975;

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Leventhal, 1976). Seniority has been added more recently as a fourth allocation principle of importance for cross-cultural research (Chen, 1995; Rusbult, Insko, & Lin, 1995). This research has been driven by Adams' (1965) equity theory. This theory is concerned with the 'just distribution of wealth, power, goods, and services in society' (Adams, 1965, p. 267). Employees engage in social exchange, where they contribute something in expectation of rewards. Consequently, they compare the ratio between their inputs (contribution) and outcomes (rewards) with the ratio of referent others. Adams did not specify the relevant inputs or outcomes for any given exchange, but subsequent researchers have mostly focused on contributions or inputs in terms of task performance (Kanfer, 1990). In contrast, equality refers to the principle that all organizational members receive the same regardless of their contribution (Deutsch, 1975). The need rule mandates that organizational members receive allocations depending on their personal need (Deutsch, 1975). Finally, seniority refers to a more generous allocation to more senior and older individuals. Previous reviews of the literature have suggested that equity-based allocations are more prevalent in individualistic cultures, whereas reliance on the equality principle is more prevalent among collectivistic cultures, when allocating rewards within in-groups (e.g., Smith & Bond, 1998). However, explanations of these differences have often been inconsistent and contradictory. Some of these inconsistencies can be explained in terms of the differing research methodologies employed by the various researchers (Fischer & Smith, 2003). It needs to be tested how valid conclusions are that are based on studies using specific research methods and relying on specific populations.

Therefore, the present study focuses on two cultural samples and investigates cultural differences in reward allocation between the UK and Germany. One might argue that these two countries appear quite similar on a global scale. Both countries are key players within the European union and have enjoyed close partnerships in the last four decades. Although these two countries share many similarities in terms of economic and political development, these similarities are accompanied by differences in intellectual, philosophical and economic thinking (Perلمان & McCann, 1998; Russell, 1945/1992), prevailing economic systems (e.g., Albert, 1993) and recent political systems and structures (e.g., Wegener, 1995). Management styles and company structures (Foley, 1998; Glunk, Wilderom, & Ogilvie, 1997; Stewart, Barsoux, Kieser, Ganter, & Walgenbach, 1994, 1996), as well as patterns of worker representation in companies (Hampden-Turner & Trompenaars, 1993) and human resource traditions (Muller, 1999), have also been found to differ between the two countries. In terms of cultural values, various large-scale surveys also reported differences. Hofstede's (1980) seminal study of IBM employees found British participants to be more individualistic compared with the (West) Germans. The greatest difference was found in terms of uncertainty avoidance, with Germans being less tolerant of uncertainties and ambiguities in their everyday life as opposed to a greater tolerance of uncertainty and ambiguity as reported by British participants. Germans were also somewhat higher on collectivism compared with the British. Ronen and Shenkar (1985) subsequently included the former West Germany into a Germanic country cluster, whereas Britain was

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