Linking Reward Systems and Organizational Cultures

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LINKING REWARD SYSTEMS AND ORGANIZATIONAL CULTURES

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by

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The idea of corporate culture has recently generated widespread interest and attention from both professional practitioners and organizational researchers. These writers have studied and hypothesized about issues including the origins of culture, its dissemination within organizations, its management, and how to achieve cultural change. The purpose of this paper is to propose a potentially useful way for classifying cultures based on a study of their reward systems. According to Trice and Beyer, corporate cultures have two basic components: (1) their substance, consisting of the network of meanings contained in their values and norms, and (2) their forms, consisting of the practices whereby cultural meanings are communicated to organization members. Our underlying premise is that an organization's reward system represents an essential form through which the organization communicates the substance of its culture. By articulating desired behaviors and attitudes, the reward system communicates its culture to new members and affirms its culture for older ones. The reward system thus functions as a primary instrument for acculturation and control by transmitting values and norms to its members. By studying the values embedded within reward systems, we believe basic similarities and differences in corporate cultures can be categorized and compared.

THE CONCEPT OF CULTURE

The concept of culture has been defined and applied in a wide variety of settings. A number of disciplines have found it useful in understanding the behavior of people in social settings. Within this diverse literature, we have been able to identify three elements common to definitions of culture. First, it seems widely agreed that culture consists primarily of a set of cognitive reference points. Aggregated, these reference points form a framework within which organization members can interpret and attribute meaning to
their own behavior, the behavior of their group or organization, and to envi-
ronmental events. Sathe describes culture as a group's shared understandings or assumptions about the world and how it works. Pettigrew views culture as a system of publicly and collectively accepted meanings operating for a social group at a given point in time. Following Sethia and Von Glinow, we define culture as the shared and relatively enduring pattern of values, beliefs and assumptions that allows people to attribute meaning to an otherwise meaningless flow of events.

Second, this system of meaning gives rise to a network of values, norms, and behavioral expectations that simultaneously derives from and supports a culture. As Louis has pointed out, corporate culture provides a vehicle for an organization's continuity, control, identity, and integration. The stability of shared values across generations of organizational participants provides continuity and serves a homeostatic function. This stability also serves to detect and control deviance from the commonly-held set of organizational beliefs.

Third, cultures are expressed through a variety of symbolic, interpersonal, and structural manifestations. These include a group's internal language or jargon, rituals and ceremonial events, metaphors, stories and legends, and its formal structure. Because these are visible artifacts of culture, they are the means by which culture is transmitted to members. They are also considered to be leverage points through which a culture can be modified by managers.

**REWARD SYSTEMS AS EXPRESSIONS OF CULTURE**

Many of the above mentioned artifacts of culture can be traced to the practices by which rewards are allocated within a group or organization.
Kilmann, Schein, and others have argued that much of the substance of culture is concerned with the relationship between the organization and the individual. Reward systems articulate this relationship by structuring the terms of exchange. On the one hand, the reward system expresses the values and norms to which those in the organization are expected to conform. On the other hand, it expresses the organizational response individuals can expect to receive based on their behaviors. Kilmann argues that culture is an expression of what the organization values and which aspects of performance are critical to an individual's "getting ahead." Implicit in the notion of culture, in other words, is the idea of performance criteria and contingent rewards, the essential elements of any reward system. Reward systems serve as a guide to an organization's culture first, by specifying the contributions expected from members, and second, by specifying the inducements offered by the organization.

There are numerous examples of the interdependence between cultures and reward systems. Lawler notes that reward systems lead to perceptions and beliefs about what an organization stands for, believes in, and values. Thus, the well-known pink cadillacs and mink coats used by Mary Kay to reward top performers are ceremonial rituals that vividly express the company's optimistic, achieving culture. The highly quantitative and precise performance measurement system at Pepsico is an equally clear expression of that firm's competitive and aggressive culture. By contrast, the paternalistic, "family"-like cultures of such organizations as J. C. Penney and United Press International are accurately captured in reward systems that pay off for loyalty, tenure, and conformity to norms rather than for financial results. While there may be a gap between an organization's publicly espoused values and those that actually operate on a daily basis, organization members are rarely
misled. The reward system — who gets rewarded and why — represents an unequivocal statement of the organization's true values and culture.

In addition, we recognize that a large corporation with divisions in several different businesses, such as W. R. Grace or Gulf & Western, may have multiple reward systems. While these reward systems might share some fundamental philosophies and values across divisions, each division may need to have a somewhat different reward system to fit its unique setting, business strategy, and product's life cycle. This raises the possibility of multiple reward systems supporting multiple cultures or subcultures within an organization.

Subcultures are a natural byproduct of the tendency of organizations to differentiate. As organizations grow with respect to the number of products, services, and divisions, subcultures can emerge that reflect a number of distinct work and social environments. Through increasing differentiation, opportunity for the emergence of countercultures is also increased. Countercultures are shared values and beliefs that are in direct conflict with the patterns of the dominant culture. To the extent that the organization's reward system reinforces these distinct behavioral norms and belief systems, subcultures and countercultures are likely to be articulated and even nurtured.

The close interdependence of reward systems and cultures means that manipulation of rewards provides a mechanism for effecting culture change. Reward systems are especially useful in this role because they can be designed to express both the direction and intensity of behaviors desired by top management. We would predict that a consensus regarding the organization's reward system would itself promote some sharing of beliefs and behavioral patterns. For consensus to lead to a high level of shared beliefs and behaviors, a strong connection between expectations, rewards, and behaviors must exist.
METHOD

To explore the relationship between corporate cultures and reward systems in detail, we studied the reward systems of 14 companies in the northeast and midwest regions of the United States. All but one of the companies were included in Fortune's listing of the top 500 corporations for 1981. Sales ranged from $125 million to over $8 billion. The companies ranged from single-product industrial firms to multi-divisional conglomerates.

Initial contact in each firm was made with the ranking human resource manager. These individuals participated as key informants and provided the names and titles of other managers in their firms who might be willing to participate. To insure the selection of knowledgeable managers, we asked that only persons who had been with the company for at least five years and had participated in the distribution of rewards (e.g., salary increases, bonuses, perquisites) be included. In addition, at least one manager in each firm was of sufficient rank to be responsible for making reward allocation decisions regarding subordinates. In other words, both sides of the reward relationship, manager and subordinate, were represented in the sample.

In all, 75 interviews with high-level managers were conducted. The interviews lasted from one hour in length to as long as five or six hours. The average interview was approximately 90 minutes long and took place in the manager's office. We interviewed on average 5 managers from each firm, with as many as 10 managers in one firm. The interviewee group included five chief executive officers, seven group-level executives, five line vice presidents (manufacturing, production), six staff vice presidents, 25 division general managers, and 27 director-level managers.

Initial interviews in each firm concentrated on gathering objective data on the managerial reward system. These focused on performance definition and
evaluation, feedback processes, and the administration of rewards (bonus, salary, stock, perquisites, and promotion). These interviews were structured in order to obtain comparable data from each firm. Later interviews concentrated on gathering subjective data on the firm’s history, founders or dominant leaders, traditions, values, and norms. These interviews were necessarily open-ended and exploratory.

In addition to interview data, company documents, such as annual reports, 10-K reports and company histories (when available) were also examined. Some firms were able to provide documentation on the reward system itself. The 10-K and annual reports served as a basis for providing the researchers with an overview of the firm’s products, corporate and business strategy, and past economic performance. The company histories provided insight into the origins of the firm, including their stated values and traditions. Data from these sources served as a check on the information gathered through the interviews.18

REWARD SYSTEMS

From these key informant interviews, two distinct reward systems emerged: the hierarchy-based system and performance-based system. The reward systems in eight firms were classified as hierarchy-based and six were classified as performance-based. The descriptions of each of these reward systems and the cultures embedded within them are presented below. It should be noted that these descriptions of reward systems and cultures are composites that represent "pure" types. Actual systems and cultures exhibited distinctive variations but conformed to the general types described below.
The Hierarchy-Based Reward System

In hierarchy-based reward systems, the influence of superiors in defining and evaluating the performance of subordinate managers was paramount. Performance was defined qualitatively as well as quantitatively. Nonquantifiable aspects of the subordinate's role were sometimes considered to be more important than quantifiable ones. Superiors were free to emphasize those aspects of the managers' role they believed to be important. Working under one superior could entail emphasizing a different set of factors than working for another.

Manager's jobs were broadly and subtly defined. Managers were accountable for how they managed their interpersonal relationships as well as the consequences of their actions. Numbers (e.g., ROI) did not tell the whole story and more subtle aspects of performance were sometimes viewed as the most important. Superiors were critical to subordinate managers' career mobility and success with the firm. Superiors were the source of training, socialization, feedback, and rewards. They were to be studied, emulated, and satisfied if subordinates expected to succeed.

Superiors interpreted the performance of subordinates according to their own subjective criteria. Even in quantified areas of subordinates' roles, superiors did not hesitate to interpret numerical outcomes in the context of their own knowledge of the situation. Factors such as interdivisional cooperation, long-term relations with customers, leadership style, and development of junior managers were evaluated despite obvious difficulties in quantifying them. This type of evaluation communicated the importance of the hierarchy and the subordinate's dependence on superiors. The subjective nature of evaluation allowed for the inclusion of qualitative performance criteria and reinforced the message that a manager must be concerned with more than just
the numbers. Subjective evaluation permitted consideration of the long-term consequences of managerial action. This implied an ongoing commitment to the activity or business in question.

Formal performance appraisals took place once a year. Informal feedback, however, was quite frequent. There was a high level of interaction between superiors and subordinates. Feedback occurred on the job, in the dining room, during executive retreats, or at the country club. Feedback was oriented more towards employee development than towards evaluation. Performance definition and evaluation were subjective and, therefore, the quality of a subordinate's performance could only be known through superiors. The high level of interaction coupled with a developmental approach communicated the organization's commitment to the individual's success and future. This was conducive to mentoring relationships and to extensive socialization of younger managers. The sense of dependency and vulnerability to the judgments of superiors was balanced by a message of concern for the individual as a valued resource whose development was important to the organization.

A manager's bonus was based on corporate performance. The system rewarded the team, not the individual manager. All gained or lost together. This promoted a sense of reciprocal interdependence and provided a basic rationale for cooperative rather than competitive behavior. The fact that potential bonus payouts increased with hierarchical level emphasized the importance of long-term commitment to the organization (tenure was a precondition for promotion) and conformity to its norms. Bonus was a relatively small proportion of total compensation, ranging from 20 to 30%, while salary was the largest part of a manager's compensation. By severely limiting potential bonus for the individual star, the system removed the incentive for behaviors that benefited single managers rather than the entire organization. The bonus
system reinforced the subordinate’s dependence on superiors’ judgment because superiors determined appropriate bonus amounts.

Salary increases were generally determined through a formal salary plan such as the Hay system. The two major factors influencing the size of a salary increase were tenure (time in grade) and performance (subjective evaluation by superiors). The tenure component provided structure to the salary increase decision. Policies specified the range of possible increases within the job classifications.

Perquisites were even more constrained by policy than were raises. Available perquisites were not necessarily elaborate. Those that existed, however, were carefully policed. Status symbols, such as location of offices, furniture, club memberships, first-class travel, etc., were considered important symbols of rank. Superiors sometimes insisted that managers use them even in cases where the individual did not want them. While perquisites themselves symbolized rank and power for those that had them, the careful policing of perquisites conveyed information about the importance of rank, tenure, and commitment. It communicated a sense of ritual and tradition. Receiving a particular type of desk upon promotion, being told (not asked) to join a prestigious men’s club because everyone of a given rank had always done so, being met at airports by local managers, were all rituals that told members about the symbolic meaning of perquisites. They communicated a sense of tradition, history and uniqueness. Even for those not eligible for such perquisites, the fact that they existed provided a feeling of belonging not simply to an economic entity, but to a social and cultural system.

In contrast to perquisites, stock awards were not structured in any obvious way. Managers had little knowledge about how or why awards were made. Awards were not directly related to individual or even corporate performance.
Generally, the higher the managerial rank, the greater the eligibility for stock awards. The absence of information about stock awards left subordinates with no understanding of these rewards or how to influence their distribution. The lack of clarity imparted a sense of mysterious ritual to the reward. Again, the message was that subordinates must trust superiors to do the right thing. Receiving stock awards symbolized acceptance into some inner circle. Therefore, managers had to be highly cognizant of deviations from the total set of values and norms operating in the company. Since the basis for stock awards was not understood, any deviation might be serious enough to reduce or temporarily eliminate the reward for a manager.

Promotion from within was the standard policy. Promotions were relatively frequent (every two to four years) and were often motivated more by the individual's need for development (i.e., exposure to new areas) than by the organization's need to fill a slot. Many of these promotions did not entail significant increases in authority, responsibility, or salary. Commitment to employee development and cross-fertilization resulted in lateral or diagonal movement rather than vertical movement for many managers. There was a strong norm regarding "cross-fertilization" in most companies. Managers were routinely transferred across division or functional boundaries in keeping with the emphasis on management development.

A norm of promotion from within provided a strong signal to members that the organization valued long-term commitment. These promotions symbolized that the organization was a place where a member could pursue a lifetime career. This was a central clause within the implicit social contract — all things being equal, an individual would not be passed over for someone who had not paid dues to the organization. It expressed a high regard for the already-socialized member.
The practice of cross-fertilization and frequent lateral movement expressed concern for the development of employees. These practices communicated concern that the individual was learning about the organization and that his or her progress and success was important. Promotions of this type contributed to a tight, homogeneous organization with common language, experience, and values. Lack of movement signaled a disinvestment in the individual and a loss of interest on the part of the organization.

The hierarchy-based reward system, summarized in Table 1, expressed a number of fundamental cultural tenets. First, this reward system provided an unequivocal signal that hierarchical position was the source of power, resources, information, and rewards. The hierarchy structured organized activity and provided the context within which social interaction took place. Second, virtually all aspects of the reward system -- from the definition and measurement of performance to the actual determination of rewards -- was predicated on the perceptions, knowledge, and judgment of superiors. Superiors were the key to an individual's development, promotion, and eventual success in the organization. Third, the hierarchy-based reward system gave clear signals about the value of conformity. Conforming to the dominant philosophy and managerial style was important. The qualitative and subjective nature of the system communicated that conformity was also expected over a wide range of both obvious and subtle behaviors.

Fourth, the reward system expressed the value of reciprocal interdependence. Rewards based on group rather than individual performance promoted feelings of a shared fate. Frequent cross-divisional movement tightened organizational ties by creating a network of personal relationships. Promotions
from within and carefully policed perquisites fostered a sense of belonging to a unique and cohesive group. Finally, the reward system expressed the value of long-term commitment. All classes of rewards increased with rank and tenure. The reward system expressed the organization's commitment to the individual through promotion from within, cross-fertilization, and an emphasis on employee development.

The Clan Culture

The kind of culture that emerged from the hierarchy-based reward systems may be characterized as a clan. Ouchi has used the term clan to describe a control system based on socialization and internalized values and norms. Table 2 summarizes the major features of the clan culture. In this culture, the relationship between the individual and the organization is analogous to a fraternal group. Each recognizes an obligation to the other that goes beyond the simple exchange of labor for salary. It is tacitly understood by both parties that either may require contributions that exceed any contractual agreements. The individual's long-term commitment to the organization (loyalty) is exchanged for the organization's long-term commitment to the individual (security). This relationship is predicated on mutual interests: the fate of the collective equates with the fate of the individual.

The clan culture accomplishes this unity through a long and thorough socialization process. Members progress through the ranks by pursuing traditional career paths in the company. Older members of the clan serve as mentors and role models for younger members. It is through these relationships that the values and norms of the firm are maintained over successive generations of managers. The clan is aware of its unique history, often documenting
its origins and celebrating its traditions in various ceremonies. Statements of its credo or publicly-held values are reinforced at these meetings. Members share a picture of the organization's "style," its manner of conduct. Attitudinal and behavioral expectations exist for a broad range of situations and activities.

In the clan culture, members share a sense of pride in the fraternity and in membership. The socialization process results in strong identification between members and a strong sense of interdependence. The up-through-the-ranks career pattern results in an extensive network of colleagues whose paths have crossed and who have shared similar experiences. Communication, coordination, and integration are facilitated by shared goals, perceptions, and behavioral tendencies.

There is also considerable pressure to conform. The very richness of the culture means there are few areas left totally free from normative pressures. Whether or not fully socialized members experience these pressures as obnoxious, the culture does not usually generate risk-taking or creative initiatives. It also does not generate a feeling of personal ownership on the part of members for a division, product, or idea. For this and other reasons, the culture is not conducive to entrepreneurial activity.

The Performance-Based Reward System

Other firms exhibited another type of reward system. This system defined and measured performance objectively and explicitly linked rewards to performance. In many ways, it was the polar opposite of the hierarchy-based system. Performance was defined almost completely in terms of quantitative criteria. Qualitative aspects of performance were generally ignored. Specific rewards or proportions of rewards were linked directly to specific performance criteria (e.g., X% of bonus based on return on assets, Y% of bonus on pretax
profits, etc.). In this way, superior managers exerted influence by objectively weighting the various components of the subordinate's job.

This reward system conveyed that the manager's job was specifically defined. A manager's divergent roles were coalesced into a few basic financial outcomes. Accountability was primarily for results, and not for the methods by which results were achieved. The message was that the numbers (e.g., ROI, market share) were all important. Evaluations were frequently based on a formula with the manager's financial results serving as inputs. Nonquantifiable aspects of performance were generally not evaluated. Because of the quantitative emphasis, performance evaluation necessarily focused on the current time frame with little consideration of future consequences.

This type of evaluation communicated to managers their independence from the subjective judgments of their superiors. Superiors had few channels through which to express their concern for stylistic aspects of their subordinates' performance. The system clearly told managers to focus on those performance elements that could be quantified. Because activities that contribute to long-run competitiveness are sometimes difficult to quantify, this system signaled that such activities were not formally part of the reward equation.

Performance feedback in this group was erratic. Some companies held one or more formal appraisals while others held none. Informal feedback and interaction between superior and subordinate was relatively infrequent. Feedback was oriented more towards evaluation than towards employee development. Because performance was defined and measured quantitatively and objectively, the subordinate manager was not dependent on the superior for feedback. Interpretation of performance was not necessary. Results could be understood by both parties by examining financial outcomes.
The low level of interaction between superior and subordinate and the evaluative, as opposed to developmental, approach to feedback served to emphasize the subordinate's autonomous role. These characteristics did not express concern for the subordinate's development or long-term career progress. The reward system was not conducive to a mentoring relationship, nor was it likely to contribute to the transference of subtle norms and values. Socialization was not an important function of this system. There was no need to communicate a complex set of norms to young managers.

Bonuses in this system were a very significant part of compensation. Bonus maximums ranged from 40% of salary to "no limit." That is, in some firms there was no cap on what a manager could earn in bonus if the financial criteria were met. Bonus was based almost exclusively on the performance of the division over which the manager had authority. The performance of other divisions or the entire corporation, whether better or worse, had almost no effect on the individual's bonus. Each division was a profit center and generated its own bonus pool. An individual's actual bonus payout was determined by formula. The resulting figure was rarely altered by superiors, and was virtually free of superiors' influence.

The bonus system communicated that the manager was an independent operator, not only in terms of superiors, but in terms of other divisions as well. The individual's fate was independent of others. There was no economic rationale for cooperative behavior between different divisional managers. The fact that divisions typically competed for corporate resources contributed to a competitive relationship between divisional managers. The potentially large size of bonuses communicated the value placed on the "star" performer rather than the team player. Bonuses were tied to performance rather than to rank. This de-emphasized the hierarchy as an important source of rewards.
Salary increases and stock awards were indirectly based on managerial performance. Salary increases were affected by the external labor market, the cost of living, and the manager's overall performance. Stock arrangements were frequently negotiated at the time the manager joined the company. These rewards were loosely related to performance. Actual amounts of these rewards were determined subjectively by superiors. While this contradicts the objective and distant nature of the system, it expressed the relatively lower value placed on these rewards by the organization. Significant performance feedback was conveyed in a manager's bonus. It is also possible that superiors operating under this system needed to have some mechanisms available to them that expressed subjective perceptions of subordinate performance. The relative flexibility of salary increases and stock awards may have satisfied that need.

Perquisites were almost nonexistent in the performance-based system. Symbols of rank and status were not emphasized because the hierarchy itself was not emphasized. This communicated a sense of egalitarianism. It also lessened the sense of community and uniqueness, however. If reward rituals (predicated on tenure and hierarchical position) convey the existence of an in-group, then the absence of such rituals weakens the feeling of participation in a tradition and membership in a special group.

Promotion in this system was not governed by a norm of promotion from within. It was common to find high-ranking managers brought in from the outside. Many had been with their companies only a few years. Promotions were generally motivated by the organization's need to fill a vacancy rather than the individual's need for exposure. Relative to the hierarchy-based system, promotion occurred infrequently and was usually vertical (i.e., within the same division or function) rather than across unit boundaries.
The practice of hiring from outside, as opposed to promotion from within, conveyed to members that the organization's commitment to them was not necessarily long-term. Individuals could be repeatedly passed over for promotion when the organization was able to identify more attractive candidates. These organizations were indicating that they did not necessarily value tenure or the socialized individual to the extent that they would not consider others who did not possess those traits. They also communicated that they did not necessarily expect a long-term commitment from their members. These practices led to a mutually exploitive relationship. The individual was utilized to fill a particular role or perform a particular function, until he or she was needed elsewhere or was replaced by a more qualified person. This relationship engendered a similar response from the individual who exploited the organization until superior benefits were obtainable elsewhere.

Through the reward system, these organizations also expressed their expectations concerning desired levels of integration between divisions. Vertical promotions tended to facilitate specialization rather than the movement of personnel across divisional boundaries. A wide network of managers who have worked together, know each other, and understand each other's responsibilities was not fostered. Instead, these promotional practices sent a message of divisional independence and uniqueness. These organizations did not seek an integrated system based on shared language, norms, and goals.

The performance-based reward system may be summarized in terms of a few basic values shown in Table 3. First, the system fundamentally rests on the principle of economic exchange. The individual enters into agreement with the organization that certain inputs will be exchanged for certain outcomes.
according to a carefully defined set of guidelines. The reward system limits the relationship between the two parties by specifying exactly the terms of exchange. Neither party will go much beyond the specified terms because neither has any assurance that the other will reciprocate at some future time. The existence of a highly detailed contract, in other words, encourages a legalistic relationship in which both sides adhere strictly to the contractual terms.

Second, subordinates are highly autonomous in relation to superiors because they are responsible only for the specified financial results. The organization relinquishes a significant degree of control over the manager's methods, style, and so on. It primarily monitors ends rather than the means managers employ in achieving them. This also means superiors have reduced leverage in influencing the behaviors and values of younger managers. Norms, values, and attitudes are more difficult to instill where the subordinate perceives little benefit from conforming to them.

Third, the system does not constrain managers by requiring conformity to a broad range of norms. This is due to the fact that the evaluation process focuses primarily on outcomes, and not on behaviors. There are few behaviors governed by norms, values, or implicit expectations. In addition, the overall objectivity of the reward system undermines the power of superiors to insist that subordinates conform to particular practices. Superiors, usually a critical source of values and normative influence, play a limited role as mentors and role models under this reward system.

Fourth, the system signals the value of independence rather than interdependence. Individual achievement is rewarded. Little incentive exists for sharing lines of information, resources, or personnel. Promotional practices reinforce divisional differences rather than breaking them down. Promotion
from outside undermines socialization, cohesion, and group identity. The absence of perquisites and other company rituals discourages a sense of tradition and uniqueness.

Finally, the performance-based system expresses a short-term orientation based on mutual exploitation. Quantitative performance criteria make it difficult to consider actions and decisions from a long-term perspective. The contractual nature of the reward system generates an "arm's length" relationship between the organization and individual. This system is not designed to foster loyalty or job security. The organization's lack of concern for the development and future of members calls forth a similar short-term commitment from the individual. Promotion from outside signals to members that they, too, must continually weigh the value of external possibilities. Infrequent vertical promotions convey that the organization is primarily interested in gaining maximum utility from each member rather than developing career paths.

Market Culture

Ouchi\(^2\) has used the term market to describe a system of control in which behaviors are constrained by negotiated terms of exchange that are viewed as equitable by the parties involved. This characterization accurately summarizes the culture embedded in the performance-based reward system.

Table 4 lists the major characteristics of the market culture. In this culture, the relationship between individual and organization is contractual.

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Insert Table 4 About Here
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Obligations of each party are specified in advance. The individual is responsible for some minimum level of performance in return for which the organization promises to provide a given level of rewards. Increased levels of performance are exchanged for increased rewards as specified in a negotiated
schedule. Neither party recognizes the right of the other to demand more than was originally specified. The organization does not promise (or imply) security; the individual does not promise (or imply) loyalty. The contract is renewed annually, conditional upon each party adequately performing its obligations. It is utilitarian in that each party uses the other as a means of furthering its own goals. Rather than promoting a feeling of membership in a social system, the market culture encourages a strong sense of independence and individuality in which each participant pursues his or her own interests. Contribution to the social system is a means to an end.

The market culture does not exert a great deal of normative pressure on its members. First, the normative structure is lean. Relatively few behaviors are governed by norms and values. Members do not share a common set of expectations regarding a unique style or philosophy of management. There is, therefore, little pressure from peers to conform to specific behaviors or attitudes. Superiors maintain an arm's length relationship with subordinates. Much of a superiors' interaction with subordinates consists of negotiating performance-reward agreements and/or evaluating requests for resource allocations. A superior's influence on subordinate rewards is limited. This impedes his or her ability to transfer values and norms. Superiors are less effective as role models or mentors and the absence of long-term commitment by both parties weakens the acculturation process.

Relations between a manager's peers are at arm's length as well. There is no obvious economic interdependence, and therefore, no clear rationale for cooperation or identification with peers. Managers do not interact frequently with counterparts in other divisions and do not develop an extensive network of colleagues in the company. Vertical career paths result in little understanding of or identification with other divisions. Managers in a market
culture view themselves as independent entrepreneurs, rather than as members of a cohesive group. There is a sense of individual ownership, with the manager bearing the risks and responsibilities alone.

The market culture is not designed to generate loyalty, cooperation, or a sense of belonging to a social system. Members do not feel constrained by norms, values, or allegiance to an accepted way of doing and thinking. It does, however, generate personal initiative, a strong sense of ownership and responsibility for operations and decisions, and an entrepreneurial approach to management. The individual is free to pursue organizational goals with a minimum of organizational constraint.

CONCLUSIONS

This paper has proposed a framework for developing a typology of organizational cultures on the basis of how reward systems are designed. The underlying premise has been that managerial reward systems accurately express many of the values, norms, and expectations that comprise an organization's culture. Reward systems represent visible manifestations of cultures and can serve as proxies in the identification of corporate cultures. Reward systems define and evaluate performance, and determine and distribute rewards. These are overt manifestations of the values and norms imbedded within the corporation.

It is important to recognize that both reward systems and cultures develop within a complex organizational context of strategy, structure, and process. A given culture and its associated reward system is neither good nor bad, effective nor ineffective, except in terms of its support of the total organizational system of which it is part. Both the hierarchy-based and the performance-based systems are "performance-based" in the sense that each
identifies and rewards a set of more or less complex behaviors. The difference lies in the cultural values that are expressed through the reward system. To the extent these are congruent with strategy, structure, and process, it is likely that reward system design will effectively contribute to organizational goals. Thus, while the hierarchy-based reward system fosters clan values of loyalty, interdependence, and long-term commitment, these may comprise an ineffective culture in an environment that requires innovation, aggressiveness, and a strong desire for individual achievement. Similarly, the entrepreneurialism, autonomy, and short-term focus of the market culture may be dysfunctional in mature, capital-intensive industries where system-wide integration is critical.

Analysis of the differences between these two cultural types suggests there are at least seven basic values that distinguish one culture from another. These are illustrated in Table 5. Three values pertain to the individual's relationship with the organization, two pertain to the individual's relationship with peers, and two pertain to the process by which acculturation is accomplished. By determining where an organization falls on each dimension, it may be possible to develop a broad profile of its culture.

Other dimensions of culture may also be identified. Additional dimensions would provide a richer, more comprehensive framework with which to analyze organizational cultures. The resulting cultural types would be more accurately detailed, the similarities and differences between them more apparent. It should then be possible to identify generic cultural types occupying intermediate positions on the various dimensions, as well as the gross distinctions made here.
References


8Trice and Beyer, op. cit.


12See Sathe, op. cit. and Sethia and Von Glinow, op. cit. for discussions of culture change through management action.

13Kilmann, R. H. Beyond the Quick Fix. San Francisco: Jossey-Bass, 1984; Schein, op. cit.


20Ouchi, op. cit.
Table 1. **Major Characteristics of the Hierarchy-Based Reward System**

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>Performance Definition:</td>
<td>Qualitative criteria, subjective weighting, not defined by strategy, not linked to rewards;</td>
</tr>
<tr>
<td>Evaluation:</td>
<td>Subjective, one or two supervisors, current and future time frame;</td>
</tr>
<tr>
<td>Feedback:</td>
<td>One formal session, high dependency on superiors, frequent interaction;</td>
</tr>
<tr>
<td>Promotion:</td>
<td>From within, developmental, relatively frequent, cross-fertilization;</td>
</tr>
<tr>
<td>Bonus:</td>
<td>Based on corporate performance and position; objective and subjective determination; 20-30% of salary max.</td>
</tr>
<tr>
<td>Salary Increase:</td>
<td>Based on performance and tenure; &quot;objectively&quot; determined; formal salary plan;</td>
</tr>
<tr>
<td>Perquisites:</td>
<td>System enforced; status emphasized;</td>
</tr>
<tr>
<td>Stock Awards:</td>
<td>Subjectively determined.</td>
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</table>
Table 2. Characteristics of a Clan Culture

The relationship between individual and organization:

1. fraternal relationship
2. mutual long-term commitment
3. rests on mutual interests, a shared fate
4. sense of tradition, history, company, style
5. hierarchy structures relationship

The relationship between organization members:

6. pride in membership
7. sense of interdependence, identification with peers
8. extensive collegial network
9. pressure from peers to conform
10. stresses collective rather than individual initiative, ownership

The process of acculturation:

11. long, thorough socialization
12. superiors are mentors, role models, agents of socialization
13. "rich" normative structure governs wide range of behaviors
<table>
<thead>
<tr>
<th><strong>Performance Definition:</strong></th>
<th>Quantitative criteria; objective weighting; defined by strategy; clearly linked to performance;</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Evaluation:</strong></td>
<td>Objective, formulae; current time frame;</td>
</tr>
<tr>
<td><strong>Feedback:</strong></td>
<td>Low dependency on superiors; generally infrequent interaction;</td>
</tr>
<tr>
<td><strong>Promotion:</strong></td>
<td>From within and without; organization need; infrequent; vertical;</td>
</tr>
<tr>
<td><strong>Bonus:</strong></td>
<td>Based on division performance; objectively determined; Max. 40% - No limit;</td>
</tr>
<tr>
<td><strong>Salary Increase:</strong></td>
<td>Based on indirect performance; subjectively determined;</td>
</tr>
<tr>
<td><strong>Perquisites</strong></td>
<td>Non-existent; status de-emphasized;</td>
</tr>
<tr>
<td><strong>Stock Awards:</strong></td>
<td>Subjectively determined.</td>
</tr>
</tbody>
</table>
Table 4. Characteristics of a Market Culture

The relationship between individual and organization:

1. contractual relationship
2. mutual short-term commitment
3. rests on self-interest, utilitarianism
4. sense of individualism, personal style
5. terms of exchange structure relationship

The relationship between organization members:

6. independence from peers
7. limited interaction
8. little pressure from peers to conform
9. stresses individual initiative, ownership

The process of acculturation:

10. little socialization
11. superiors are distant, negotiators, resource allocators
12. "lean" normative structure governing few behaviors
<table>
<thead>
<tr>
<th>Clan Culture Values</th>
<th>Market Culture Values</th>
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</thead>
<tbody>
<tr>
<td>1. <strong>Fraternal</strong> Relationship</td>
<td><strong>Contractual</strong> Relationship</td>
</tr>
<tr>
<td>2. <strong>Relationship Based on</strong> Mutual Interests</td>
<td><strong>Relationship Based on</strong> Self-Interest</td>
</tr>
<tr>
<td>3. <strong>Long-term Commitment</strong></td>
<td><strong>Short-term Commitment</strong></td>
</tr>
<tr>
<td>4. <strong>Interdependence</strong></td>
<td><strong>Independence</strong></td>
</tr>
<tr>
<td>5. <strong>Peer Pressure</strong> Leading to Conformity</td>
<td><strong>Low Level of Peer Pressure</strong></td>
</tr>
<tr>
<td>6. <strong>Rich Normative Structure</strong></td>
<td><strong>Lean Normative Structure</strong></td>
</tr>
<tr>
<td>7. <strong>Thorough Socialization</strong></td>
<td><strong>Little Socialization</strong></td>
</tr>
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