The role of individual variable pay in a collectivistic culture society: an evaluation

Ivana Načinović Braje, Maja Klindžić & Lovorka Galetić

To cite this article: Ivana Načinović Braje, Maja Klindžić & Lovorka Galetić (2019) The role of individual variable pay in a collectivistic culture society: an evaluation, Economic Research-Ekonomska Istraživanja, 32:1, 1352-1372, DOI: 10.1080/1331677X.2018.1559073

To link to this article: https://doi.org/10.1080/1331677X.2018.1559073

Published online: 17 Jul 2019.

Article views: 263

View related articles

View Crossmark data
The role of individual variable pay in a collectivistic culture society: an evaluation

Ivana Načinović Braje, Maja Klindžić and Lovorka Galetić

Department of Organization and Management, Faculty of Economics and Business, University of Zagreb, Zagreb, Croatia

ABSTRACT
With increasing worldwide use of individual variable pay (IVP) and thereby some theoretical suggestions to drop it in collectivistic societies it is worth examining the role of variable pay in such cultural surroundings. This paper aims at answering the following research questions: what kind of IVP systems are offered in collectivistic societies, is the implementation of IVP systems related to some specific company characteristic and what results can companies achieve by using IVP systems. A primary research of compensation practices was conducted among 58 Croatian medium and large companies. The research carried out shows that in Croatia, which is a highly collectivistic society, companies offer IVP such as pay for performance, sales commissions and occasional bonuses to its employees. Non-parametric testing has shown that the use of individual-based pay for performance is dependent upon the size and ownership structure of the company. However, contrary to some previous findings and expectations, our analysis reveals only minor differences in organisational outcomes between companies that apply or do not apply individual incentives. Research results support the thesis of global convergence of compensation practices and show that collectivistic heritage does not inhibit the implementation of IVP.

ARTICLE HISTORY
Received 13 September 2018
Accepted 21 November 2018

KEYWORDS
Collectivism; variable pay; pay for performance; Croatia

1. Introduction
Compensation is a key element of the employment relationship and, in addition to being the single greatest operating cost for many organisations, it has been suggested as a tool for enhancing organisational performance and sustained competitiveness (e.g., Balkin & Gomez-Mejia, 1990; Hansen, 1997; Jenkins, Mitra, Gupta, & Shaw, 1998; Stajkovic & Luthans, 2001). Compensation choices are many but it usually incorporates three major components: 1) salaries/wages, the direct payment to the worker in exchange for competently performing assigned work, 2) incentive payments (including bonuses) made to the worker for high level of individual or group
performance and 3) benefits, a combination of legally mandated costs (e.g., different forms of insurance offered to employees) and other non-wage compensation (e.g., company approved benefits like childcare, company loans, education and training opportunities, etc.) that figure in the total cost of compensating a given employee.

There is a high level of awareness as well as documentation of the differences in both human resources management and compensation management among countries (Schuler & Rogovski, 1998; Bloom & Milkovich, 1998). Since compensation practices are strongly related to work values and to other macro-environmental phenomena, national culture has been identified among sources of such cross-national variations in compensation policy and strategy (Bloom & Milkovich, 1998; Gomez-Mejia & Welbourne, 1991; Laurent, 1986; Newman & Nollen, 1996; Schuler & Rogovski, 1998; Stone & Stone-Romero, 2008; Tosi & Greckhamer, 2004; Townsend, Scott, & Markham, 1990). Wages, other compensation, and the ratio of the two, are all significantly affected by cultural affiliation (Townsend, Scott, & Markham, 1990). Furthermore, differences in culturally based values may be expected to influence individual reactions to perceptions about the work environment such that employees may be more motivated and satisfied by a particular compensation practice simply because it is consistent with their values (Lam, Schaubroeck, & Aryee, 2002). A mismatch between compensation strategies and cultural characteristics could result in a number of dysfunctional consequences for employers such as difficulty in attracting and retaining workers, higher labour costs, labour relation problems, violation of personal norms leading to resentment and even possibly destructive employee behaviour, inability to achieve strategic objectives, lower morale and a negative public image (Gomez-Mejia & Welbourne, 1991).

However, with globalisation and the growing importance of multinationals since the mid-1980s, there has been a noticeable trend towards worldwide convergence in reward strategies, which has been dominated by the impact of the United States practices (Gomez-Mejia & Welbourne, 1991; Kressler, 2003; Poutsma, Ligthart, & Schouteten, 2005). In Europe this influence was first observed in the United Kingdom and later continued its advance eastwards and southwards (Kressler, 2003). More specifically, globalisation of reward strategies represents what can be described as Americanisation (Kressler, 2003) or Anglo-Saxonisation (Poutsma, Ligthart, & Schouteten, 2005) since many countries partly withdrew from their traditional reward structures and adopted “Western world” approaches, namely compensation strategies based on the extensive usage of short- and long-term incentive compensation. However, many authors argue that practices that might work in the U.S.A., the most individualistic society in the world, may not work in other countries (Hofstede, 1983), so the attempts to export Western practices to other nations whose national culture is incompatible with such practices are likely to fail (Hodgetts & Luthans, 1993; Gómez-Mejia & Palich, 1997). The research on the effectiveness of such “exported” compensation practices (as described by Gomez-Mejia & Welbourne, 1991) to different national settings outside the Western world is very scarce. The question awaiting to be answered is: Can the same compensation strategies really be universally effective or must they be customised to national culture and other contextual factors? Our reasoning is based on the premise that the dominant focus of the theory and research in compensation management is based on the individualistic
national culture of the United States and possibly cannot be applicable elsewhere without caveat.

Not long ago, compensation practices in Croatia, an ex-Yugoslav society and EU member since 2013, were limited to egalitarian pay structures with the traditional pay system based on seniority. Such compensation system was similar to the compensation systems in other emerging countries, where most of these countries traditionally based compensation on seniority, group membership, and equality concerns rather than performance (Du & Nam Choi, 2010; Giacobbe-Miller, Miller, Zhang, & Victorov, 2003). The implementation of the market economy accompanied with the general development of HRM practices led to the applicability of Western-style compensation practices in compensation management of Croatian companies as well. As a critical part of the wage system revolution, one of the major changes was the initiative to put more pay at risk through implementing variable pay. With the rapid convergence and Americanisation in the application of compensation practices in Croatia and other emerging markets, it is crucial to investigate the outcomes of such practices.

The theory and research on compensation tends to be dominated by assumptions and values originating from specific developed parts of the world, but can all existing findings really be applicable in non-Western countries? This paper explores the outcomes of using IVP in a non-Western setting by using Croatia as a case. Croatia is not, originally, a capitalist country, but turned to a market economy only in the 1990s. Croatian national culture thus is characterised by collectivism, high power distance, femininity and high uncertainty avoidance, where all these features are quite the opposite of the characteristics of the national culture of the U.S. (Hofstede, 1980). In our investigation, we find lacking sufficient research on the issue of relationship between variable pay and organisational outcomes in organisational settings within collectivistic cultures. This paper addresses this gap by exploring the incidence of IVP in Croatian companies and establishing a relationship between IVP and several organisational aspects. For this purpose, an empirical examination of compensation practices, employee behaviour-based indicators and organisational outcomes was conducted among Croatian companies.

Following from the research problem presented above, a number of research questions can be identified:

- What kind of IVP systems are used in Croatia?
- Is the implementation of individual-based variable pay systems related to some specific company characteristic?
- What results are achieved by using the IVP system in Croatia being a collectivistic society?

2. Theoretical background

Culture, especially national culture, has been seen as a reflection of national history influencing different aspects of the society as well as the minds and behaviour of people (Moon & Choi, 2001). Therefore, it is necessary to understand that culture
will have an impact on aspects of business as well. Although several models deal with
cultural differences (e.g., Trompenaars, 1993; Schwartz, 1999), the contribution of
Hofstede in this respect is significant as his worldwide accepted research tries to
describe the nature of cultural characteristics within a society and compare countries
based on these characteristics. Hofstede (1980) defines culture as a patterned way of
thinking, feeling and reacting that differentiates members of one group from mem-
bbers of other groups. It encompasses values, beliefs, and assumptions learned in
early childhood.

Hofstede’s model characterises culture in terms of six value dimensions, although
most available research considers only the four original dimensions: 1) power distance
(degree to which the less powerful members of a society accept and expect that power
is distributed unequally), 2) individualism versus collectivism (a society’s position on
this dimension is reflected in whether people’s self-image is defined in terms of “I” or
“we”), 3) masculinity versus femininity (in the business context masculinity versus fem-
ninity is sometimes also related to as “tough versus tender” cultures), 4) uncertainty
avoidance index (expresses the degree to which the members of a society feel uncom-
fortable with uncertainty and ambiguity) (Hofstede, 1980). The two dimensions added
later are 5) long-term orientation versus short-term normative orientation (in the busi-
ness context this dimension is related to as (short term) normative versus (long term)
pragmatic orientation) and 6) indulgence versus restraint. Hofstede (1980) suggested
that a society’s positioning on any given cultural dimension was associated with specific
work-related values (e.g., loyalty, achievement motivation, commitment, involvement,
and well-being) and organisational factors (e.g., degree of centralisation, organisational
structure, organisational type, and wage schemes) (Sama & Papamarcos, 2000).

In this paper we focus specifically on the role of individualism/collectivism in
designing reward strategies due to the fact that the findings that govern compensation
theory come almost exclusively from individualistic countries and mostly do not

| Country            | Index Score |
|--------------------|-------------|
| United States      | 91          |
| Lithuania          | 60          |
| Bulgaria           | 30          |
| United Kingdom     | 91          |
| Poland             | 60          |
| Mexico             | 30          |
| Australia          | 90          |
| Malta              | 59          |
| Romania            | 30          |
| Netherlands        | 80          |
| Czech Republic     | 58          |
| Portugal           | 27          |
| Canada             | 80          |
| Austria            | 55          |
| Slovenia           | 27          |
| Hungary            | 80          |
| Slovak Republic    | 52          |
| Malaysia           | 26          |
| New Zealand        | 79          |
| Spain              | 51          |
| Hong Kong SAR      | 25          |
| Italy              | 76          |
| India              | 48          |
| Serbia             | 25          |
| Belgium            | 75          |
| Japan              | 46          |
| Chile              | 23          |
| Denmark            | 74          |
| Morocco            | 46          |
| Singapore          | 20          |
| Sweden             | 71          |
| Argentina          | 46          |
| China              | 20          |
| France             | 71          |
| Iran, Islamic Rep. | 41          |
| Thailand           | 20          |
| Ireland            | 70          |
| Russian Federation | 39          |
| Vietnam            | 20          |
| Latvia             | 70          |
| Qatar              | 38          |
| Bangladesh         | 20          |
| Norway             | 69          |
| United Arab Emirates| 38        |
| El Salvador        | 19          |
| Switzerland        | 68          |
| Brazil             | 38          |
| Korea, Rep.        | 18          |
| Germany            | 67          |
| Turkey             | 37          |
| Peru               | 16          |
| South Africa       | 65          |
| Uruguay            | 36          |
| Trinidad and Tobago| 16          |
| Finland            | 63          |
| Greece             | 35          |
| Indonesia          | 14          |
| Luxembourg         | 60          |
| Croatia            | 33          |
| Pakistan           | 14          |
| Estonia            | 60          |
| Philippines        | 32          |
| Colombia           | 13          |
| Venezuela          | 12          |

Source: Hofstede (1980).
acknowledge this as a study limitation. Furthermore, individualism is usually the most replicated value in cultural research (Newman & Nollen, 1996). Individualism reflects the degree to which people in a given society value independence versus group membership. Countries that are high on individualism dimension emphasise personal goals and autonomy whereas in countries with low individualism (high collectivism) values centre around groups or families such as loyalty to the group, commitment to group norms and involvement in group activities. A complete list of society scores for individualism index can be seen in Table 1.

Countries whose individualism index has a value under 50 are characterised as collectivistic countries. In these societies there is a preference for a tightly-knit framework in which individuals can expect their relatives or members of a particular in-group to look after them in exchange for unquestioning loyalty. Value over 50 indicates emphasised individualism which is characterised with a preference for a loosely-knit social framework where individuals are expected to take care of only themselves. At least 70% of the world’s population is socialised in collectivistic cultures so the interplay between individualism and collectivism should receive sufficient attention (Gully, Phillips, & Tarique, 2003).

Several authors emphasised that culture should be taken into account when designing compensation strategies (Bloom & Milkovich, 1998; Gomez-Mejia & Welbourne, 1991; Luthans, Marsnik, & Luthans, 1997; Newman & Nollen, 1996; Townsend, Scott, & Markham, 1990). Compensation strategies that have the highest potential to achieve congruence with the prevailing value system differ depending upon the level of individualism in a society, as shown in Figure 1. As argued by Gomez-Mejia and

| Dominant values | Corporate features | Compensation strategies |
|-----------------|--------------------|-------------------------|
| **High individualism** | | |
| Personal accomplishment | Organizations not compelled to care for employee’s total well being | Performance based-pay |
| Selfishness | Employees look after their individual interests | Individual achievement rewarded |
| Independence | Explicit systems of control necessary to ensure compliance and prevent wide deviation from organizational norms | External equity emphasized |
| Individual attributions | | Extrinsic rewards are important indicators of personal success |
| Internal locus of control | | Attempts made to isolate individual contributions |
| Belief in creating one’s own destiny | | Emphasis on short term objectives |
| Utilitarian relationship with the employee | | |
| **Low individualism** | | |
| Team accomplishment | Organizations committed to high level of involvement in worker’s personal lives | Group based performance is important criteria |
| Sacrifice for others | Loyalty to the firm is critical | Seniority based pay utilized |
| Dependence on social unit | Normative rather than formal systems of control to ensure compliance | Intrinsic rewards are essential |
| Group attributions | | Internal equity is key in guiding pay policies |
| External locus of control | | |
| Belief in the hand of fate | | Personal need (e.g. number of children) affects pay received |
| Moral relationship | | |

Figure 1. Individualism vs. collectivism and compensation. 
Source: Gomez-Mejia and Welbourne (1991).
Welbourne (1991), firms that achieve higher fit among the two have the higher potential to be successful.

In collectivistic societies, there are tightly knit social networks in which individuals are integrated into (clan, work team, organisation, community, society). People expect their in-groups to look after them in exchange for absolute loyalty to the group. Employees with collectivistic orientation are, therefore, less concerned with individual standing or the amount that each individual receives than members of individualistic cultures. In terms of reward management, such countries will opt for those types of remuneration that are instrumental for group harmony and cohesiveness, avoiding differentiation of rewards (Kim, Park, & Suzuki, 1990). Group-based responsibility and action are consistent with the values in such cultures (Schuler & Rogovsky, 1998). Collectivistic countries emphasise equality or need as the guiding idea of the reward management since any form of differentiated rewards would contradict the fundamental objective of maintaining harmonious relationships or helping the needy (Sama & Papamarcos, 2000). For example, Latin countries and southern European countries, all traditionally collectivistic societies, put more emphasis on job security and fringe benefits as compared to the rest of the world (Sirota & Greenwood, 1971 after Tosi & Greckhamer, 2004). In collectivistic cultures group or team incentives are preferred over individual ones (Schuler & Rogovsky, 1998). In case individual incentives are applied, seniority and skills are preferred as the starting point for determining them (Bogićević Milikić & Janićijević, 2009).

Individualists, relative to collectivists, may consider rewards as a driver of productive work. Such societies are likely to make widespread use of individual performance-based contingent rewards and high performers are more likely to receive relatively greater rewards (Jackson & Schuler, 1995; Sama & Papamarcos, 2000; Schuler & Rogovsky, 1998). For example, the research performed by Tosi and Greckhamer (2004) confirmed that the ratio of variable pay to total pay among CEOs was related to individualism. Nevertheless, it has been found that employee attitudes toward incentive pay practices vary significantly across countries (de Waal & Jansen, 2013).

Existing theoretical and empirical results suggest that implementing IVP in a society that is highly collectivistic is contrary to their normative values and may even reduce employee performance in that cultural context (Chang & Hahn, 2006; Newman & Nollen, 1996). Pay for performance in a collectivistic society has been reported to be a source of negative outcomes such as dissatisfaction and high turnover intent, possibly owing to inappropriate goal-setting and unfair performance appraisal processes (Dowling & Richardson, 1997; Miller, Hom, & Gomez-Mejia, 2001) but also lower organisational commitment and interpersonal helping at the organisation (Du & Nam Choi, 2010). Research indicates that incentive schemes are in countries like Croatia used at a lower rate than among Western countries (e.g., for Serbia see Milikić, Janićijević, & Petković, 2008). However, some research results do indicate that the reactions to performance related pay can be positive (e.g., Chang & Hahn, 2006 in Korea). It is worth mentioning that group allocation schemes consistent with collectivistic values such as profit-sharing have been found to reduce employee turnover in the collectivistic research setting (Miller, Hom, & Gomez-Mejia, 2001).
Performance evaluation, as one of the requirements for pay for performance, is also influenced by national culture (Seddon, 1987; Brown, 1996 after Schuler & Rogovskky, 1998; Schuler & Rogovskky, 1998; Peretz & Fried, 2012). Individualism is compatible with the developed and formalised performance evaluation based on evaluation of individual performance. However, it is believed that explicit and public evaluation of individual achievement could harm a group’s harmony, and therefore it is not well accepted or is even strongly resented within collectivistic societies. Performance appraisal systems developed in “individualistic” societies, when applied in collectivistic cultures, can cause unintended offence, or can even be incorrectly employed (Seddon, 1987). Organisations in collectivistic societies are more likely to use performance evaluation systems that focus on organisational purposes (e.g., human resource planning, identification of needs for training and development etc.) unlike organisations in individualistic societies that use it as the basis to differentiate among employees according to their performance policies (e.g., merit raises and individual career development paths) (Peretz & Fried, 2012).

Research performed in a collectivistic society found dissatisfaction of both employees and managers with their performance evaluation schemes (Bogićević Milikić & Janićijević, 2009). Moreover, cultural dimensions can explain why performance evaluation schemes are obstructed in collectivistic societies by the fact that raters inflate their ratings in order to avoid feedback interviews and to avoid confrontation with their subordinates (Bogićević Milikić & Janićijević, 2009). Allocators higher in collectivism were found to give significantly larger merit raises to low-performing subordinates than did more individualistic allocators (Gully, Phillips, & Tarique, 2003).

General worker preferences in motivational techniques vary and may be also explained by cultural differences (Sirota & Greenwood, 1971 after Tosi & Greckhamer, 2004). Hofstede (1983) argues that in individualistic countries the highest motivation is supposed to stem from the individuals’ need to fulfil their obligations towards themselves. In a more collectivistic society, however, people will try primarily to fulfil their obligations towards their in-group: family, enterprise or their society. In terms of compensation, Luthans, Marsnik, and Luthans (1997) suggest that recognition and praise should be used as motivators in collectivistic societies, but also that pay for performance should be avoided or used with caution in these societies.

Research suggests that culture, based on Hofstede’s (1980) cultural model, can influence what is perceived as a fair pay allocation system (Sama & Papamarcos, 2000; Fischer & Smith, 2003). Allocating rewards in a systematic manner is crucial to ensure that employees perceive pay decisions as fair and equitable (Fischer & Smith, 2003). Empirical research on reward allocation preferences mostly confirms Gomez-Mejia and Welbourne (1991) suggestions on the design of compensation strategies in order to fit the cultural features. In countries whose cultures have been identified as individualistic, employees exhibited a strong preference for equity in compensation, when compared to countries that are more collectivistic. The equity norm dictates that rewards should be divided in proportion to recipients’ input or contribution and thus based on individual performance whereas the equality norm divides rewards
equally to all members irrespective of contribution. In relatively collectivistic societies, equality among members is emphasised over equity based on individual effort (He, Chen, & Zhang, 2004; Kim, Park, & Suzuki, 1990; Leung & Bond, 1984; Sama & Papamarcos, 2000). Interestingly, in reward allocation, individualists follow equity regardless of the group membership of their interaction partner, whereas collectivists are more likely to use equality when interacting with an in-group member but to allocate rewards equitably with outgroup members even more strongly than would individualists (Leung & Bond, 1984; James, 1993 after Fischer & Smith, 2003; Chen, Meindl, & Hui, 1998).

Some studies did not find any support for a moderating effect of national culture as a determinant for a preference for a certain type of allocation scheme (Kuhn, 2009). It might suggest that it is really individual and situational factors that cause differences in employee reactions or that individual, contextual and organisational factors have a greater influence on the values governing reward allocation decisions than the prevailing culture norms (Giacobbe-Miller et al., 2003; Lam et al., 2002).

3. Empirical research

This section is organised as follows: first, a detailed explanation of research methodology and research instrument is provided. Sampling procedure as well as sample characteristics is described in the same section. Secondly, general findings about presence of various individual incentives with regard to employee categories, as well as specific findings about association with outcomes expected from implementing these types of direct rewards are presented; and finally, research limitations and recommendations for future research are mentioned at the end of the section.

3.1. Research methodology

3.1.1. Research instrument

A questionnaire containing 46 questions was designed for the purpose of primary data collection. A majority of key questions about different reward management strategies were found or adapted in different journal articles as well as the Chartered Institute for Personnel Development internal materials. The allotted time for filling the questionnaire was approximately 30 to 45 minutes.

3.1.2. Measures

For the purpose of this research, one independent variable was used: the presence of individual variable pay which contained several variable pay subcategories (both subjectively and objectively-assessed practices) and were treated as binary variables. Respondents were asked to provide information on whether each variable pay practice existed in their organisations or not for three different categories of employees – managers, experts and other employees. On the other hand, other variables of interest that were related to various attitudes, behaviour-based indicators or organisational outcomes were of either nominal or continuous character. More precisely, organisational climate was assessed by an HR manager on a Likert-type 5-point scale.
(1 = very unpleasant and with high degree of tensions among employees, 5 = very pleasant and without tensions among employees). Additionally, organisational outcomes in terms of productivity in the last three years as well as productivity compared to competitors was assessed on Likert-type 5-point scale as well (e.g., 1 – considerably lower than the industry average, 5 – well above the industry average). Problems in attracting, retaining and engaging employees were ranked for different categories of employees (1 – without problems, 2 – some problems, 3 – considerable problems). Finally, information on attrition and absenteeism rates was provided by selecting one of the five different options (1, designated rates up to 5% while 5 was the highest level of the same indicator). Control variables were designed almost exclusively as closed-ended questions, such as ownership type, profitability in the last three years and legal form of the company. Several open-ended questions were present as well (e.g., year of establishment, industry, number of employees).

### 3.1.3. Sample

The first step in designing our research was to select participants for the empirical research. As this research is part of a larger project funded by the Croatian Science Foundation that aims at covering an entire population of Croatian companies, the emphasis was on large and medium-sized companies as those are expected to have more sophisticated HRM practices in general (Kotey & Sheridan 2004), and reward practices in specific. The number of Croatian companies (excluding banking and finance sectors) that employ more than 100 employees was obtained through the Croatian Chamber of Commerce (CCC) where it was revealed that approximately 1700 companies in Croatia employ more than 100 people, out of which 386 companies employ more than 250 people (labelled as “large companies”).

### 3.1.4. Data collection and analysis

An e-mail with covering letter from the Project leader was sent to HR departments of all companies in the CCC database in April 2017. Reminders were sent out in May and June, followed by personal reminders to HR managers of different project members using professional networks. The primary data was collected from 58 companies. As the data collection phase was concluded a statistical analysis of the primary data with IBM SPSS 20.0 followed. Apart from descriptive statistics, inferential statistical methods were applied in the case of analysing differences in applying variable individual pay practices in different contexts (Chi-square test) and in the case of examining their relationship with organisational and behaviour outcomes (Mann-Whitney U-test and Chi square test). The independent characteristics of the companies in the sample are given in a summary table below (Table 2).

As can be seen from Table 2, both manufacturing and service companies are almost equally represented in the sample (N = 30 and N = 28, respectively), as are companies that employ less than 250 (50%) and more than 250 (50%) people, as well as those founded after (55%) and before (45%) the dissolution of the Yugoslav Republic. Regarding ownership structure, more than half of the sample is comprised of private domestic companies, one-third are privately-owned foreign companies, while state-owned and companies with mixed ownership are underrepresented in the
sample (12% combined). Limited liability companies form a majority (65.50%), while apart from joint stock companies (34.50%) there is no other type of company legal form represented in the sample. With regard to self-reported profitability in the last five years, 71% of the companies reported being profitable, one-quarter of them were around or below average, while less than 4% reported they were not profitable.

### Table 2. Data distribution by sample characteristics.

| Company characteristic          | Data distribution               |
|--------------------------------|--------------------------------|
| Industry                       | Manufacturing – 51.70%          |
|                                | Services – 48.30%              |
| Year of establishment          | Before 1990 – 45.60%           |
|                                | After 1990 – 54.40%            |
| Number of employees            | Less than 250 – 50.00%         |
|                                | More than 250 – 50.00%         |
| Ownership structure            | Private domestic – 55.20%      |
|                                | Private foreign – 32.80%       |
|                                | State-owned and mixed – 12.00% |
| Legal form                     | Joint stock company – 34.50%  |
|                                | Limited liability company – 65.50% |
| Profitability in the last 5 years | Cannot assess – 1.70%        |
|                                | Unprofitable – 3.40%          |
|                                | Around or below average – 24.10% |
|                                | Profitable – 70.70%            |

3.2. Research results

The first step in analysing data was exploring the prevalence of individual incentives in general and with regard to different employee categories, i.e., managers, experts and other employees. The results are shown in Table 3. As can be seen from the table, performance appraisal can be found in half of sampled companies for all three employee categories. Norm measurement, on the other hand, is only sporadically found while the prevalence of occasional bonuses based on the evaluation of a direct superior decreases from managers to other employees. None of the individual incentives was applied in one-third of companies in the case of “other employees”, as well as in 28.60% for experts. Since performance appraisal is central to high performing work practices, it was interesting to reveal that 75% of organisations are applying this practice for at least one category of employees.

Next, we were interested to explore characteristics of companies that apply individual incentives more frequently, i.e., to analyse their prevalence among different sample sub-groups as well as to test differences among sample characteristics and whether those incentives were applied or not (dummy variable). For the purpose of testing the differences in applying individual variable pay practices in different sample subgroups a Chi-square test was used. Results are shown in Table 4.

Generally, individual variable incentives or performance-related pay in general seems to be present in the majority of Croatian companies. At the level of individual company characteristics, not many differences were revealed. More precisely, company profitability in the last five years does seem to make a difference with respect to applying individual performance appraisal where companies that reported being profitable use individual performance appraisal for at least one category of employees more frequently ($p = 0.062$).
With regard to specific individual pay-for-performance practices, major differences were found with respect to the size and ownership structure of the company. More precisely, larger companies, i.e., those employing more 250 people more often apply individual performance appraisal for managers ($p = 0.065$) and experts ($p = 0.004$) as well as norm measurement for other employees ($p = 0.085$). Smaller companies, however, seem to apply more occasional bonuses for experts ($p = 0.023$). Private domestic companies are more likely to apply occasional bonuses for all three categories of employees. With regard to establishment or company age, norm measurement for experts can be found more frequently in older companies ($p = 0.052$). Industry revealed a difference in applying norm measurement in manufacturing ($p = 0.088$) as well as sales commission in services ($p = 0.071$), which is an expected result. With respect to legal form, sales commissions for experts ($p = 0.049$) as well as occasional bonuses for other employees ($p = 0.049$) were more frequently applied in limited liability companies. With regard to profitability in the last five years, the only difference was found in applying non-financial recognition which was more frequently found in less successful companies ($p = 0.057$).

Finally, we were interested in finding out whether there were any differences in motivational and organisational outcomes between companies that apply and do not apply IVP. Outcomes that were chosen for this research were: organisational climate, productivity compared to competitors, increase of productivity in the last three years, problems with attracting, retaining and engaging employees and, finally, rates of absenteeism and attrition. For the purpose of testing the relationships between applying individual variable pay practices and organisational climate and productivity, a Mann-Whitney U-test was used. On the other hand, a Chi square test was applied in order to test the relationship between individual variable pay and other behaviour-based indicators (attrition and absenteeism rates, problems in attracting, retaining and engaging employees). Differences are shown in Table 5.

At the level of descriptive statistics, organisational climate was found to be slightly more positive in companies that apply individual performance appraisal for at least one group of employees ($\bar{x} = 3.88$). Additionally, companies that apply individual performance appraisal compared their productivity relative to those of competitors much higher ($\bar{x} = 3.72$) than companies without this practice ($\bar{x} = 3.26$), which was also confirmed by a non-parametric test ($p = 0.072$). The assessment of the productivity rise in the last three years was found to be higher in the case of companies that do apply individual performance appraisal, both at the level of descriptive (\(\bar{x} = 3.88\))

### Table 3. The prevalence of individual incentives (II) with regard to different employee categories.

| Type of individual incentive (II)                          | % of companies applying II for different categories of employees |
|-----------------------------------------------------------|------------------------------------------------------------------|
| Norm measurement                                          | Managers 5.20 | Experts 10.30 | Other employees 10.30 |
| Performance appraisal                                     | Managers 53.40 | Experts 50.00 | Other employees 48.30 |
| Occasional bonuses based on superior’s evaluation         | Managers 44.80 | Experts 31.00 | Other employees 24.10 |
| Sales commission                                          | Managers 22.40 | Experts 19.00 | Other employees 19.00 |
| Individual non-financial recognition                      | Managers 37.90 | Experts 20.70 | Other employees 15.50 |
| None of the above                                         | Managers 13.80 | Experts 27.60 | Other employees 31.00 |
| Individual performance appraisal in general               | 74.10                                                    |
Table 4. The relationship between applying individual variable pay and company characteristics.

| Variable pay for different employees categories | Industry | Age | Size | Ownership | Legal form | Limited liability | Average or below | Profitability |
|-------------------------------------------------|----------|-----|------|-----------|------------|------------------|-----------------|---------------|
| Managers                                        |          |     |      |           |            |                  |                 |               |
| Performance appraisal                           | Yes      | 56.70 | 50.00 | 61.50 | 45.20 | 58.60 | 34.50 | 43.80 | 68.40 | 55.00 | 52.60 | 37.50 | 58.50 |
| No                                              | 43.30 | 50.00 | 38.50 | 45.80 | 1,521 (0.217) | 3.395 (0.065)** | 2.913 (0.088)** | 0.030 (0.864) | 2.043 (0.153) |
| Occasional bonus                                | Yes      | 46.70 | 42.90 | 46.20 | 45.20 | 48.30 | 41.40 | 68.80 | 10.50 | 50.00 | 42.10 | 43.80 | 46.30 |
| No                                              | 53.30 | 57.10 | 53.80 | 54.80 | 51.70 | 58.60 | 31.20 | 59.00 | 50.00 | 57.90 | 56.20 | 53.70 |
| Sales commissions                               | Yes      | 16.70 | 28.60 | 26.90 | 19.40 | 24.10 | 20.70 | 21.90 | 26.30 | 10.00 | 28.90 | 18.80 | 22.00 |
| No                                              | 83.30 | 71.40 | 73.10 | 80.60 | 75.90 | 79.30 | 78.10 | 73.70 | 90.00 | 71.10 | 81.20 | 78.00 |
| Non-financial recognition                       | Yes      | 40.00 | 35.70 | 34.60 | 38.70 | 37.90 | 37.90 | 40.60 | 31.60 | 30.00 | 42.10 | 43.80 | 36.60 |
| No                                              | 60.00 | 64.30 | 64.40 | 61.30 | 62.10 | 62.10 | 59.40 | 68.40 | 70.00 | 57.90 | 56.20 | 63.40 |
| Experts                                         |          |     |      |           |            |                  |                 |               |
| Piece rates                                     | Yes      | 10.00 | 0.00  | 11.50 | 0.00  | 3.40  | 6.90  | 6.10  | 5.30  | 5.00  | 5.30  | 0.00  | 7.30  |
| No                                              | 90.00 | 100.00 | 88.50 | 100.00 | 96.60 | 93.10 | 93.90 | 94.70 | 95.00 | 94.70 | 100.00 | 92.70 |
| Performance appraisal                           | Yes      | 60.00 | 39.30 | 53.80 | 45.20 | 31.00 | 69.00 | 56.20 | 36.80 | 45.00 | 52.60 | 37.50 | 53.70 |
| No                                              | 40.00 | 60.70 | 46.20 | 54.80 | 69.00 | 31.00 | 43.80 | 63.20 | 55.00 | 47.40 | 62.50 | 46.30 |
| Occasional bonus                                | Yes      | 26.70 | 35.70 | 26.90 | 35.50 | 44.80 | 17.20 | 43.80 | 15.80 | 25.00 | 34.20 | 31.20 | 31.70 |
| No                                              | 73.30 | 64.30 | 73.10 | 64.50 | 55.20 | 82.80 | 66.20 | 84.20 | 75.00 | 65.80 | 68.80 | 68.30 |
| Sales commissions                               | Yes      | 10.00 | 28.60 | 19.20 | 19.40 | 24.10 | 13.80 | 18.80 | 21.10 | 5.00  | 26.30 | 12.00 | 19.50 |
| No                                              | 90.00 | 71.40 | 80.80 | 80.60 | 83.90 | 86.20 | 81.20 | 78.90 | 95.00 | 73.70 | 87.50 | 80.50 |
| Non-financial recognition                       | Yes      | 23.30 | 17.90 | 23.10 | 16.10 | 24.10 | 18.20 | 18.80 | 21.10 | 15.00 | 23.70 | 37.50 | 14.60 |
| No                                              | 76.70 | 82.10 | 86.90 | 83.90 | 75.90 | 81.80 | 81.20 | 78.90 | 85.00 | 76.30 | 62.50 | 85.40 |
| Other Piece rates                               | Yes      | 16.70 | 36.00 | 15.40 | 6.50  | 3.40  | 17.20 | 9.40  | 15.80 | 5.00  | 13.20 | 6.20  | 12.00 |
| No                                              | 83.30 | 96.40 | 84.60 | 93.50 | 96.60 | 82.80 | 90.60 | 84.20 | 95.00 | 86.80 | 93.80 | 87.80 |
| Performance appraisal                           | Yes      | 56.70 | 39.30 | 42.30 | 51.60 | 37.90 | 58.60 | 53.10 | 42.10 | 40.00 | 52.60 | 37.50 | 51.20 |
| Non-financial recognition                       | Yes      | 43.00 | 40.70 | 57.70 | 48.40 | 62.10 | 41.40 | 46.90 | 57.90 | 60.00 | 47.40 | 62.50 | 48.80 |
| Other Piece rates                               | Yes      | 30.00 | 17.90 | 26.90 | 22.60 | 27.60 | 20.70 | 31.20 | 10.50 | 20.00 | 26.30 | 18.80 | 26.80 |

(continued)
Table 4. Continued.

| Variable pay for different employees categories | Data distribution | Industry | Age | Size | Ownership | Legal form | Profitability |
|------------------------------------------------|-------------------|----------|-----|------|-----------|------------|--------------|
|                                                 |                   | Before   | After | <250 | >250      | Domestic   | Foreign      | Joint stock | Limited liability | Average or below | Profitable |
| No                                              |                   | 70,00    | 82,10 | 73,10 | 77,40     | 72,40      | 79,30        | 68,80       | 89,50            | 80,00          | 73,70       | 81,20        | 73,20       |
| test value                                      |                   | 1,166 (0,280) | 0,144 (0,704) | 0,377 (0,539) | 2,846 (0,092)** | 0,285 (0,593) | 0,405 (0,524) | 0,207 (0,649) | 0,009 (0,924) | 2,248 (0,134) | 0,011 (0,917) | 0,012 (0,913) | 3,487 (0,062)** |
| Sales commissions                               |                   | Yes      | 16,70 | 21,40 | 23,10     | 16,10      | 24,10        | 18,80       | 15,80            | 5,00           | 26,30       | 12,50        | 19,50       |
|                                                 | test value         | 83,30    | 78,60 | 76,90 | 83,90     | 75,90      | 86,20        | 81,20       | 84,20            | 95,00          | 73,70       | 87,50        | 80,50       |
| No                                              |                   | 0,214 (0,644) | 0,438 (0,508) | 1,010 (0,315) | 0,072 (0,789) | 3,874 (0,049)** | 0,391 (0,532) | 0,063 (0,802) | 1,070 (0,301) | 0,132 (0,717) | 2,516 (0,113) | 0,468 (0,494) | 0,147 (0,702) |
| Non-financial recognition                       |                   | Yes      | 16,70 | 14,30 | 19,20     | 9,70       | 13,80        | 21,10       | 20,00            | 13,20          | 18,80       | 14,60        | 14,60       |
|                                                 | test value         | 83,30    | 85,70 | 80,70 | 90,30     | 86,20      | 82,80        | 93,80       | 78,90            | 80,00          | 86,80       | 81,20        | 85,40       |
| TOTAL SAMPLE (%)                                |                   | Yes      | 76,70 | 71,40 | 73,10     | 74,20      | 65,50        | 82,80       | 75,00            | 73,70          | 75,00       | 73,70        | 56,30       |
|                                                 | test value         | 23,30    | 28,60 | 26,90 | 25,80     | 34,50      | 17,20        | 25,00       | 26,30            | 25,00          | 26,30       | 43,70        | 19,50       |

† First figure in the test value cell refers to the value of the difference between percentages, while the second value shown in the parentheses refers to a p-value.

* p-value significant at the 0.05 level, ** p-value significant at the 0.10 level.
### Table 5. The relationship between individual variable pay and organisational outcomes.

| Variable pay for different employees categories | Data distribution and test values | Organizational climate | Relative productivity | Productivity in the last 3 years | attracting employees | retaining employees | engaging employees | Absenteeism rate | Attrition rate |
|-----------------------------------------------|----------------------------------|------------------------|-----------------------|----------------------------------|----------------------|---------------------|-------------------|-----------------|----------------|
| Managers                                     | Performance appraisal            | Yes                    | 32,60                 | 30,71                            | 31,24                | 40,00                | 60,00             | 24,70           | 73,30          |
|                                              |                                  | No                     | 26,33                 | 25,19                            | 27,50                | 25,00                | 75,00             | 14,80           | 85,20          |
|                                              | test value                       | 333000 (0.157)         | 302000 (0.163)        | 364500 (0.359)                   | 1,350 (0.250)        | 1,201 (0.273)        | 4,376 (0.036)*   | 1,397 (0.237)    | 0.470 (0.0493) |
|                                              |                                  | Occasional bonus       | Yes                    | 26,85                             | 24,92                | 32,50                | 38,50             | 61,50           | 27,92          |
|                                              |                                  | No                     | 31,66                 | 30,72                            | 27,06                | 30,00                | 70,00             | 19,40           | 80,60          |
|                                              | test value                       | 347000 (0.251)         | 297000 (0.142)        | 338000 (0.184)                   | 0,338 (0.565)        | 0,118 (0.731)        | 1,166 (0.280)     | 0,046 (0.829)    | 0,357 (0.550)  |
|                                              |                                  | Sales commissions      | Yes                    | 33,08                             | 33,42                | 27,42                | 38,50             | 61,50           | 15,40          |
|                                              |                                  | No                     | 31,04                 | 28,13                            | 26,51                | 31,70                | 68,30             | 18,20           | 81,80          |
|                                              | test value                       | 340500 (0.344)         | 345500 (0.932)        | 288500 (0.060)**                  | 3,156 (0.078)        | 0,305 (0.581)        | 0,060 (0.806)     | 1,397 (0.237)    | 0,470 (0.114)  |
|                                              |                                  | Experts                | Piece rates            | Yes                               | 23,83                 | 37,50                | 47,67             | 0,00            | 100,00         |
|                                              |                                  | No                     | 29,81                 | 27,45                            | 28,51                | 47,80                | 52,20             | 47,30           | 29,60          |
|                                              | test value                       | 65500 (0.570)          | 49500 (0.306)         | 28000 (0.056)**                   | 0,899 (0.343)        | 2,136 (0.266)        | 1,303 (0.254)     | 1,351 (0.000)*   | 100,00         |
|                                              |                                  | Performance appraisal  | Yes                    | 28,72                             | 31,42                | 32,76                | 50,00             | 62,10           | 37,90          |
|                                              |                                  | No                     | 30,28                 | 24,93                            | 26,24                | 44,00                | 56,00             | 48,30           | 51,70          |
|                                              | test value                       | 398000 (0.710)         | 288000 (0.102)        | 326000 (0.109)                   | 0,169 (0.681)        | 1,115 (0.291)        | 2,843 (0.092)**   | 0,125 (0.723)    | 1,010 (0.315)  |
|                                              |                                  | Occasional bonus       | Yes                    | 28,61                             | 25,28                | 33,19                | 7,70              | 92,30           | 33,30          |
|                                              |                                  | No                     | 29,90                 | 29,32                            | 27,84                | 61,80                | 38,20             | 65,00           | 35,00          |
|                                              | test value                       | 344000 (0.775)         | 284000 (0.338)        | 293500 (0.223)                   | 11,04 (0.001)*       | 5,033 (0.025)*       | 0,626 (0.429)     | 0,006 (0.938)    | 0,909 (0.764)  |
|                                              |                                  | Sales commissions      | Yes                    | 25,77                             | 29,60                | 30,32                | 50,00             | 63,00           | 36,40          |
|                                              |                                  | No                     | 30,37                 | 27,64                            | 29,31                | 45,90                | 54,10             | 53,20           | 46,80          |
|                                              | test value                       | 217500 (0.387)         | 209000 (0.704)        | 249500 (0.846)                   | 0,052 (0.820)        | 0,393 (0.531)        | 0,004 (0.948)     | 0,129 (0.720)    | 0,005 (0.941)  |
|                                              |                                  | Non-financial recognition | Yes                   | 27,83                             | 28,18                | 35,83                | 44,40             | 55,60           | 66,70          |
|                                              |                                  | No                     | 29,93                 | 27,95                            | 27,85                | 47,40                | 52,60             | 48,10           | 51,90          |
|                                              | test value                       | 256000 (0.683)         | 240000 (0.963)        | 200000 (0.112)                   | 0,025 (0.874)        | 0,808 (0.369)        | 0,071 (0.790)     | 1,908 (0.167)    | 0,359 (0.549)  |
|                                              |                                  | Other                  | Piece rates            | Yes                               | 16,92                 | 37,50                | 43,75             | 66,70           | 33,30          |
|                                              |                                  | No                     | 31,95                 | 26,84                            | 27,86                | 53,20                | 46,80             | 48,10           | 51,90          |
|                                              | test value                       | 80500 (0.052)**        | 90000 (0.130)         | 70500 (0.026)*                    | 0,206 (0.650)        | 2,678 (0.102)        | 1,222 (0.269)     | 0,005 (0.944)    | 5,335 (0.021)* |

(continued)
Table 5. Continued.

| Variable pay for different employees categories | Data distribution and test values | Organizational climate $^+$ | Relative productivity $^+$ | Productivity in the last 3 years $^+$ | attracting employees | retaining employees | engaging employees | Absenteeism rate $^{++}$ | Attrition rate $^{++}$ |
|-----------------------------------------------|----------------------------------|-------------------------------|-----------------------------|-------------------------------------|---------------------|---------------------|------------------------|------------------------|-----------------------|
|                                               |                                  |                               |                             | Some | None | Some | None | Some | None | >5% | <5% | >5% | <5% |
| Performance appraisal                          | Yes                              | 29,70                         | 31,78                       | 31,84 | 65,20 | 34,80 | 60,70 | 39,30 | 50,00 | 50,00 | 33,30 | 66,70 | 42,90 | 57,10 |
|                                               | No                               | 29,32                         | 24,85                       | 27,32 | 44,40 | 55,60 | 43,30 | 54,70 | 41,40 | 58,60 | 30,80 | 69,20 | 36,70 | 63,30 |
| test value                                     | 414500 (0,928)                   | 280500 (0,267)                |                             | 2,158 (0,142) | 1,752 (0,186) | 0,411 (0,522) | 0,040 (0,842) | 0,232 (0,630) |                                                          |
|                                               |                                  |                               |                             |      |      |      |      |      |      |      |      |      |      |      |
| Occasional bonus                              | Yes                              | 27,11                         | 26,82                       | 29,64 | 75,00 | 25,00 | 50,00 | 50,00 | 42,90 | 57,10 | 46,20 | 53,80 | 35,70 | 64,30 |
|                                               | No                               | 30,26                         | 28,40                       | 29,45 | 50,00 | 50,00 | 52,30 | 47,70 | 46,30 | 53,70 | 27,50 | 72,50 | 40,90 | 59,10 |
| test value                                     | 274500 (0,518)                   | 270500 (0,728)                |                             | 1,691 (0,193) | 0,022 (0,882) | 0,051 (0,821) | 1,567 (0,211) | 0,120 (0,729) |                                                          |
| Sales commissions                              | Yes                              | 27,68                         | 29,60                       | 30,32 | 44,40 | 55,60 | 45,50 | 54,50 | 50,00 | 50,00 | 30,00 | 70,00 | 36,40 | 63,60 |
|                                               | No                               | 29,93                         | 27,64                       | 29,31 | 56,10 | 43,90 | 53,20 | 46,80 | 44,40 | 55,60 | 32,60 | 67,40 | 40,40 | 59,60 |
| test value                                     | 238500 (0,673)                   | 209000 (0,704)                |                             | 0,403 (0,525) | 0,214 (0,644) | 0,102 (0,750) | 0,024 (0,876) | 0,061 (0,804) |                                                          |
| Non-financial recognition                     | Yes                              | 22,61                         | 25,75                       | 34,00 | 75,00 | 25,00 | 66,70 | 33,30 | 55,60 | 44,40 | 25,00 | 75,00 | 44,40 | 55,60 |
|                                               | No                               | 30,77                         | 28,38                       | 28,67 | 50,00 | 50,00 | 49,00 | 51,00 | 43,50 | 56,50 | 33,30 | 66,70 | 38,80 | 61,20 |
| test value                                     | 158500 (0,157)                   | 170000 (0,682)                |                             | 1,691 (0,193) | 0,953 (0,329) | 0,443 (0,506) | 0,217 (0,642) | 0,102 (0,749) |                                                          |
| TOTAL SAMPLE                                   | Yes                              | 29,97                         | 30,19                       | 31,74 | –     | –     | –     | –     | –     | –     | –     | –     | –     | –     |
|                                               | No                               | 28,17                         | 22,17                       | 23,07 | –     | –     | –     | –     | –     | –     | –     | –     | –     | –     |
| test value                                     | 302500 (0,706)                   | 212500 (0,072)                |                             | –     | –     | –     | –     | –     | –     | –     | –     | –     | –     | –     |

$^+$ First figure in the test value cell refers to the mann-whitney U test statistics, while the second value shown in the parentheses refers to a p-value.

$^{++}$ First figure in the test value cell refers to the value of the difference between percentages, while the second value shown in the parentheses refers to a p-value.

* p-value significant at the 0.05 level, ** p-value significant at the 0.10 level.
compared to $\bar{x} = 3.46$) and inferential ($p = 0.062$) statistics. The analysis of each IVP practice for each category of employees revealed that productivity in the last three years was found to be statistically significantly higher in companies that do apply non-financial recognition for managers ($p = 0.060$) and norm measurement for both experts ($p = 0.056$) and other employees ($p = 0.026$). On the other hand, norm measurement and performance appraisal were found to be negatively related to organizational climate ($p = 0.052$) and relative productivity ($p = 0.082$) in the case of other employees.

Finally, behavioural outcomes such as attracting, retaining and engaging employees generally pointed towards positive figures, i.e., no substantive problems in what is often cited as the general aim of a reward system. A more detailed analysis detected several statistically significant differences in the relationship between various individual variable pay practices and behavioural outcomes. More precisely, fewer problems with attracting employees were observed in companies that do apply non-financial recognition for managers ($p = 0.078$) and occasional bonuses for experts ($p = 0.056$). Similarly, fewer problems with employee engagement were detected among companies that apply performance appraisal for both managers ($p = 0.036$) and experts ($p = 0.092$). As for absenteeism and attrition rates, it was revealed that higher rates of attrition were significantly related to the existence of norm measurement for both experts ($p = 0.000$) and other employees ($p = 0.021$).

4. Discussion

In this paper we have explored the role of individual incentives in a collectivistic society. Our first finding based on a recent research is that managers in 13.8% sampled Croatian companies do not have any form of individual incentives. Among expert-level employees, a high percentage of 27.6% of organisations do not have any form of IVP while 31% of all companies do not offer any form of variable pay to other (operational level) employees. Such results are mostly consistent with previous research results on this topic. The implementation of incentive compensation in Croatian companies was strongly encouraged by foreign-owned companies that transferred their home-society practices to subsidiaries operating in Croatia. Other private companies mostly followed this trend and we find that this rate of use is a reflection of ownership structure of sampled companies. This is because the state-owned companies in Croatia in most cases have not implemented the system of variable pay, although there are constant initiatives to implement performance based pay to all public services. Although Hofestede’s work argues that individual performance based incentives will be more prevalent in individualistic verses collectivist cultures, we did not find that individual incentives are neglected in Croatia due to its collectivistic national culture.

Performance appraisal is the most often applied tool for determining variable pay. In general, 74% of all examined companies use it for at least some employee groups. Such result is expected since performance appraisal has other important functions in the context of human resource management (training and development, career planning, performance feedback, etc.). There are some suggestions that a performance
appraisal process can be obstructed in collectivistic countries since it can harm groups’ harmony. Our research did not find any statistically significant difference in organisational climate among companies that apply individual performance appraisal and those who do not apply it. Furthermore, the research confirmed that it can be beneficial for productivity since there is a statistically significant difference in productivity compared to competitors between companies that do/do not apply individual performance appraisal. Similarly, statistically significant difference has been found with respect to growth in productivity in the past three years.

The evaluation of performance appraisal in terms of employee behavioural outcomes such as ease of attracting, retaining and engaging employees revealed lack of any beneficial effect of performance appraisal when comparing companies that apply and do not apply individual performance appraisal. Such finding is relatively consistent with attributes of collectivistic societies. This is because employees might avoid companies that apply such evaluation. On the other hand, due to the reverse application of the sorting rule, those companies that do not apply performance appraisal might also have a large pool of interested job candidates. Nevertheless, it has been found that problems with attracting managers were more frequently observed in companies that do apply performance appraisal. Since managers’ performance is relatively often assessed and pay for performance for managers is strongly supported in the compensation theory this finding is difficult to explain. If we examine this finding from a cultural perspective, the probable reason for the finding could be the fact that managers in Croatia traditionally received only fixed pay. Furthermore, they had a high level of job security and received additional benefits. It might be that some managers still prefer such companies that offer job security over performance based pay.

5. Conclusions

The starting point for this paper is the question whether incentive compensation practices that are widely discussed and suggested are really effective in collectivistic societies? The motivational aspect of incentive compensation within human resource management (HRM) theory is well documented. However, the literature has failed to provide a clear idea of how employees that do not share national culture values with highly individualistic Western employees react to IVP and the outcomes achieved for organisations in these countries. This paper tackled the issue by exploring organisational outcomes of implementing different forms of variable pay by taking Croatia, a society whose national culture features measured by Hofstede’s cultural metrics score are very different from U.S. values. To be more precise, Croatian national culture is defined by a fairly high level of collectivism which differentiates it from most Anglo-Saxon countries. Regarding compensation management, the literature on national culture models is implicitly prescriptive; it dictates that compensation and reward policies must be developed to align with and to reinforce national cultural attributes (Bloom & Milkovich, 1998; Gomez-Mejia & Welbourne, 1991; Hofstede, 1983). The result of such prescription would be putting emphasis on the use of group incentives relative to individual incentives in collectivistic societies. However, due to popularity
of the IVP, it is also critical to understand in which way will companies benefit from using this form of variable pay.

We acknowledge that people may be committed to smaller groups than “nation” who have distinct subcultures, for example organisational cultures, so national culture might not have the prevailing impact on shaping compensation strategies (Bloom & Milkovich, 1998). Also, national culture is just one of the many factors that define reward strategies and pay systems. Our intention in this paper had been to show benefits and drawbacks of using IVP in a collectivistic society. The research aimed at answering the following research questions: what kind of IVP systems are offered in collectivistic societies, is the implementation of IVP systems related to some specific company characteristic and what results can companies achieve by using IVP systems. Research results indicate that the IVP system is frequently used in collectivistic societies, which confirms the thesis of global convergence of compensation strategies. Individual performance evaluation is the most often used basis for determining variable pay which is consistent with expectations. The rate of use of individual pay for performance practices is dependent upon company profitability, size and ownership. IVP does have some positive effects on the productivity as well, although it does not have benefits for the behavioural outcomes such as attracting, engaging and retaining employees. Despite some expectations that equality should be emphasised over equity within collectivistic societies, this paper shows that companies in collectivistic societies do exploit some benefits from using IVP. Therefore, collectivistic values should not prevent companies from using IVP. Nevertheless, human resource managers must be aware of numerous drawbacks of IVP in collectivistic societies described throughout this paper: employee dissatisfaction, turnover intent, lower organisational commitment or perceptions of fairness.

5.1. Research limitations and recommendations for future research

The main limitation of this research is the cross-sectionality of data. Thus, future research should aim at gathering longitudinal data in order to establish causal relations among different variables. Additionally, the sample consists of only 58 companies, so representativeness might be lower than was initially aimed for. In future, scholars should try to cover a higher percentage of companies in order to be able to generalise research findings. Finally, the questionnaire was filled out by one person only, i.e., the HR manager, which implies a response bias. Certain steps were taken, however, in order to minimise the effects of single-method bias: respondents were guaranteed anonymity to increase the accuracy of the responses; criterion measures were placed in different sections of the questionnaire from predictor variables; the expertise of our respondents could be deemed unquestionable, as they were members of the corporate HR team. In future, the questionnaire could be distributed personally and be followed by an interview. Finally, additional, independent data could be impaired with data gathered by cross-sectional research, i.e., financial indicators from public reports which would add more strength to findings and avoid response bias in questions that referred to financial and organisational performance of companies in the sample.
Disclosure statement
No potential conflict of interest was reported by the authors.

Funding
Hrvatska zaklada za znanost (Croatian Science Foundation), project CompCroEU.

ORCID
Ivana Načinović Braje http://orcid.org/0000-0003-4062-5251
Maja Klindžić http://orcid.org/0000-0001-7199-9542
Lovorka Galetić http://orcid.org/0000-0001-5818-4445

References
Balkin, D. B., & Gomez-Mejia, L. R. (1990). Matching compensation and organizational strategies. *Strategic Management Journal*, 11(2), 153–169. doi:10.1002/smj.4250110207
Bloom, M., & Milkovich, G. T. (1998). *A SHRM on international compensation and reward systems* (CAHRS Working Paper 98–11). Ithaca, NY: Cornell University, School of Industrial and Labor Relations, Center for Advanced Human Resource Studies.
Bogićević Milikić, B., & Janićijević, N. (2009). Cultural divergence and performance evaluation systems: A comparative study of three Serbian companies. *Economic Annals*, 54(180), 40–55.
Chang, E., & Hahn, J. (2006). Does pay-for-performance enhance perceived distributive justice for collectivistic employees? *Personnel Review*, 35(4), 397–412. doi:10.1108/00483480610670571
Chen, C., Meindl, J., & Hui, H. (1998). Deciding on equity or parity: A test of situational, cultural, and individual factors. *Journal of Organizational Behavior*, 19(2), 115–129. doi:10.1002/(SICI)1099-1379(199803)19:2<115::AID-JOB867>3.0.CO;2-J
de Waal, A., & Jansen, P. (2013). The bonus as hygiene factor: the role of reward systems in the high performance organization. *Evidence-Based HRM: A Global Forum for Empirical Scholarship*, 1(1), 41–59. doi:10.1108/20493981311318601
Dowling, B., & Richardson, R. (1997). Evaluating performance-related pay for managers in the National Health Service. *International Journal of Human Resource Management*, 8(3), 348–366. doi:10.1080/095851997341685
Du, J., & Nam Choi, J. (2010). Pay for performance in emerging markets: Insights from China. *Journal of International Business Studies*, 41(4), 671–689. doi:10.1057/jibs.2009.40
Fischer, R., & Smith, P. B. (2003). Reward allocation and culture: A meta-analysis. *Journal of Cross-Cultural Psychology*, 34(3), 251–268. doi:10.1177/0022022103034003001
Giacobbe-Miller, J. K., Miller, D. J., Zhang, W., & Victorov, V. I. (2003). Country and organizational-level adaptation to foreign workplace ideologies: A comparative study of distributive justice values in China, Russia and the United States. *Journal of International Business Studies*, 34(4), 389–406. doi:10.1057/palgrave.jibs.8400040
Gómez-Mejia, L. R., & Palich, L. E. (1997). Cultural diversity and the performance of multinational firms. *Journal of International Business Studies*, 28(2), 309–335. doi:10.1057/palgrave.jibs.8490103
Gomez-Mejia, R. L., & Welbourne, T. (1991). Compensation strategies in a global context. *Human Resource Planning*, 14(1), 29–42.
Gully, S. M., Phillips, T. M., & Tarique, I. (2003). Collectivism and goal orientation as mediators of the effect of national identity on merit pay decision. *International Journal of Human Resource Management*, 14(8), 1368–1390. doi:10.1080/0958519032000145800
Hansen, D. G. (1997). Worker performance and group incentives: A case study. *Industrial and Labor Relations Review, 51*(1), 37–49. doi:10.1177/001979399705100103

He, W., Chen, C., & Zhang, L. (2004). Rewards-allocation preferences of Chinese employees in the New Millennium: The effects of ownership reform, collectivism, and goal priority. *Organization Science, 15*(2), 221–231. doi:10.1287/orsc.1030.0049

Hodgetts, R. M., & Luthans, F. (1993). U.S. multinationals’ compensation strategies for local management: Cross-cultural implications. *Compensation & Benefits Review, 25*(2), 42–48. doi:10.1177/088636879302500207

Hofstede, G. (1980). *Culture’s consequences: International differences in work-related values*. Newbury Park, CA: Sage Publications.

Hofstede, G. (1983). The cultural relativity of organizational practices and theories. *Journal of International Business Studies, 14*(2), 75–89. doi:10.1057/palgrave.jibs.8490867

Jackson, S. E., & Schuler, R. S. (1995). Understanding human resource management in the context of organizations and their environments. *Annual Review of Psychology, 46*(1), 237–264. doi:10.1146/annurev.psych.46.1.237

Jenkins, D. G., Mitra, A., Gupta, N., & Shaw, J. D. (1998). Are financial incentives related to performance? A meta analytic review of empirical research. *Journal of Applied Psychology, 83*(5), 777–787. doi:10.1037/0022-3514.83.5.777

Kim, K., Park, H., & Suzuki, N. (1990). Reward allocations in the United States, Japan, and Korea: A comparison of individualistic and collectivistic countries. *Academy of Management Journal, 33*(1), 188–198. doi:10.5465/256358

Kotey, B., & Sheridan, A. (2004). Changing HRM practices with firm growth. *Journal of Small Business and Enterprise Development, 11*(4), 474–486. doi:10.1108/14626000410567125

Kressler, H. W. (2003). *Motivate and reward*. Basingstoke. Palgrave Macmillan.

Kuhn, K. M. (2009). Compensation as a signal of organizational culture: The effects of advertising individual or collective incentives. *International Journal of Human Resource Management, 20*(7), 1634–1648. doi:10.1080/09585190902985293

Lam, S. S. K., Schaubroeck, J., & Aryee, S. (2002). Relationship between organizational justice and employee work outcomes: A cross-national study. *Journal of Organizational Behavior, 23*(1), 1–18. doi:10.1002/job.131

Laurent, A. (1986). The cross-cultural puzzle of international human resource management. *Human Resource Management, 25*(1), 91–102. doi:10.1002/hrm.3930250107

Leung, K., & Bond, M. H. (1984). The impact of cultural collectivism on reward allocation. *Journal of Personality and Social Psychology, 47*(4), 793–804. doi:10.1037/0022-3514.47.4.793

Luthans, F., Marsnik, P. A., & Luthans, K. W. (1997). A contingency matrix approach to IHRM. *Human Resource Management, 36*(2), 183–199. doi:10.1002/(SICI)1099-050X(199722)36:2<183::AID-HRM2>3.0.CO;2-T

Milikić, B., Janićijević, N., & Petković, M. (2008). HRM in transition economies: The case of Serbia. *South East European Journal of Economics and Business, 3*(2), 75–88. doi:10.2478/v10033-008-0017-5

Miller, J., Hom, P., & Gomez-Mejia, L. (2001). The high cost of low wages: Does maquiladora compensation reduce turnover? *Journal of International Business Studies, 32*(3), 585–595. doi:10.1057/palgrave.jibs.8490986

Moon, H., & Choi, E. (2001). Cultural impact on national competitiveness. *Journal of International and Area Studies, 8*(2), 21–36.

Newman, K. L., & Nollen, S. D. (1996). Culture and congruence: The fit between management practices and national culture. *Journal of International Business Studies, 27*(4), 753–778. doi:10.1057/palgrave.jibs.8490152

Peretz, H., & Fried, Y. (2012). National cultures, performance appraisal practices, and organizational absenteeism and turnover: A study across 21 countries. *Journal of Applied Psychology, 97*(2), 448–459. doi:10.1037/a0026011

Poutsma, E., Ligthart, P. E. M., & Schouteten, R. (2005). Employee share schemes in Europe: The influence of US multinationals. *Management Revu, 16*(1), 99–122. doi:10.5771/0935-9915-2005-1-99
Sama, L. M., & Papamarcos, S. D. (2000). Hofstede’s I-C dimension as predictive of allocative behaviors: a meta-analysis. *International Journal of Value-Based Management, 13*(2), 173–188. doi:10.1023/A:1007838221341

Schuler, R., & Rogovsky, N. (1998). Understanding compensation practice variations across firms: The impact of national culture. *Journal of International Business Studies, 29*(1), 159–177. doi:10.1057/palgrave.jibs.8490030

Schwartz, S. H. (1999). A theory of cultural values and some implications for work. *Applied Psychology, 48*(1), 23–47. doi:10.1111/j.1464-0597.1999.tb00047.x

Seddon, J. (1987). Assumptions, culture and performance appraisal. *Journal of Management Development, 6*(3), 47–54. doi:10.1108/eb051645

Stajkovic, A. D., & Luthans, F. (2001). Differential effects of incentive motivators on work performance. *Academy of Management Journal, 44*(3), 580–590. doi:10.5465/3069372

Stone, D. L., & Stone-Romero, E. F. (Eds.), (2008). *The influence of culture on human resource management processes and practices*. New York, NY: Taylor & Francis Group.

Tosi, H., & Greckhamer, T. (2004). Culture and CEO compensation. *Organization Science, 15*(6), 657–670. doi:10.1287/orsc.1040.0099

Townsend, A., Scott, K., & Markham, S. (1990). An examination of country and culture-based differences in compensation practices. *Journal of International Business Studies, 21*(4), 667–678. doi:10.1057/palgrave.jibs.8490347

Trompenaars, F. (1993). *Riding the waves of culture*. Chicago: Irwin.