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Transferability of Incentive Systems:

The Impact of National Culture

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Abstract

This paper examines the impact of cultural differences between German speaking and central and eastern European countries on the provision of incentives. The two regions show significant cultural differences among those cultural dimensions which are considered to influence employees' perception of incentives. Incentives only induce the desired behavior by employees if they accept them. Thus, companies from both regions are considered to provide their employees with those incentives that are suitable to induce the desired behavior. Data obtained from publicly listed companies in three German speaking and seven central and eastern European (CEE) countries are used for testing differences concerning the provision of tangible vs. intangible, and team vs. individual incentives. In addition, the distribution principle (equity vs. equality) is examined. The findings based on 229 company observations support the hypothesis that the provision of incentives is contingent on national culture and that former results obtained from the Pacific region are also generalizable for Europe.

Keywords: Incentives, MCS, rewarding systems, cross-cultural

1. Introduction

Otley (1980) notes that when contingency theory is applied to management accounting it is assumed that there is no universally appropriate accounting system that can be considered as the best or optimal system in all organizations under all circumstances. A number of characteristics and their impact on management control systems (MCS) have been examined by researchers, for instance: external environment, technology, size, structure, strategy and national culture (Chenhall, 2003; 2006). According to Chenhall (2003, p. 152; 2006, p.188) "the relationship between the design of MCS and national culture represents an extension of contingency-based research from its organizational foundations into more sociological

concerns." It has become an important issue in the design of MCS due to the internationalization of companies (Chenhall, 2003; 2006). This is also apparent in the literature (for a review of MCS studies considering the contingency factor culture see e.g. Harrison/ McKinnon, 1999; more recent studies are for instance Van der Stede, 2003; Awasthi/Chow/Wu, 2001; Chow/Lindquist/Wu, 2001).

Thus, companies operating in different cultural regions have to decide whether or not to transfer their domestic management control systems abroad (Harrision/McKinnon, 1999; Elenkov, 1998; Merchant/Chow/Wu, 1995; Chow/Kato/Shields, 1994; Vance/McClaine/Boje/Stage, 1992). This also applies for the incentive systems of companies. Due to differences between the home and the host countries (contingency) literature assumes that companies might be more successful if they would adapt their systems to local conditions. Controls can have different effects on people and their performance if they have different cultural backgrounds (e.g. Awasthi/Chow/Wu, 2001; Chow/Kato/Shields, 1996; Harrison, 1992; Harrison, 1993). For instance, when applying one system that perfectly fits in one culture, but not in another, costs might increase due to problems of attracting and retaining employees and/or enhancing undesirable behavior by employees (Merchant/Chow/Wu, 1995). Smith (1992, p. 39) even argues "(…) that those who do address the question of culture will gain substantial advantages."

The aim of this study is to assess whether or not the contingency factor national culture has an impact on the incentives provided by companies. Incentives are an essential part of management control systems. Incentive systems are used to connect rewards to performance evaluations (Merchant/Van der Stede, 2007, p. 393). Companies implement incentive schemes and offer rewards to ensure that employees' efforts are channeled towards company objectives (Chong/Eggleton, 2007). They inform subordinates what results are expected from them and motivate them to achieve and exceed the performance targets (Merchant/Van der Stede 2007).

The impact of culture on the provision of incentives has so far been underrepresented in literature. This is even more astonishing, as the provision of incentives should induce higher effort by employees. The positive but also the negative effects of incentives might be dependent on national culture. Similarly to other studies that concluded that people in different nations react differently to given job-related conditions, under the assumption of cultural differences (Chow/Harrison/McKinnon/Wu, 1999) this study assumes that individuals in different nations have different preferences for rewards. Therefore, companies from different cultural regions provide different incentives as they are intended to induce the desired employee behavior. Cross-national studies have so far mainly focused on differences between variable compensations levels (e.g. Jansen/Merchant/Van der Stede, 2007; Schuler/Rogovsky, 1998; Merchant/Chow/Wu, 1995). They documented the extent and differences to which companies from different cultures offer performance-contingent pay. The application of group vs. individual based compensation (Merchant/Chow/Wu, 1995) and the issue of offered rewards (besides monetary) has only been partially addressed (Chiang/Birtch, 2005; Chiang 2005). Additionally, studies so far have been mainly conducted by American or Asian researchers in these two areas. Earlier studies have focused on extremes, e.g. greatest differences concerning individualism (China vs. U.S.A.) (Segalla/Rouzies/Besson/Weitz, 2006). There is a lack of cross-cultural MCS research in the European context. Previous studies are characterized by substantial geographic distance (or as Gernon/Wallace, 1995 put it "(…) IAR [International Accounting Research] fails to integrate fully such factors as industrialization and geographical proximity or distance"). The distance might also lead to problems as the environment might be totally different between the compared regions. Other factors like laws, labor markets, market conditions (Chow/Shields/Wu, 1999) which might also have an impact on MCS are not considered in those studies.

This study tries to overcome the problems caused by substantial geographic distance by comparing data from German speaking and central and eastern European countries (CEE).

According to the Globe Study (House/Hanges/Javidan/Dorfman/Gupta, 2004), the two examined regions show significant differences among those cultural dimensions which are considered to heavily influence the provision of incentives. The two examined regions are due to their common history and their specific developments in the recent past of particular interest for cross-cultural research. Certain countries which now belong to different cultural clusters even formed single nations at the beginning of the last century (e.g. Austria, Hungary, and Czech Republic). With the division of Europe in the aftermath of World War II the close ties between these regions ended. In the central and eastern European countries communistic regimes took power. The change to communistic society had also a significant impact on national culture (e.g. Lessem/Neubauer, 1994; quoted in Marionov/ Marinova/ Manarai/ Manrai, 2001). Thus, cultures which did not show substantial differences till the division of Europe show now significant differences among some cultural dimensions.

Providing empirical support for the question of transferability of incentive systems is of particular interest for companies from both regions. A number of companies are operating in both regions. For them, it is of significant interest whether or not the transfer of their domestic systems to subsidiaries in the other region might cause any problems. Therefore, this study also addresses a request by Salter and Sharp (2001) that it is not only important to research the regions with the most significant cultural differences, but also those with close economic ties.

The results indicate that culture can explain differences in the provided incentives by companies from German speaking and CEE countries. The main differences hint that companies from societies that can be characterized by a higher level of collectivism provide more group incentives than more individual oriented societies. Additionally, the provision of intangible incentives seems to be more favorable in cultures characterized by high performance orientation, high uncertainty avoidance and low in-group collectivism.

This paper contributes to literature in various areas. First, it is among the first papers that does not report Asian or American results. Therefore, it provides support to the idea of generalizability of the impact of the contingency factor culture on the provision of incentives. Second, it addresses the question of transferability of the incentives provided by companies. It is an important area that might enhance overall company performance that has been underrepresented in literature. Third, it is essential for companies operating in both regions to know if the transfer of incentive systems works or if it causes problems.

The remainder of this paper is organized as follows. In section 2 the need for incentive systems and particular incentives is discussed. Section 3 presents the notion of national culture. In addition the hypotheses are derived. In the following section (4) the method is described. Section 5 presents the survey results and their implications and in section 6 the conclusions and limitations are discussed.

2. The Need for Incentives

Companies establish incentive-based (compensation) schemes to align interests of employees with owners (Chong/Eggelton, 2007; Baker/Jensen/Murphy, 1988). Such incentive systems mainly consist of three components. First, the incentive itself, second a performance criterion and third, the link between the contribution of the beneficiary to company value or performance and the incentive he/she obtains (Laux, 1999).

According to Merchant and Van der Stede (2007) incentives, or performance dependent rewards, fulfill three functions. First, the channel employees' effort towards company objectives and communicate them priorities. Through this approach, employees' and company objectives are aligned. Second, incentives are intended to motivate employees to exert additional effort. The opportunity to receive some additional benefit might lead to a higher level of effort. Rewards have an impact on motivation which in turn affects effort and ultimately performance (Van Herpen/Van Praag/Cools, 2005, p. 306) and therefore the

achievement of company goals. Third, personnel-related functions involve the issue of attracting employees. The prospect of earning more by achieving higher results might lead to self-selection. People with high abilities and a greater risk taking capacity might apply for jobs. It also includes signaling.

As an incentive a company can use anything employees like or dislike and that could be connected with any performance measure (Merchant/Van der Stede, 2007). Baker/Jensen/Muphy (1988, p. 594) note that rewards can take many different forms, e.g. praise from superiors or co-workers, implicit promises of future promotion opportunities, feelings of self-esteem that come from superior achievement and recognition, and current and future cash rewards related to performance. According to Schanz (1991) incentives can be classified among the motivational source (extrinsic vs. intrinsic), the object (tangible vs. intangible), and the subject (individual vs. group).

Extrinsic rewards are granted by external sources. Financial rewards are the standard examples for tangible extrinsic rewards. They can be direct cash based or indirect through benefits (Chiang/Birtch, 2005; Chiang 2005). Economists' primary focus on monetary rewards as individuals might prefer to have a number of opportunities compared to one single consumption option (Baker/Jensen/Murphy, 1988). Financial rewards can be granted to individuals but also to groups. In addition to these extrinsic financial rewards there are also extrinsic non-financial rewards. These are rewards which are not financial, are derived from the job and are controlled by others (Chiang/Birtch, 2005; Chiang, 2005). Examples of this category are performance appraisals, positive feedback and recognition.

In addition to extrinsic monetary and non-monetary rewards promotion opportunities are included in this paper as a separate incentive that might also be considered as an intrinsic incentive (e.g. Van Herpen/Van Praag/Cools, 2005). Promotions are incentives particularly for lower level employees who value the pay and prestige associated with higher positions in the hierarchy (Baker/Jensen/Murphy, 1988). They are individual incentives. However,

promotions involve extrinsic and intrinsic elements. For instance, Van Herpen/Cools/Van Praag (2006) report a significantly positive effect of promotions on both intrinsic and extrinsic motivation. Realized promotions do affect extrinsic motivation by providing employees with higher salaries (e.g. Gibbs, 1995; Van Herpen/Cools/ Van Praag, 2006). Besides that, they also increase intrinsic motivation by an enlarged variety of responsibilities and tasks.

3. National Culture

There are numerous definitions and classifications of national cultures. The most well known is Hofstede's taxonomy which is extensively used in cross-cultural management control research (e.g. Chiang/Birtch, 2005; Chiang, 2005; Awasthi/Chow/Wu, 2001; Chow/Lindquist/Wu, 2001; Awasthi/Chow/Wu, 1998; Chow/Kato/Merchant, 1996; Merchant/Chow/Wu, 1995; Chow/Kato/Shields, 1994; Harrison/McKinnon/Panchapakesan/Leung, 1994; Harrison, 1993; Harrison, 1992; Vance/McClaine/Boje/Stage, 1992). Besides the common application this approach it is heavily criticized (e.g. Bakersville, 2003). Although the cultural dimensions approach might have some drawbacks, it is the normal science approach since the 1990s (Hofstede, 2006).

Hofstede (2006), whose cultural taxonomy was published in 1980, notes that throughout the 1990ies four major cross-cultural research projects were conducted. The World Values Survey, the Survey of Values by Schwartz, the Study of event management by Smith et al. and finally the Globe Study. Taken the number of four taxonomies that are develop most recently it becomes apparent that national culture is of great interest for research.

The Globe Study classifies - similar to Hofstede - cultures among various cultural dimensions. However, contrary to the five dimensions developed by Hofstede, the Globe study distinguishes cultures among nine cultural dimensions. Globe's taxonomy started from Hofstede's five dimensions (Hofstede, 2006) which are Power Distance, Collectivism,

Uncertainty Avoidance, Masculinity-Femininity and Confucian Dynamism. Therefore the newly published Globe Study can be regarded as an extension of Hofstede's work. House et al. (2004) note this, as they conclude in the preface that Hofstede results from 1980 are replicated and extended to hypotheses relevant to relationships among societal-level variables, organizational practices, and leader attributes and behavior (Hofstede 2006, p. 883; House et al., 2004). The advancement from Hofstede's work looks as follows: power distance and uncertainty avoidance were taken from Hofstede. Collectivism is divided into in-group and institutional collectivism. Masculinity-Femininity is split into assertiveness and gender egalitarisms. Confucian Dynamism is labeled future orientation. Two further dimensions are added - humane orientation and performance orientation.[1] Cultures can be classified among these nine dimensions whereas culture is defined: "(…) as shared motives, values, beliefs, identities, and interpretations or meanings of significant events that result from common experiences of members of collectives that are transmitted across generations" (House et al., 2004, p. 15). Table 1 provides definitions of the nine cultural dimensions of the Globe Study. In addition, the table reports the results for the two cultural regions which will be compared afterwards. It also indicates the level of the values and the differences between the two examined regions.

--- Insert Table 1 about here ---

It has to be noted that the cultural dimensions are operating simultaneously at any time (Van der Stede, 2003; Harrison/McKinnon, 1999; Chow et al,. 1994). This conclusion, drawn on the work of Hofstede also applies for the results of the Globe Study (House et al., 2004). Thus, it is necessary to consider the impact of the cultural dimensions on the provision of incentives simultaneously. However, it should be noted that the impact of some cultural

[1] House et al. (2004) consider performance orientation to be part of masculinity-femininity.

values might be higher than that of others. The central cultural values can change from culture to culture (House et al., 2004; Lachmann/Nedd/Hinings, 1994).

Impact of Culture on Incentives and Hypotheses development

"Reward practices considered successful in North America, for instance, may not be readily transplanted to Europe or Asia." (Chiang/Birtch, 2005, p. 358; Hofstede 2001).

Incentives are a central element in the employer-employee exchange relationship as the incentives direct employees' effort towards company objectives (Chiang/Birtch, 2005). Different incentives could have different motivational effects and different rewards might be suitable to align the interests of employer and employees. The motivational power of incentives depends on the individual perception by employees (Chiang/Birtch, 2005). Individuals from different cultures have diverse interests, values, preferences. Thus, there might be differences in what motivates them. Incentives provided by companies from two distinctive cultures might be different. Schuler and Rogovsky (1998) conclude that national culture provides an important explanation for different compensation practices in different countries. This assumption is supported for instance by Kirkman and Shapiro (2001, p. 565) who note that employees do resist to management initiatives when these clash with their cultural values. Research has documented that individuals from different national cultures might react differently to the same set of management practices (Harrison/McKinnon/Wu/Chow, 2000). Gomez-Mejia and Welbourne (1991) state that multinationals that develop compensation strategies in compliance with national culture will be more successful than those who do not adapt their strategies. Companies that reward their employees with performance contingent rewards will consider their home culture when designing incentive schemes as the desire by employees to obtain the reward is essential for the success of such systems.

Extrinsic Motivation – Monetary vs. Non-monetary Incentives

Rewards can be distinguished among its types. Companies offer financial and non-financial extrinsic incentives. In addition, they can try to create an environment which provides or helps employees to enhance intrinsic motivation (Chiang/Birtch, 2005). Financial rewards are commonly offered. If they are offered they have certain advantages compared to others (see. e.g. Laux, 1999). However, previous research indicates that individuals from collectivistic societies value non-financial rewards more than financial rewards (Chiang/Birtch, 2005; Vance et al., 1992). It might be attributed to the need from individuals from societies scoring high on in-group collectivism to get confirmation or recognition from others that work was well done. Contrary, individuals from low in-group collectivism cultures might prefer financial incentives. Another characteristic that could have an impact on incentives is the general assumption (see. e.g. Merchant/Chow/Wu, 1995) that in high collectivism societies there is a lower need for incentives, as the individuals are more willing to make decisions that are in the best interest of the principal. Thus, the agency problem might be lower (for criticism on the generalizability of the agency problem see e.g. Ekanayake, 2004) which causes a reduced necessity for extrinsic, in particular financial incentives.

In cultures characterized by high masculinity greater emphasis is placed on material possessions (Gomez-Meja/Welbourne, 1991, p. 37). Morden (1995) notes that "concepts of "payments by results" remuneration by merit, performance bonus (and other systems of bucks for behavior) tend to derive from masculine societies in which emphasis is placed on individual performance." Assertiveness, which is the corresponding cultural dimension in Globe's taxonomy to masculinity hints into the same direction. Societies scoring high on this dimension value success and reward performance. Thus, it is concluded that cultures characterized by high assertiveness grant monetary benefits like financial bonuses.

Individuals from cultures scoring high on performance orientation value bonuses and material rewards. The opposite applies for individuals from cultures that score below average on this dimension. In their view, being motivated by money is inappropriate. Financial incentives are destructive for harmony (House et al., 2004).

Schuler and Rogovsky (1998) argue that pay-for performance is likely to be less prevalent in countries with higher levels of uncertainty avoidance. The ambiguity associated with bonuses might have dysfunctional effects on individual performance in high uncertainty avoidance cultures (Van der Stede, 2003; Merchant/Chow/Wu, 1995). Also Gomez-Mejia and Welbourne (1991) argue that multinationals should minimize variable pay in countries with high uncertainty avoidance scores. Thus, people from high uncertainty avoidance cultures prefer a higher fixed salary to monetary incentives. Companies might therefore provide intangible incentives. Such incentives should be more appropriate in order to induce the desired behavior. Based on the previous discussion, the following hypotheses are derived:

H1a: Companies from cultures characterized by low in-group collectivism, high performance orientation and high assertiveness, besides a high level of uncertainty avoidance (German speaking countries) offer financial and material rewards to a greater extent than companies from cultures characterized by high in-group collectivism, low performance orientation, high assertiveness and low uncertainty avoidance (CEE countries).

H1b: Companies from cultures characterized by high performance orientation, high uncertainty avoidance and low in-group collectivism (German speaking countries) offer non-financial rewards to a greater extent than companies from cultures characterized by low performance orientation, low uncertainty avoidance and high in-group collectivism (CEE countries).

Promotion Prospects

As discussed in the "need for incentives" section promotion prospects can be essential incentives. Besides increasing the salaries, which would represent a financial extrinsic incentive, promotions also include an intrinsic motivational part as variety of tasks and responsibilities increases. Promotions are not short-term incentives and are only limited in availability. Therefore, future orientation is considered to have an impact on the perception by employees, and thus the provision of this incentive by companies. According to House et al. (2004) individuals from high future oriented cultures have a longer strategic orientation and place emphasis on long-term success. This can also be connected to promotions. Additionally, individuals are considered to be intrinsically motivated. People from low future oriented cultures are more extrinsically motivated, are shorter in their strategic orientation and consider short-term success to be more important (House et al., 2004). In individualistic societies, individual success is valued and group harmony is considered to be only of secondary importance (House et al., 2004). Motivation is more individually oriented. People are held accountable for organizational success, but also failure. Promotions are offered for individual achievements. Such a setting enhances the use of promotions as an incentive. Contrary, in cultures characterized by high in-group collectivism promotions are granted not for performance but for seniority or personal needs. Thus, promotions are not considered to be an incentive for performance. Based on this argumentation the following hypothesis is stated:

H2: Companies from high future orientation and low in-group collectivism cultures (German speaking countries) offer promotions as an incentive to a greater extent than companies from low future orientation and high in-group collectivism cultures (CEE countries)

Individual vs. Team Incentives

Literature assumes that group rewards, which are based on the performance of more than one individual (Merchant/Chow/Wu, 1995) are more appropriate in high collectivistic

cultures (e.g. Van der Stede, 2003; Elenkov, 1998; Chow/Kato/Shields, 1994). Due to the importance of the social ties between the workers in their in-groups group rewards may be more effective in cultures with high in-group collectivism (Earley, 1993, p. 342-343 notes only collectivism). Compensation based on group performance supports the high collectivistic orientation (Gomez-Meja/Welbourne, 1991, p. 33). Individuals from low in-group collectivistic cultures assume that they are independent of the decisions of others. Jobs are designed for individuals and thus motivation is also an individual issue. Thus, rewards are awarded to individuals according to his or her contribution to task success (House et al., 2004; Schuler/Rogovsky, 1998). Newman and Nollen (1996) report that performance in individualistic societies is higher when rewards are granted on individual basis. Cultures characterized by a high level of performance orientation value and reward individual achievement (House et al., 2004). It is also possible to conclude that group incentives are favored by employees in high uncertainty avoidance cultures, as the risk of obtaining an incentive is spread among the group and not among individuals (Van der Stede, 2003; Merchant/Chow/Wu, 1995). Based on this discussed the following hypothesis is derived:

H3: Companies from cultures characterized by low in-group collectivism and high performance orientation, besides a high level of uncertainty avoidance (German speaking countries) offer individual oriented incentives to a greater extent than companies from high in-group collectivistic, low performance orientation and low uncertainty avoidance cultures (CEE countries).

Equity vs. Equality

According to Kim/Park/Suzuki (1990, p 188) the equity rule considers to provide individuals for their individual contribution to overall success. Economic performance is the main target. Group harmony is only of minor interest. The principle of allocating rewards

equally among all group members, which is done in order to ensure harmony and to prevent conflicts, is the equality rule. Chen (1995, p. 410) notes that individuals from collectivistic societies prefer the equalitarian allocation. Thus, cultures that score high on in-group collectivism are considered to favor the same mechanism. The commitment of people is based on expectations of loyalty and in-group attitudes. The organizational success is the result of the collective, of the group effort (House et al., 2004). Contrary, cultures characterized by low in-group collectivism are considered to emphasize the equity mechanism (e.g. Segalla/Rouzies/Besson/Weitz, 2006 note that individualists prefer the equity and collectivist the parity mechanism). Individuals are rewarded for their individual contribution (House et al., 2004). Individuals are accepting great differences in obtained rewards (Chiang/Birtch, 2005).

The same applies for individuals from high assertive cultures. They also show a tendency to prefer the equity mechanism. Competition is essential, thus success should be rewarded (House et al., 2004). Contrary, people from low assertive cultures show a tendency towards the equality systems. Based on this discussion the following hypothesis is derived:

H4: Companies from cultures characterized by low in-group collectivism and high assertiveness (German speaking countries) allocate rewards according to the equity rule, whereas companies from cultures characterized by high in-group collectivism and high assertiveness (CEE countries) allocate rewards according to the equality principle.

4. Method

This section consists of two parts. First the research design, including a description of the sample and the data gathering processes is outlined. Second the measures are discussed.

Sample and Data Gathering

Data were gathered during spring 2007 as part of a major study concerning MCS in ten different countries. Seven out of these ten countries are located in Central and Eastern Europe. CEE companies were contacted for the survey when they were listed at one of the following stock exchanges: Bratislava, Bucharest, Budapest Moscow, Prague, Sofia or Warszawa. Companies having a Western parent company have been excluded from the sample. Altogether, 661 publicly listed companies in the CEE region received an invitation to participate in the survey. Data for the three remaining countries, Austria, Germany and Switzerland (German speaking countries) were also gathered during spring 2007. In this region 506 companies listed at one of the following stock exchanges: Vienna, Zurich or Frankfurt were considered in the survey.

Throughout the survey, heads of Investor Relations or Human Resources departments were contacted as it is assumed that they possess all relevant information necessary to complete the questionnaire. In addition, it is supposed that representatives of these departments are rather familiar with answering questionnaires. This should be stressed, as in the CEE region, the collection of data for non-official business related research by survey is rather uncommon and thus it is difficult to motivate people to participate.

Contact data were obtained either directly from the official homepages from the stock exchanges, the company's homepage or via direct company contact (e-mail or telephone). Every identified contact person received a personal e-mail invitation, in his or her respective mother tongue that contained a link to an online-questionnaire in the respective country's language. Thus, this study used a key-informant approach which leads to limitations of the results as information was obtained only from one single respondent. According to Harzing and Sorge (2003) this is the only feasible approach to obtain a satisfying response rate in international mail surveys. In order to increase the response rate reminder calls were made ten days after the contact person received the cover letter (e-mail). After four weeks a reminder e-mail was sent to all companies that had not yet completed the questionnaire.

Measures

The questionnaire involves 24 items asking addressees for their assessment of the companies' incentive system. Respondents were asked to indicate on a five-point scale to what extent the statements represented their company's attitude towards: *Fairness of incentive scheme, team-based incentives, proportion of team-based pay, financial and non-financial incentives and the use of promotion prospect as an incentive.* The scale is anchored by 1, representing the answer "not at all" and by 5 signifying "to a very great extent". Each respondent is firstly asked to indicate the extent to which the statement applies to middle managers and secondly, he or she has to indicate the extent to which it applies to employees. The items used in the questionnaire were mainly taken and adapted from prior studies in the research area. This procedure has the advantage of including items that are already validated.

The variable *fairness of incentive scheme* was adapted from Ahmad and Schroeder (2003) and asked for the link between performance and reward. It measures if there are reward differences between those employees who achieve their targets and those who do not. *Team-based incentives* asked for the provision of incentives which are based on team performance. It was built on items of Scott and Tiessen (1999), Ahmad and Schroeder (2003) and Geringer, Frayne and Milliman (2002). The variable *financial and non-financial* incentives is taken from Vance et al. (1992). It distinguishes between the provision of financial or material rewards and intangible rewards. The use of promotion asks for the application of promotion prospects as an incentive. The questions are adapted from Delaney and Huselid (1996) and Van Herpen, Cools and Van Praag (2006).

The questionnaire was developed in English. As it could not be taken for granted that the addressees possess a sufficient knowledge of this language the questionnaire was translated into each countries respective language. In order to avoid any changes in the meaning and in order to enhance comparability the questionnaires were then back-translated

into English independently by native speakers who are familiar with MCS. This procedure is similar to Harzing (2006); Chow, Kato, and Merchant (1996); and Ueno and Wu (1993). If the results of the back-translated did not match the original version the differences were noted and the translated version was adjusted.

A problem associated with cross-cultural management control research is to control for other contingency variables. In order to obtain reliable results company characteristics like technology, size or environmental uncertainty have to be included in cross-cultural management control research (Chow/Shields/Wu, 1999). Schuler and Rogovsky (1998) note the lack of considering factors like industry, ownership structure, and company size as one of the main limitations of their findings. Contrary to their approach, this study includes the factors industry and company size. First, in the results section company size, measured by number of employees will be considered. Second, the industries in which the companies operate will be taken into account.

5. Results

Finally, from the CEE region 132 questionnaires were received which represents a response rate of 19.96 percent. Of the 132 received questionnaires 18 were unusable due to a range of reasons, for instance, questionnaires were not completed or had been submitted without answering the questions. Therefore, 114 observations from CEE companies are considered in the analysis (17.24 percent). For the German speaking countries the final response rate is 23.12 percent. Altogether 125 responses were received (24.70 percent), whereas 115 of them are considered in the final analysis. Van der Stede, Young and Chen (2007) recommend that if follow-up procedures are used to improve response rates a comparison of early and late respondents (e.g. those who replied after follow up procedures) should be conducted. For both samples (CEE and German speaking countries) no significant differences between early and late respondents are found when performing Kruskal-Wallis Tests and one-way ANOVAs. This test is also the most common type of non-response

analysis as it is assumed that late respondents represent non-respondents to a certain extent (Van der Stede/Young/Chen, 2007).

The responding companies represent a wide range of industries. The majority of respondents are producing companies, namely 64 from the CEE region and 58 from German speaking countries. Nine companies operating in trades industry from CEE countries and five from Austria, Germany or Switzerland participated in the survey. Finally, 26 (CEE) and 28 (German speaking) companies representing services industry and 15 (CEE) and 24 (German speaking) companies belonging to financial services industry provided information. In addition, respondents indicated their company's number of employees, a commonly used measure to assess company size.

Table 2 reports descriptive statistics for the four variables. It includes the mean values and standard deviations (S.D.) for both regions. Due to missing cases the number of observations varies slightly between the variables.

--- Insert Table 2 about here ----

Hypotheses are tested by analysis of variance (ANOVA). It tests for differences in means among two or more samples. It is used to assess if companies from German speaking countries and CEE countries show significant differences among the incentives provided. The location of the company is either CEE or GSP – representing the two cultural regions. Table 2 shows the F-values for the single independent variable culture (labeled F-culture). When considering only the factor culture, 14 out of the 24 items indicate significant differences in the provision of incentives that can be explained by cultural differences. If the variables company size (ln number of employees) and the industry are added five items show significant differences that can be explained by national culture.

The 24 items are summed up to seven variables which can also be found in table 2. Despite the first one (equity vs. equality) all variables show a high Cronbach Alpha (Hair//Black/Babin/Anderson/Tatham, (2006) suggest it to be higher than 0.7). The results for

the factor culture show four out of the seven variables show significant differences (α=0.05 or below) in the provided incentives that can be explained by cultural differences. When controlling for industry and size two variables show significant results for the variable culture. The variables, which are used to test the hypotheses and the found support for the hypotheses, are presented in table 3.

--- Insert Table 3 about here ---

The results of this paper indicate that companies from different regions provide different incentives. Companies from German speaking countries offer team-based pay to a much lower extent than their peers from the CEE region. Contrary to the German speaking countries the equality principle seems to be of higher importance in the CEE region. Companies from the CEE countries emphasize financial or material rewards, whereas companies from the German speaking countries offer much more intangible incentives. In addition, promotion prospect are much more important in the German speaking countries compared to the CEE countries.

6. Conclusion

This paper shows that cultural differences can explain differences in the provision of incentives. The results support the assumption that national culture is an essential contingency factor for MCS, although it represents an extension from its organizational foundations into more sociological concerns (Chenhall, 2003; 2006). The results of this study provide support for the generalizability of the impact of the contingency factor culture as data is not gathered from the Pacific region but the European continent.

Understanding the differences is essential for companies operating in different cultural regions as establishing a fit between the applied system and the environment can enhance overall performance. The study's results indicate that companies operating in different

cultural regions should consider the impact of culture on the perception of incentives. In German speaking countries intangible incentives seem to be an important part of the provided incentives. Contrary, in CEE companies, financial rewards seem to be of higher importance. In addition, the provision of individual or group incentives is also dependent on national culture. Choosing the wrong approach might lead to the intended, in the worst case even to dysfunctional results.

This study is subject to a number of limitations that have to be considered when interpreting the results. Besides the common drawbacks of survey research identified by Birnberg, Shields and Young (1990), it uses a single-respondents approach (Harzing and Sorge 2003). Although this seems to be the most feasible approach in cross-cultural survey research, it involves the risk that the respondents communicate their perceptions, thus reducing the validity of the findings. Moreover the cultural values of respondents are not measured but taken for granted from the Globe Study. Although this is a commonly used approach, it might be beneficial to include items measuring the cultural values of respondents.

Tables

Dimension	**CEE**	**German speaking countries***	**Direction/Difference**
Power Distance (Society level): The degree to which members of a collective expect power to be distributed unequally. *Organizational Power Distance*: The degree to which people obey and respect authority.	5.25 (medium) / 4.22 (high)	5.03 (medium)/ 3.47 (low)	CEE > German speaking countries/ 0.22/ 0.75[1]
Future Orientation: The extent to which individuals engage in future-oriented behaviors such as delaying gratification, planning, and investing in the future.	3.38 (low)	4.49 (high)	CEE < German speaking countries/ 1.11
Uncertainty Avoidance: The extent to which a society, organization, or group relies on social norms, rules, and procedures to alleviate unpredictability of future events.	3.56 (low)	5.25 (high)	CEE < German speaking countries/ 1.69
In-Group Collectivism: The degree to which individuals express pride, loyalty, and cohesiveness in their organizations or families.	5.53 (high)	4.28 (low)	CEE > German speaking countries/ 1.25
Performance Orientation: The degree to which a collective encourages and rewards group members for performance improvement and excellence.	3.73 (low)	4.54 (high)	CEE < German speaking countries/ 0.81
Assertiveness: The degree to which individuals are assertive, confrontational, and aggressive in their relationships with others.	4.33 (high)	4.56 (high)	CEE < German speaking countries/ 0.23
Humane Orientation: The degree to which a collective encourages and rewards individuals for being fair, altruistic, generous, caring and kind to others.	3.86 (medium)	3.5 (low)	CEE > German speaking countries/ 0.36
Institutional Collectivism: The degree to which organizational and societal institutional practices encourage and reward collective distribution of resources and collective action.	4.1 (medium to low)	4.05 (low)	CEE > German speaking countries/ 0.05
Gender Egalitarianism: The degree to which a collective minimizes gender inequality.	3.84 (high)	3.05 (medium)	CEE > German speaking countries/ 0.79

*only the values of Austria, Switzerland (excl. French speaking Region) and Western Germany are considered

TABLE 1: Differences between CEE and German speaking countries (House et al. 2004)

	CEE			GSP			F culture	F culture/ size/ industry
	N	Mean	S.D.	N	Mean	S.D.		
Equity vs. Equality	**112**	**8.85**	**2.42**	**115**	**9.25**	**1.99**	**1.89**	**2.42/ 1.62/ 2.15***
Cronbach α = 0.59								
Equity I	112	3.14	1.26	115	3.74	1.03	15.34***	7.60*/2.78/x
Equality (reversed)	112	2.54	1.21	115	2.97	0.97	9.12***	0.22
Equity II	113	3.29	1.22	115	3.49	1.07	1.65	0.30/x/2.68
Team based incentives	**112**	**14.84**	**5.13**	**113**	**14.68**	**4.71**	**0.06**	**1.24/ 0.68/ 1.10**
Cronbach α = 0.91								
Team Inc. I	114	3.19	1.17	114	3.13	1.10	0.17	0.84
Team Inc. II	113	3.02	1.16	113	3.15	1.11	0.77	1.73
Income I	113	3.04	1.11	114	2.87	1.09	1.46	0.00
Income II	113	2.83	1.22	114	2.62	1.05	1.91	5.72
Teamoriented	112	2.88	1.24	114	2.94	1.13	0.12	0.90
Team-based pay	**107**	**4.73**	**2.19**	**111**	**3.95**	**1.58**	**9.27*** **	**3.15*/ 0.57/ 1.282**
Cronbach α = 0.92								
Team pay I	108	2.45	1.13	111	2.08	0.82	7.81***	1.48
Team pay II	107	2.30	1.11	111	1.86	0.87	10.40***	4.97
Individual-based pay	**107**	**4.68**	**2.12**	**110**	**4.98**	**2.18**	**1.06**	**0.04/ 3.52**/ 1.51**
Cronbach α = 0.86								
Indivi. pay I	107	2.39	1.13	111	2.68	1.11	3.47*	0.11/3.53
Indivi. pay II	107	2.29	1.12	110	2.33	1.21	0.06	0.231/3.56
Financial/Material Incentives	**113**	**12.27**	**3.40**	**114**	**10.92**	**3.02**	**10.09*** **	**1.93/ 0.09/ 0.52**
Cronbach α = 0.80								
Material Inc. I	114	3.02	1.13	114	2.46	0.988	15.97***	5.52**
Material Inc. II	114	2.99	1.09	114	2.30	0.921	26.80***	4.11**
Financial/Mat I	113	3.27	1.01	115	3.30	0.973	0.05	0.00
Financial/Mat II	113	3.05	1.02	115	2.91	1.01	1.10	0.01
Intangible Incentives	**112**	**11.67**	**3.57**	**114**	**13.74**	**2.73**	**24.16*** **	**4.05**/ 0.58/ 0.42**
Cronbach α = 0.87								
Appraisal I	112	2.88	1.06	114	3.29	0.890	10.17***	3.64*
Appraisal II	113	2.92	1.02	115	3.38	0.914	13.02***	3.57*
Feedback I	111	2.97	1.00	115	3.46	0.830	16.06***	1.35
Feedback II	112	3.01	.91	115	3.63	0.787	30.93***	3.83*
Promotion Prospects	**113**	**13.72**	**4.22**	**114**	**14.84**	**3.46**	**4.86****	**0.16/ 2.20*/ 4.04*****
Cronbach α = 0.92								
Promo Inc. I	114	3.25	1.17	115	3.50	1.14	2.88*	0.77/ 2.87**/ 3.16**

Promo Inc. II	114	3.25	1.15	114	3.33	1.00	0.38	0.30/ 1.84/ 2.95**
Performance- Pro	113	3.59	1.16	115	4.05	0.95	10.66***	3.15*/ 1.76/ 3.67**
Performance-Pro	114	3.67	1.13	114	4.02	0.87	6.92***	1.83/ 1.95/ 3.54**

* Significant at α=0.1
** Significant at α=0.05
*** Significant at α=0.01

TABLE 2: Means, Standard Deviations (S.D.), and ANOVA F-Results for Incentives

H1a: variable *financial/material incentives* – rejected	H3: variables *team based incentives, team based pay, individual pay* – partly supported
H1b: variable *intangible incentives* - supported	H4: variable *equity vs. equality* – partly supported
H2: variable *promotion prospects* – supported when not controlling for size and industry	

TABLE 3: Variables and results for the hypotheses check (including factors: culture, size, and industry).

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