

## A taxonomy of reward preference: Examining country differences

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Accepted 23 November 2004

Available online 20 July 2005

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### Abstract

Reward practices that are effective in one country may be very different from those that are successful in others. This is largely due to reward preference, which is shaped by individual needs, values and expectations. By integrating both the theories of motivation and culture, this study examines employee reward preference in four countries: the United Kingdom, Canada, Finland and Hong Kong. A construct for examining the multi-dimensional nature of reward is used, the type-system-criterion (TSC) model, to identify where specific differences in reward preference lie. The findings lend support to and extend the existing body of research. Yet, in contrast to prior research, empirical analysis reveals that while preferences for certain types of rewards remain relatively divergent, differences in preferences for both reward systems and the criteria by which rewards are allocated are diminishing as the forces of convergence take hold. The findings are particularly relevant to managers engaged in the design and implementation of reward practices in a MNC environment and open reward research to a promising new direction. © 2005 Elsevier Inc. All rights reserved.

*Keywords:* Reward; Culture; Motivation; International management

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## 1. Introduction

A crucial challenge facing managers today is to identify which rewards lead to superior employee performance (Kossek and Lobel, 1996). As managers grapple with performance and motivation related issues, these may be further exacerbated by growing resource constraints, fierce competitive rivalry, harsh business climates, and entry into foreign markets. The above pressures combined with the business reality that competitors can and often do imitate products virtually overnight, makes a highly motivated and effective workforce one of the few remaining routes to competitive advantage (Barney, 1991).

The success of a reward depends on its ability to achieve any one of a number of objectives, such as to attract, retain and motivate employees (Milkovich and Newman, 2002). Although employee performance is influenced by a number of factors beyond motivation (e.g., ability, competence, resources), the effectiveness of skilled and capable employees will be impeded if they are not motivated with appropriate rewards (Lawler, 2000). No organization is immune to the ill effects of an under-performing workforce. This underscores the importance that organizations should attach to understanding employee needs, values and preferences—an essential first step in determining what specific rewards drive and motivate optimum performance.

Prior research (e.g., Chiang, *in press*; Schuler and Rogovsky, 1998; Sethia and Von Glinow, 1985) has suggested that there is a close interdependence between an organization's rewards, motivation and the culture in which it is embedded. As firms establishing foreign affiliates attempt to transfer their reward practices to different national settings, the need to better understand human behavior becomes acute (Salk and Shenkar, 2001). Reward practices considered successful in North America, for instance, may not be readily transplanted to Europe or Asia (Hofstede, 2001). Organizations engaged in multi-national activity must be cognizant of the potentially significant influence that culture wields on reward preference. This necessitates that the principles of motivation, which are fundamental to the design and implementation of rewards, and for the most part originate in the West, be re-examined in light of possible cross-cultural effects.

In view of the large number of cross-national studies, it is surprising to find that the influence of culture on reward preference remains largely unexplored. Much attention has, however, been given to the notion of 'fit' between compensation and firm strategy (e.g., Balkin and Gomez-Mejia, 1990; Boyd and Salamin, 2001; Rajagopalan, 1996). Although it is generally agreed that the successful alignment of rewards with business strategy relies very much on understanding employee reward perceptions (Lawler, 1995; Wilson, 1995; Zingheim and Schuster, 1995), little empirical research has examined employee preferences in the reward-strategy relationship. Prior studies are also predominantly American in orientation (e.g., Barkmena and Gomez-Mejia, 1998; Gerhart and Milkovich, 1990; Kahn and Sherer, 1990) and have focused on either a particular employee group (e.g., Pennings, 1993) or a single dimension of reward (e.g., benefits) (Hempel, 1998). Few are empirical (Gomez-Mejia and Welbourne, 1991; Hodgetts and Luthans, 1993). Only one recent study by Schuler and Rogovsky (1998) examined the relationship between culture and compensation practices, however, it focused narrowly on financial

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