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# Performance pay or redistribution? Cultural differences in just-world beliefs and preferences for wage inequality

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## ABSTRACT

We identify and test a specific psychological mechanism underlying cross-national differences in preferences for performance-based versus redistributive compensation systems. We posit that individuals' beliefs in the inherent justness and deservedness of individual outcomes (i.e., just world beliefs: JWBs) can help explain individual and culture-level variation in preferences for these compensation systems. Study 1 demonstrates a general correlation between the JWBs of a culturally diverse sample of former managers and their preferences for performance versus equal pay for an individual task. Study 2 shows that American participants exhibit stronger preferences for individual performance pay versus redistributive pay than do French participants, a difference that is mediated by cultural differences in JWBs. Study 3 holds national culture constant and replicates these effects by experimentally manipulating JWBs, demonstrating the causal nature of JWBs in determining preferences for performance-based versus redistributive compensation systems. Implications for organizational incentive systems, culture, and work motivation are discussed.

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## 1. Introduction

As business has become more globalized, managers and business leaders have increasingly recognized that not all pay and compensation systems are equally acceptable around the world. For example, Wal-Mart's failure in Germany has been attributed in part to its unwillingness to embrace egalitarian German wage-setting practices (Knorr & Arndt, 2003). Similarly, the Lincoln Electric Company, the subject of a best-selling Harvard Business School case study, failed initially when expanding abroad from the U.S. The CEO said that executives erred in assuming that all cultures were equally receptive to the company's performance pay system (Hastings, 1999). The growing international debate about income inequality (Piketty, 2014; Plender, 2012) calls into question the cultural acceptability of very high levels of executive pay, especially of "high-powered," individual performance incentives (Lazear, 2000; Williamson, 1985). These concerns have led France, for example, to limit top executive salaries in state-controlled companies (Crumley, 2012). To date, however only limited research exists to guide executives and policy makers in gauging the cultural acceptability of different pay practices,

despite many possible reasons for cross-national variations in pay systems (e.g., Hundley & Kim, 1997, on demographic and performance factors; Siegel & Larson, 2009, on the role of egalitarian value systems; Tosi & Greckhamer, 2004, on the role of Hofstede's (1980) power-distance and individualism).

In this paper, we are interested in whether and why the acceptability of compensation systems may vary when implemented across individuals from different national cultures. We identify a distinct individual-level cognitive mechanism—the operation of fundamental beliefs about the inherent justness of the world—that we hypothesize underlies cultural variations in preferences for more redistributive (egalitarian) versus less redistributive (performance-based) compensation schemes. Building on economic research on societal attitudes toward fiscal redistribution (e.g., Alesina, Glaeser, & Sacerdote, 2001), we propose that cultural differences in preferences for individual-level compensation schemes are at least partly driven by cultural differences in "just-world beliefs" (JWBs, e.g., Furnham, 1993; Lerner, 1980; Lerner & Miller, 1978). JWBs refer to individuals' general beliefs about whether the world is a fair place where people largely get what they deserve (Lerner, 1980). In cultures where JWBs are strong and the typical individual is seen to generally get what s/he deserves, employees should see performance-based compensation as fair, motivating, and desirable. Thus, Lincoln Electric's incentive system in the United States, a country relatively high in

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JWBs, (e.g., [Alesina et al., 2001](#)), reflects James Lincoln's philosophy that each worker "must have a reward that he feels is commensurate with his contribution" ([Lincoln, 1951, p. 33](#)), which is consistent with the country's dominant cultural ethos. In contrast, in cultures where JWBs are weaker, more redistributive, equal payment schemes should be seen as fairer and thus more preferred. For example, in continental Europe, where JWBs are weaker overall and where Lincoln stumbled, the company's performance-based compensation system was less successful.

Overall, then, we expected that individual and culture-level differences in JWBs would have a significant impact on individual preferences for compensation schemes—a question of great practical relevance as illustrated at the outset, yet one that has not yet been explored in the literature. Although recent work in economics and psychology has shown a link between JWBs and abstract attitudes towards societal levels of fiscal redistribution in the context of taxation and social spending (e.g., [Alesina & Angeletos, 2005](#); [Bryan, Dweck, Ross, Kay, & Mislavsky, 2009](#); [Bénabou & Tirole, 2006](#)), no work has yet examined the impact of JWBs on preferences for more concrete, individual-level compensation schemes and incentive systems. This distinction between abstract attitudes toward fiscal redistribution at the societal level versus preferences for individual compensation schemes is important in light of the large body of work in psychology which documents that general, abstract attitudes are often disconnected from specific behaviors in a given context (e.g., [Ajzen, 1991](#); [Ajzen & Fishbein, 1980](#)). Similarly, in a recent review of the just-world literature, [Hafer and Bègue \(2005, p. 135\)](#) noted a striking absence of research examining reactions and behaviors regarding one's own fate. Instead, most previous work has examined reactions to events happening to third parties, particularly regarding victimization. Finally, because most previous work is correlational in nature, it remains to be demonstrated whether JWBs are a true, underlying causal mechanism explaining cultural differences in economic preferences, either at the individual or cultural level. Given the increasingly globalized nature of the business world, it is important to explore (a) the impact of JWBs on individuals' preferences for performance-based compensation systems, (b) whether there are cross-national differences in these preferences, and (c) whether JWBs act as a causal mechanism determining such differences.

## 2. Culture, just-world beliefs, and preferences for economic redistribution

### 2.1. Historically determined beliefs about the deservedness of economic success

Countries vary in how their societies allocate and distribute resources to individuals, both via fiscal regimes and also via individual pay systems, differences that are likely at least partly due to the different historical and social structures that gave rise to modern economies (e.g., [Gelfand et al., 2011](#)). For example, for centuries across most of Europe, feudal, aristocratic, and/or monarchical social systems with strict hierarchies were the norm, with relatively impermeable class divisions and very little social mobility ([Davies, 1996](#); [Fromm, 1941](#); [Goubert, 1988](#); [Tawney, 1926](#)). [Fromm \(1941, p. 40\)](#) notes that "what characterizes mediaeval in contrast to modern (Europe) is its lack of individual freedom. Everybody in the earlier period was chained to the social order. A man had little chance to move socially from one class to another. . . . With few exceptions, he had to stay where he was born." Thus, for centuries, individuals in many European countries with aristocratic systems likely did not perceive a meaningful link between effort and reward.

By contrast, America's frontier-based origins and more explicit rejection of aristocracy and social entitlements upon its founding

have meant that, with the exception of slavery, class divisions or material inequality are perceived more as resulting from individual effort than from birth-based entitlements (e.g., [de Tocqueville, 1835/2004](#); [Kitayama, Conway, Pietromonaco, Park, & Plaut, 2010](#)). [De Tocqueville \(1835, p. 58\)](#) noted that "In America, the aristocratic element has been feeble from its birth." Although hierarchy, class, and birth-related privileges have always existed in America, the perception—if not the reality—has been a greater likelihood that the upper classes worked for, rather than inherited, their fortunes ([Williams, 1968](#)). Thus, because class divisions or material inequality were seen to be the result of individual effort rather than birth-based entitlements, a stronger psychological association between effort and reward was established in America compared to Europe. Indeed, quintessential to the "American Dream" is the belief that individuals can achieve anything provided they work hard enough.

This perspective on explaining the origins of values, norms, beliefs and behaviors is consistent with psychologists' recent emphasis on the "socio-ecological" foundations of culture, whereby different types of factors in the environment can help explain cultural differences in modern psychological phenomena ([Oishi & Graham, 2010](#)). For example, recent work has shown that population densities from the Middle Ages predict modern-day orientations towards rigid or "tight" social norms ([Gelfand et al., 2011](#)). Other work demonstrates that, within ancient China, rice-farming practices led to a more collectivistic culture that persists in modern-day southern China, whereas wheat farming created a more individualistic culture that continues to predominate in northern China ([Talhelm et al., 2014](#)). These historical, ecological, and economic factors subsequently create, reinforce, and perpetuate the values, norms, and beliefs about how to survive and thrive in a given cultural context (e.g., [Gelfand et al., 2011](#); [Nisbett & Cohen, 1996](#); [Oishi & Graham, 2010](#)). The interplay between social structures on the one hand and values, attitudes, and beliefs on the other is also a major theme of "new institutionalism" in sociology (e.g., [Scott, 1995](#)) and economics (e.g., [Ostrom, 2005](#)).

Although there is currently a debate among cultural psychologists as to whether culture is more inherently driven by values (e.g., [Hofstede, 1980](#)), norms (e.g., [Xou et al., 2009](#)), or other psychological constructs, for the purposes of the current work, we argue that historically determined *beliefs* about whether to attribute a person's economic success to individual effort or deservedness may help to explain modern-day differences in attitudes toward income inequality and economic redistribution. According to the 1999 World Values Survey, only 30% of Americans believe that luck plays a bigger role than effort in determining income, whereas 54% of Europeans believe that luck is more important ([Alesina et al., 2001](#)). This may also explain why larger income inequality is tolerated in the U.S. than in Europe, where it is seen as less fair and less just. To illustrate, U.S. chief executives' compensation was 325 times the average worker's pay in 2010; for European companies listed on the London Stock Exchange, the ratio of CEO to average worker pay was 115 times ([Plender, 2012](#)). Aggregate differences are also reflected in the fact that the "Gini coefficient," a broadly used measure of income inequality, is considerably higher in the United States (Gini = 45) than across Western Europe (European Union average: Gini = 30.4; [Central Intelligence Agency, 2012](#)).

### 2.2. Belief in a just world, fiscal redistribution, and compensation systems

As noted earlier, we argue that attitudes toward general societal-level redistribution policies and wage inequality may be rooted in fundamental psychological beliefs about the

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