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MATCHING COMPENSATION SYSTEM WITH THE TYPE OF ORGANIZATIONAL CULTURE[1]

Slaganje sistema kompenzacija sa tipom organizacione kulture

Abstract

The paper explores mutual impact and alignment of organizational culture and compensation system in a company. The starting assumption is that both impact the behavior and performance of employees and that their harmonization is very important for successful functioning of an organization. The mechanism by which the culture of an organization impacts the employees and managers' compensation system is described, but also vice versa, i.e. how the compensation system impacts the shaping of organizational culture. Starting from the classification of organization culture types known as Competing Values Framework, the compensation system characteristics that are compatible with certain types of organizational cultures are described in detail. It is shown how the purpose and aim of the compensation system, rewarding criterion, the role of the leader, portion of incentive payments, development and formalization of the performance appraisal system, selection of performance criteria and their nature, time horizon of performance appraisal, and development and importance of benefits differ in different types of organizational cultures.

Key words: *organizational culture, motivation, compensation*

Sažetak

U radu se istražuje međusobni uticaj i slaganje organizacione kulture i sistema kompenzacija u preduzeću. Polazna pretpostavka je da oboje utiču na ponašanje i performanse zaposlenih, te da je njihova usklađenost veoma važna za uspešno funkcionisanje organizacije. Opisan je mehanizam uticaja organizacione kulture na sistem kompenzacija zaposlenih i menadžera u njoj, ali i obratno, kako sistem kompenzacija utiče na oblikovanje organizacione kulture. Polazeći od klasifikacije tipova organizacione kulture poznate kao Model konkurišućih vrednosti, detaljno su opisane karakteristike sistema kompenzacija koje su kompatibilne sa pojedinim tipovima organizacione kulture. Pokazano je kako se svrha i cilj sistema kompenzacija, kriterijum nagrađivanja, uloga lidera, udeo stimulativnih nagrada, razvijenost i formalizovanost sistema ocene učinaka, izbor kriterijuma ocene učinaka i njihova priroda, vremenski horizont ocene učinaka, razvijenost i važnost beneficija razlikuju od jednog do drugog tipa organizacione kulture.

Ključne reči: *organizaciona kultura, motivacija, kompenzacija*

Introduction

There is a mutual and two-way impact between the organizational culture and the system of a company employees' compensation. Not only does the company culture significantly impact the shaping of the system of company employees' compensation, but also the compensation system in the company significantly influences the shaping of its organizational culture. Thus, harmonization of organizational culture and compensation system in a company ensures their synergetic and positive impact on company performance [26], [6]. For company management, it is extremely important to know the nature of the relationship between the two organizational components in order to ensure their positive effect on achieving the company's goals.

Organizational culture and compensation system are actually two efficient mechanisms for initiating, directing and controlling human behaviors in organizations [15]. The only difference is in the nature of the two mechanisms.

Organizational culture directs the organization members' behavior from within or intrinsically, through their internalized assumptions, values, norms, and attitudes. The members of organization behave according to their values and norms that are highly determined by the organizational culture. On the other hand, compensation system directs the organization members' behavior from the outside or extrinsically, by rewarding one and not rewarding or punishing other behaviors. In this case, people repeat the rewarded ones, and avoid all other behaviors. If the organizational culture and compensation system guide the behavior of employees in the same direction, towards the same pattern of behavior, then their impact will be synergetic, so the total strength of directing the organization members' behavior will be greater than the sum of the strengths of their individual impacts. On the other hand, if the organizational culture would direct the organization members' behavior in one direction, and compensation system in another one, these impacts would annul one another and their strength would be significantly smaller. Organizational culture would then, by its values and norms, neutralize the portion of compensation system's impact on organization members' behavior and vice versa. In this case, neither the organizational culture nor the compensation system would have a significant impact on everyday decisions, actions and interactions of the organization members, so their importance would be smaller, and their value in use, as a management tool, would be significantly reduced. Therefore, it is extremely important that the organization's management provide consistency between compensation system and cultural assumptions, values, norms, and attitudes. This may be done by harmonizing the compensation system in the company with the characteristics of its organizational culture type.

In this paper, the relationship between organizational culture and compensation system will be presented and analyzed in detail. First, compensation system and organizational culture will be shortly presented. Then, in order to present the mechanism of the bidirectional impact, i.e. how the compensation system impacts organizational culture and the way in which organizational culture impacts the shaping of compensation system, will be

analyzed. Subsequently, two-way relationship between the organizational culture and compensation system will be operationalized, specifically by identifying the features of compensation system which correspond to different types of organizational cultures.

Compensation system

The employees' compensation (rewarding) system consists of different types of material and nonmaterial rewards that the company uses to compensate the employees for their work and contribution to achieving the company goals [4]. The compensation system is one of the most powerful management tools for motivating, shaping, and correcting the employees' behavior. Basically, people repeat the rewarded behaviors and avoid the ones for which they are being punished. This simple logic enables managers to, by adequately choosing the rewards as well as the behaviors and performances that will be rewarded, precisely shape the employees' activities, so they would be in accordance with the organization's goals. Managers should define what behaviors the employees should demonstrate in their everyday work and what results they should achieve, so that those behaviors and results would in turn be rewarded [8]. Employees will, wishing to obtain rewards, direct their actions towards the rewarded behaviors and results, while they will disregard all other behaviors and results. A lucid thought of an expert in the field of human resources management shows that the things are not quite so simple. He asserts that: "Companies do not get from their employees what they want, but what they are paying for." This judgment not only clearly shows the importance of harmonization of the compensation system with the strategic goals of the organization, but it also shows how difficult it is to achieve that. Namely, it often happens that a company publicly proclaims one form of behavior as desirable and rewards another one in practice [18]. For example, a company proclaims that the basis of its strategy is innovativeness and that this is what it actually requires from its employees while, on the other hand, the review of the company's compensation system actually reveals that the employees are rewarded for everything but innovativeness: for discipline, regular

coming to work, work productivity, materials saving, etc. Why does this happen? In most cases, this happens because managers have a tendency to reward what they can measure, and it is often not what is important and what they want from employees.

Compensation systems, in the broadest sense, include both material and nonmaterial rewards. Material rewards comprise direct and indirect earnings, while nonmaterial rewards consist of various acknowledgements, status, opportunities, and contexts that the company offers to its employees [12]. With respect to material rewards, compensation systems consist of two key components: direct and indirect earnings [4], [25]. Direct earnings comprise all direct payments by the organization to the employees for their contribution to achieving of the organization's goals. Direct earnings include basic salary and incentive payments. Basic salary is fixed and it is paid on the basis of the work performed by the employee at his/her work place. It depends on the complexity and quality of the tasks the employee performs at his/her work place, and not on the results he/she accomplishes. This is why all the employees at the same job position should have the same basic salary. Also, the basic salary of an employee stays the same unless he/she changes the job position and unless the company decides to increase the basic salaries of all employees due to increase of the costs of living. The second part, or form, of direct earnings is incentive payments. It is variable in nature, meaning that it can be changed on monthly, quarterly, or yearly basis. It is individualized, which means that it is not the same for all the employees working at the same job position. Incentive payments differ in the basis for payment. Thus, there are performance based pay, competence or knowledge based pay, as well as incentive payments paid on the basis of the employees' loyalty, i.e. the number of years of working at the company [8]. There are several forms of incentive payments: bonuses, raises, special rewards, stock options, etc. As a rule, bonuses are single instance rewards, mainly performance based. Raises are rewards which increase the basic salary and, once awarded, they are in most cases permanent. They are most often awarded based on loyalty, but may also be awarded on the basis of enhanced competence, knowledge, and

experience of an employee, and even on the basis of the employee's performance as well. Performance based pay (bonuses) can be individual and team, depending on whose performances make the basis for its payment. A special form of group bonus is the bonus awarded to all employees at the end of the year (the so-called thirteenth salary). The portion of incentive payments in total employee's salary can extremely vary and be in the range from 0% to a 100%. It varies from company to company, but it can also differ within a company depending on the type of work performed. Thus, salespersons and managers will always have the highest portion of incentive payments in employee's total earnings in a company. Basically, the greater the degree of the employees' discretion and their impact on the results, the greater the need for the portion of their salary to be incentive, and not fixed, in character.

Indirect earnings or benefits are all those appropriations given by the organization to the employees indirectly, in various forms, as a reward for their employment in the organization [8]. These appropriations are also material in nature and have a financial form, but they are not expressed in terms of money and are given to the employees in other forms. There are several basic groups of benefits. Some benefits might take the form of indirect earnings that provide a certain degree of security to the employees, such as health insurance, retirement and disability income insurance, social insurance, life insurance, paid leave, vacation, etc. Yet, other kinds of benefits include different forms of appropriations to employees related to their work performance, and often also to their job position in the organization: use of company car, lap-top computer, cell phone, free fitness, various clubs' membership, etc. Those benefits are often also the reflection of an employee's status in the organization (status symbols) and are directly dependant on the employee's position on hierarchical ladder.

Performance appraisal system is a particular organizational system so closely connected with compensation system that many authors believe that it is actually a part of the compensation system [14]. It consists of regular, planned and formalized monitoring, measuring and evaluation of individual and group performance of the employees, and giving information regarding the appraisal to the

employees, as well as to other users of the said information in the company [12]. Employees' performance appraisal is used as a tool for motivating, directing and development of employees. Since in most compensation systems in modern companies at least one portion of the employees' earnings depends on their performance, therefore it is necessary to also monitor and measure the said performance in some way. Performance appraisal can, on the one hand, be undeveloped, informal and subjective, and, on the other, it can be developed, formalized and objective [17]. In the first option, leaders (in smaller enterprises) or managers (in larger companies) monitor and evaluate the performance of their subordinates in everyday work. They do this informally, spontaneously, and without a specific procedure and explicitly defined and well-known appraisal criteria. In the context where a developed, formalized and planned performance appraisal system does exist, there are a clear and explicit performance appraisal in the company, evaluators who have a formal obligation to conduct the appraisal are appointed and clearly defined appraisal criteria. Performance appraisal is conducted according to several criteria, usually from three to seven, and the criteria themselves are explicitly formulated and the employees are familiar with them. In order to build a formalized performance appraisal system in a company, the following should be defined: appraisal participants, appraisal dynamics, appraisal methods, criteria and range, appraisal procedure, and the use of the appraisal results [21]. Employees' performance appraisal may be conducted by the organization's leader, higher-level managers, colleagues, subordinates, the employees who evaluate themselves, and external parties (e.g. mystery shoppers) [4].

Performance appraisal criteria in companies can be based on measuring the following: employee's personal traits, his/her behavior, or the results he/she achieves [21]. Managers value the most the performance appraisal based on direct measuring of the results that are expected from an employee at his/her job position. For example, for a production worker, this would be the number of manufactured items, while for a field salesperson it would be the volume of sales. But, sometimes it is not possible and/or it is not enough to measure just the accomplished

result. How can the result of work of an engineer in a company's R&D sector be measured? Or, is it enough to measure just the volume of sales achieved on the market by a salesperson and ignore his/her long-term relationship with the customers? In this case, it is necessary to also measure employee's personal traits, such as extraversion or orderliness, as well as his/her behavior at work such as, for example, initiative and discipline. The traits or behaviors that most directly lead towards the desired result or which the desired result depends on, are selected.

Depending on how performance appraisal is conducted, the criteria are divided into quantitative and qualitative. Quantitative criteria are those based on quantification of the desired result, traits, or behavior. They are in their nature most often objective, because performance appraisal is conducted based on objectively identified quantity of the result. Qualitative and subjective criteria are on the opposite end. These are the criteria where it is not possible to perform quantification, but performance appraisal is conducted based on subjective appraisal of the evaluator. Results are most often measured through quantitative criteria, while traits and behavior are usually appraised through qualitative criteria. Finally, performance appraisal criteria can in their nature be internal or external. Internal criteria are the ones that measure traits, behaviors or results important for efficient and harmonious functioning of a company. These are, for example, cost savings, discipline, and interpersonal relations of the employees. External criteria are the ones that measure traits, behaviors and results important for positioning of the company in its environment. These are sales, market share, new products, customer satisfaction, etc. There are several dimensions of the employees' performance that are usually monitored and evaluated: 1) performance quantity; 2) performance quality; 3) performance time dynamics (meeting the deadlines); 4) performance efficiency (productivity, effectiveness, savings); 5) autonomy, initiative, innovativeness, and readiness to accept changes; 6) interpersonal influence and influence on the climate in organization; 7) work-technological discipline [17]. The time horizon of performance appraisal can be relatively short (monthly), of medium length (quarterly or semi-annual) and relatively long (annual appraisal).
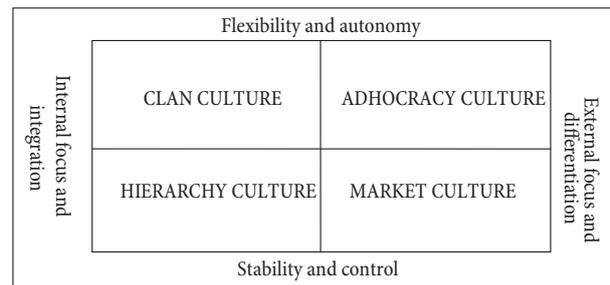
Organizational culture

Organizational culture is "a system of assumptions, values, norms, and attitudes, manifested through symbols which the members of an organization have developed and adopted through mutual experience and which help them determine the meaning of the world around them and the way they behave in it" [16, p. 72]. The importance of organizational culture stems from the fact that it is a kind of a reservoir of collective meanings in an organization which determine every collective and individual action and decision [22], [26]. Organizational culture is the most powerful means for understanding human behavior in organizations [1]. The comprehensiveness of organizational culture impact on people's behavior in organizations emerges from every single action, reaction or decision of each member of organization being, in some degree, conditioned by the meanings imposed on people in the organization by the organizational culture. This is why every decision and behavior of individuals and groups within an organization is a manifestation of organizational culture.

A summary of numerous theoretical and empirical works, the aim of which was to identify the organizational culture content, shows that this content may be structured in two large and heterogeneous groups of components: cognitive and symbolic [24], [2]. The main difference between them is in their nature. Cognitive elements of organizational culture include the organization members' cognitive structures with their elements: assumptions, values, attitudes, and norms. Cognitive structures of the organization members represent a source of mutual meanings that the organization members assign to the world surrounding them, and they are the basis of every organizational culture [24]. Symbols represent the visible part of organizational culture that can be heard, seen or felt, and which manifests, represents and communicates the meanings produced by cognitive elements of the culture [23].

A concrete form of the impact of organizational culture on an organization and management is reflected in the fact that components of an organization and management differ in different types of organizational culture. In other words, different types of culture in organizations imply different models of compensation systems. Therefore, in order to analyze the impact of organizational culture on compensation system, we must describe different types of organizational cultures. In the literature, there are numerous classifications of organizational culture types. Competing Values Framework, the work by *Cameron* and *Quinn* and their associates [7], is probably the best known and most used one. According to this classification, organizational cultures are differentiated on the basis of two fundamental criteria: 1. Flexibility, changes, dynamism *versus* stability, order, predictability; 2. Internal orientation, integration, harmony *versus* external orientation, differentiation, competition. Based on these two dimensions of organizational cultures, a four-field matrix (see Figure 1) may be constructed, in which each of the four fields contains one of the four basic types of cultures: clan culture, hierarchy culture, market culture, and adhocracy culture.

Figure 1: Competing values framework

Source: [7]

The characteristics of individual types of organizational cultures in the Competing Values Framework [7] are as follows:

Clan culture. In this type of organizational culture, the metaphor for organization is an extended family or clan. Organization is a very friendly place for its members and it resembles an extended family. The leader of the organization is considered the head of the family, but also a mentor, who most often practices the authoritative leadership style. People are bound by tradition, dedication and loyalty. The relationship between the organization and an individual is not based on a mere transaction of money for work. Instead, the employee owes loyalty to his/her organization, and the organization in return offers certainty in the form of a long-term employment. The identification of the employees with the organization is strong and the

feeling that their organization is "something special" is highly developed, hence it is no wonder that the employees are proud of their organization. A long-term commitment to human resources development is emphasized, and a great importance is ascribed to cohesion and work ethics. Success is defined based on customer satisfaction and the very employees' satisfaction. Organization is oriented towards support and highly values teamwork, consensus and participation, care for people, and individual growth [10]. The importance of commitment is emphasized, and people are incited to express ideas. In general, the degree of formalization in the organization is low, hence a large number of business processes happen spontaneously and informally. The distribution of power in the organization is hierarchical, with a protruding figure of the leader who concentrates almost all the power in his/her own hands and shares it only with few of his/her closest associates. Managers treat the employees paternalistically, often emotionally, and they base this relationship on frequent communication. Culture does not incite entrepreneurial behavior of the employees.

Hierarchy culture. Organization with this type of culture is highly rational, formalized and structured place. Formal procedures and rules guide everyday work of people. The most important thing is to achieve efficient, harmonious and smooth functioning of organization; hence it is not surprising that the organization is treated like a machine. People are bound by following the same rules and procedures. The emphasis is on long-term efficiency, low costs and harmonious functioning. Stability, predictability and certainty of employment are highly valued. Internal and control orientation in this type of culture form orientation towards rules in which rationality, procedures, hierarchy, authority, and labor division are emphasized [10]. The attitude of the employees towards the company is transactional and rational, and not emotional. People give to the organization only what they are paid for. The degree of formalization is very high, and there are a large number of procedures, rules, directions, and the like. Also, in this type of culture, the organization is depersonalized and based on positions, roles and structures, not on people. This type of culture enables the employees to harmonize their private life and

career. The distribution of power in the organization is uneven and hierarchical, because it is concentrated at the organization's top. However, unlike clan culture, the organization's management is not completely free in their action, because they also, like everyone else in the organization, must follow rules and procedures.

Adhocracy culture. This culture makes an organization a dynamic, creative and entrepreneurial place. People are incited and they are expected to take actions and assume risks. Leaders are innovators and the ones who take risks. People in the organization are connected by the desire for experimenting and trying out new things. In the long-run, the emphasis is on growth through obtaining new resources. Success in the organization is measured by innovations in technology, products or services. Individual initiative and autonomy are encouraged. External orientation and flexibility in this type of culture implicate the orientation towards innovations and include changes, innovations, information seeking, anticipation, openness, and experimenting [10]. The distribution of power in this type of culture is even and egalitarian, since the employees, who are the source of innovations and changes, should have power in order to create and implement them. Accordingly, the leaders in these types of cultures practice a democratic leadership style.

Market culture. With market culture, organization is oriented towards result – the main concern is to get the job done. People are expected to be competitive, and targeted and result oriented behavior is also expected. Leaders encourage hard work, achievement of the results and competitiveness among employees. People are bound by the desire for success. In the long run, the emphasis is on winning the market and achieving measurable results in it. Success is measured by market share and sales, as well as by financial indicators of business operations. Strong competition, both on the market and within the organization, is highly valued. The combination of external focus and control in this type of culture results in orientation of managers and employees towards the following goals: rationality, performance, accomplishments, responsibility, and performance based pay [10]. Market culture is based on a strict, short-term contractual relationship between an individual and the organization. Within this contractual

relationship (which is both formal and psychological), the employee only exchanges his/her immediate output for immediate rewards (most often money). The employee is responsible for achieving a certain level of performance, and the organization is responsible for rewarding this performance level. Performance enhancement by an individual also brings an increase in his/her reward. Instead of feeling of unity, market culture promotes independence, individuality, competition, and taking care of personal interests. The relationship between managers and employees is a strictly "business" one, formal and rational, based on contractual relationships between the organization and an individual.

Mutual influence of organizational culture and compensation system

In this part of the text, it will be shown how organizational culture impacts the shaping of compensation system in a company, but also vice versa: how the compensation system impacts creating and changing the values and norms of organizational culture. First, the mechanism of organizational culture's impact on the compensation system will be described, and afterwards the compensation system's impacts on the organizational culture will be illustrated.

Organizational culture mostly influences the compensation system in three ways: 1) by modeling the desired behaviors that are rewarded; 2) by determining the dimensions and the ways of measurement of the employees' performance; 3) by impacting the type and the manner of distribution of the rewards [15]. Organizational culture influences the compensation system by determining, through its assumptions and values, *what* will be rewarded and *how*. Culture actually defines the model of desirable behavior which is rewarded, and thus sets the fundaments of the compensation system. According to some authors, organizational culture plays this role by influencing the company strategy [5], [20]. Namely, with its values and assumptions, culture defines the framework of corporate strategy, which in turn determines a necessary behavior of the employees in order to implement the strategy. For example, if a bureaucratic culture with values of efficiency,

rationality, stability, introvert perspective, formalization, standardization, and specialization is developed in a company, the company's strategy will probably be led by costs, and the desired behavior, which will be rewarded in the compensation system, will probably imply productivity, effectiveness, precision, meeting the deadlines, persistence, savings, etc. But if an organic culture, emphasizing the value of innovations, initiative, changes, flexibility, and extrovert perspective, is developed in a company, the company strategy will be differentiation with respect to competition, and the desired behavior, which will be rewarded in the compensation system, will imply initiative, innovations, autonomy, achievement, risk taking, readiness to change, etc.

Organizational culture defines not only the target behavior that will be rewarded in the compensation system, but also the way in which this target behavior is identified, monitored and measured. Organizational culture impacts the dimensions and results of the target behavior to be monitored, measured and rewarded. This means that organizational culture impacts not only the compensation system, but also the performance appraisal system which is very closely connected to the compensation system [3]. Some organizational cultures, through their values and norms, favor certain performance dimensions that are more often used and receive greater importance in these cultures. Thus, for example, if organizational culture implies the strategy of leadership with respect to costs and the desired behavior which implies efficiency, productivity and stability, then it is very likely that the criteria of performance quantity, performance efficiency, performance time dynamics, and work-technological disciplines will have a dominating influence in appraisal of individual performance of employees. If organizational culture implies the strategy of differentiation and the desired behavior which implies effectiveness, initiative, flexibility, and innovations, then it is very likely that the criteria of performance quality, initiative and readiness to change, and interpersonal influence will dominate the performance appraisal system.

Through its assumptions and values, organizational culture impacts the selection of the type of rewards in the company: what is the relative importance of nonmaterial

with respect to material rewards; what is the relative importance of indirect with respect to direct salary; what is the relative importance of performance based pay, job position based pay and competence, knowledge and experience based pay in the overall compensation system. Organizational culture also impacts the relative relationship between fixed and variable (incentive) rewards, as well as the type of these variable rewards and their share in the overall compensation system. For example, in the cultures which emphasize the values of stability and avoidance of uncertainty, changes, and risks, the share of variable rewards in overall compensations will be significantly smaller than in cultures which hold the values of flexibility and tolerance to changes, uncertainty, and risk. The cultures of flexibility and changes will practice a wider use of more risky and stimulating rewards carrying a greater risk, such as stock options, phantom stock, and the like.

Compensation system influences organizational culture in two ways: as a symbol and as a behavior determinant. Compensation system (or rewarding system) is a very important symbol of organizational culture. It manifests and reflects the assumptions, values and norms contained in the organizational culture. Symbols have several roles in an organization and by each of these roles the compensation system as a symbol influences organizational culture [23]. The primary function of symbols is to represent the organizational culture's content. By interpreting the symbols, the content of organizational culture can be understood. Thus, the compensation system also shows to employees, more or less explicitly, what are the values and norms of the organizational culture. The second function of symbols is to evoke and initiate internalized assumptions, values and norms, and thus immediately direct the behavior of individuals. Through the meaning they manifest, the symbols suggest how we should react and behave in a given situation. This means that the compensation system, as a cultural symbol, will direct the employees' behavior in the direction harmonized and consistent with cultural assumptions, values, and norms. The third important function of the system of symbols in an organization is socialization. In the process of socialization or "learning the culture", symbols convey

meanings to new members of the culture. In the process of socialization, the new members of the culture must accept the assumptions, values and norms that make its content. In this process, symbols play an important role, because they are the only channel through which new members of the culture can comprehend cultural assumptions, values, and norms that are to be adopted. One of the sources of learning cultural assumptions, values and norms is also the compensation system. A new employee in a company very quickly and clearly learns to "read" from the compensation system what is valued in the company and what not, what is important and what not, which behavior is acceptable and which not, and which behavior is rewarded and which not. Finally, the role of symbols in an organization is also the change of culture. Manipulation of symbols is a completely legitimate way of changing organizational culture's values and norms. If the organization's leader wishes to change the culture, then he/she, consciously or unconsciously, immediately reaches for changing the symbols. The old symbols, carrying the meanings to be abandoned, are then cancelled and new ones, communicating new meanings to be accepted, are introduced. Thus, if we want to change the culture of a company, an entire array of symbols needs to be changed, and among them is, certainly, the compensation system.

Besides by means of symbols, the compensation system also influences the organizational culture by means of shaping and directing the behavior of the members of organization [12]. Through the rewards it awards or denies for certain behavior and results (or lack of them), the compensation system directly impacts the organization members' behavior. Employees very quickly learn to repeat the behavior bringing the rewards according to the compensation system in effect and to avoid the behavior that brings punishment or does not bring rewards. The well-established behavior pattern of the members of the organization, emerging from the functioning of the compensation system, can be consistent or inconsistent with the cultural values of the organization and the behavior that these values imply. If the employees' behavior induced by the compensation system is consistent with the cultural values, then the compensation system will, not only as a cultural symbol, but also as an organizational system

in itself, impact the strengthening and stabilizing of the organizational culture. Then, it will, through symbolic but real directing of the employees' behavior by means of rewards or punishments, strengthen the cultural values. But, if the behavior towards which the compensation system directs the employees is inconsistent with cultural values, then the compensation system will, through this behavior, weaken, degrade and, eventually, change the organizational culture. Inconsistency between compensation system and cultural values can emerge according to some plan, as in the case when the leader uses the compensation system as one of the mechanisms for changing the culture, but it can also emerge spontaneously, when for some reason the compensation system is changed in such a way that it starts to direct the employees' behavior in the direction opposite than the one in which cultural values direct them. Then, the compensation system will direct the employees to behave in the way they do not find legitimate, because it is inconsistent with the existing cultural values and norms. In this situation, the compensation system forces the employees to behave and work in the way they find wrong, harmful, immoral, or unacceptable. In this manner, the employees enter the state of cognitive dissonance [11]. It is the state in which people's behavior and actions diverge from the values, norms, and attitudes they believe in. This is the reason why the state of cognitive dissonance is very unpleasant and frustrating, and therefore people strive to escape it as soon as possible. They can do this in two ways. The first and the easier one is to return to the behavior consistent with their values. In this case, the culture will be strengthened and the compensation system will have no real impact on the employees, so it will probably be changed. But, if the compensation system survives and if it continues, by means of rewards and punishments, to direct the behavior of the employees in the direction opposite to the one in which the culture of organization is directing them, then people will resort to a different way of escaping the cognitive dissonance. They will harmonize their behavior with their values by changing them. This will be the beginning of the process of organizational culture's change, because old cultural values and norms will be abandoned, and the new ones will appear instead, harmonized with the behavior implied

by the compensation system. This is, actually, how change of organizational culture happens with the help of the compensation system.

Compensation system features across organizational culture types

Based on the described mechanism of mutual influence of organizational culture and compensation system, it can be concluded that their synchronization provides harmony, balance, and consistency in company management, and thereby better performance as well. Concrete empiric evidence regarding mutual synchronization of organizational culture and compensation system was provided by *Kerr* and *Slocum* [19] in their research which included 14 companies in the USA. They differentiated two compensation systems in the observed companies: hierarchical system and performance based system. The two compensation systems in the examined companies were strongly correlated with two types of organizational culture: clan culture and market culture. We will operationalize the relationships between organizational culture and compensation system, building exactly on the arguments provided by *Kerr* and *Slocum*. The aim is to provide the company management with a tool that would enable them to achieve harmony between organizational culture and compensation system, and thereby provide their synergetic positive effect on the company performance. Operationalization of the relationship between organizational culture and compensation system is possible through determining the compensation system's features that match specific types of organizational cultures. When this is established, the company management must do the following: 1) Identify the organizational culture type in their company; 2) Identify the features of the compensation system in their company; 3) Identify the gap or differences between the organizational culture and the compensation system; 4) Take actions to change and adapt the compensation system to comply with the organizational culture, or vice versa. In the remaining part of the text, basic assumptions will be established regarding the compensation system's features that match specific types of organizational cultures. Thereby, we will start from *Cameron* and *Quinn's*

[7] classification of organizational culture types, already described in the previous text.

In different organizational cultures, compensation systems have different purpose. Namely, compensation systems, just like other management tools, should help the management solve the main problems that the organization faces. In different cultures, the perception of what are the main organizational problems is very different, and this changes the purpose of the compensation system. Thus, in clan culture the compensation system should help integration into the collective and creation of family-like environment. The compensation system should enable establishing of close relationships between employees and creating the feeling of belonging and community. In market culture, the main problem is how to achieve maximum performance, so the purpose of the compensation system is to incite the employees to put the effort into achieving the results. The aim of compensation system is to stimulate the employees to achieve the best possible performance and also to differentiate, in this process, the employees according to their abilities and desire to achieve performance. In adhocracy culture, the main problem of organization is to achieve innovativeness, so the purpose of the compensation system is to build a context in which acceptance of changes, creativity, and innovativeness will be stimulated. Finally, in hierarchy culture the main problem of organization is how to control the behavior of the employees, so the compensation system serves precisely this particular purpose. It should provide that the individual and group actions, behaviors and decisions stay within the prescribed procedures, structures and systems.

The basis or criterion of awarding rewards in a compensation system emerges from its purpose. The compensation system in clan culture is built on loyalty which assumes the highest position in the pedestal of values. Therefore, loyalty and dedication to the organization as well as contribution to harmony and integration of the collective are required from the employees and rewarded. In market culture, performance on the market takes the central position, therefore the compensation system is based precisely on it. This is why the rewarding criterion is the result (both individual and organizational) accomplished on the market, and it is most often expressed in financial

form. The compensation system in adhocracy culture is based on creativity, innovativeness and changes; hence all this is, along with abilities and readiness of an employee to learn and grow, the basic criterion for rewarding in this type of culture. In hierarchy culture, the starting point of the compensation system is tasks and structure, which should enable control and predictability of the employees' behavior. The rewarding criterion in this culture is efficiency in performing the tasks in the structure in the prescribed way, which is most often measured through productivity, savings, and discipline.

The role of the organization's leader in creating and exploiting the compensation system is also different across cultures in organizations. Through their values and norms, different cultures shape different roles of leaders in organizations, and therefore their roles in the implementation of compensation systems are different. In clan culture, the leader is, generally speaking, the "*pater familias*"; hence it is also his role in the realization of the compensation system. The leader has a great power in the organization and, in the compensation system, he/she gives rewards or punishments based on his/her own impression about the contribution of individuals and groups in the organization rather than based on systematic measurements of their performance. In the rewarding process, expression of emotions is often exhibited both by the leader and the employees. Rewards are often more important as the symbol of closeness between the leader and the employee, than as material gain. In market culture, the role of the leader is to incite individual and group efforts toward accomplishing results. The leader acts as a distant evaluator, someone who appraises, rewards and punishes performance, and also differentiates those who are and who are not able to deliver results. The leader does not act emotionally, but technically in the process. In adhocracy culture, the role of the leader is to generate, stimulate, direct, and channel the creative energy of the employees in order for them to create innovations and initiate changes. This is why the leader acts as the employees' mentor and also very often sets an example for others, serving as a sort of a role model. It is clear that the rewarding process is highly emotional, because the leader must also use emotions in order to incite initiative and creativity, development and

learning in the employees. In hierarchy culture, the leader has the role of administrating the organization. In this culture, organization is viewed as a machine, so the leader must through rewards and punishments, among other things, also provide its harmonious functioning. Unlike clan culture, the leader must, in the rewarding process, act within the limits of strict rules of the compensation system. The process is highly formalized, and therefore the very role of the leader does not imply emotions.

The portion of incentive payments in total earnings is important feature of compensation system. Basically, this portion can range from 0% to a 100%, but it most often ranges between 20% and 40%. The portion of incentive payments differs according to categories of the employees. As a rule, it is the largest for managers and the employees who have high autonomy in their work, such as sales representatives. The portion of incentive payments depends in part on cultural values, that is, on the organizational culture type. Generally speaking, incentive payments will be more important in those cultures that stimulate employees' autonomy, as well as changes, innovations and risk, than in cultures that are focused on stability and in which the employees have no autonomy. Adhocracy culture imposes innovation on the managers and employees as a purpose of organization's existence. Therefore, this culture stimulates the employees to make changes, take risks, create innovations, and tolerate independence. Adhocracy culture also gives the highest degree of autonomy and discretion in behavior to the employee. Therefore, it is only logical that, out of all the types of cultures, the portion of incentive payments in total earnings will be proportionally largest in adhocracy culture. In contrast, the culture that emphasizes values of stability, controllability, hierarchy, and efficiency will certainly imply a small portion of incentive payments in total earnings. This is why it can be expected that this portion will be smallest in hierarchy culture with respect to all other types of organizational culture. This expectation is additionally supported by the fact that the employees in this type of culture usually have the lowest autonomy, and the employees' behavior is completely regulated by structures and systems. Market culture stimulates employees and managers to achieve results

on the market, which often implies taking autonomous actions, accepting risks and accepting, or even creating, changes. However, since in this culture innovations and changes are not a goal in themselves, but a means to achieve financial results, and since the degree of employees' autonomy is somewhat lower, therefore the inclination to changes and risk in this culture is slightly lower than the one existing in adhocracy culture. Consequently, the portion of incentive payments in total earnings will be high, but it will be somewhat lower than it is the case with adhocracy culture. Clan culture implies the central role of the organization's leader, who also undertakes all the changes, takes risks and creates innovations. The rest of the employees are expected to just perform entrepreneurial actions that the leader initiates. Therefore, it is not necessary that the employees take autonomous activities for which they would be rewarded by incentive payments. Unlike hierarchy culture in which employees' behavior is regulated by systems and structures, in clan culture this regulatory mechanism is slightly "looser" because the leader cannot control the behavior of all the employees to such an extent. This is why it sometimes suits the leader that the employees show initiative and autonomy. For all these reasons, in clan culture the portion of incentive payments in total earnings is very low, but not as low as is the case with hierarchy culture.

Cultural values and norms influence not only earnings, but also the performance appraisal system which is, as it was already indicated, a part of the compensation system in broader sense. Several characteristics of employees' performance appraisal system depend on cultural values and norms, that is, they depend on the type of organizational culture [9], [13].

The degree of development and formalization of performance appraisal system depends on the type of organizational culture. In clan culture, organization is observed as an extended family or clan in which relationships are not formalized. Therefore, the formalization of structure, and even of all the systems in the organization, is low. It is the same case with performance appraisal system. Since in this type of culture everything is informal, the way in which evaluators appraise the performance will also be informal. Performance appraisal of all employees is done,

as already indicated, by the leader of the organization based on his/her personal "impression". There are no explicitly and in advance formulated criteria for conducting the appraisal. The criteria are mostly in the mind of the leader and he/she does not usually publicly announce them. The process of performance appraisal is not systematic, since marks are given on case-by-case basis, when the leader observes a very bad or a very good result of the employees. The leader often does not give feedback on performance appraisal to the employee, but keeps this information to himself/herself and, based on it, makes the decisions about rewards or punishments as well as the employee's promotion. Hierarchy culture is at the opposite extreme. This culture, in which organization is viewed as a machine, implies high formalization of the processes, as well as development of structure and systems in the organization. This is the reason why in hierarchy culture performance appraisal system will be highly developed and formalized. Performance appraisal criteria are numerous, predefined and announced. The evaluators are predefined, as well as how they conduct the appraisal. The appraisal procedure is formalized, and tools (software, documents) that help the process are developed. Appraisal is systematic, conducted on a regular basis and according to a predefined procedure. Feedback about performance appraisal is given to both the employees and the human resources department. Performance appraisal is used for both rewarding of the employees and their promotion and planning of their training. In market and adhocracy cultures, it can be expected that performance appraisal system is less developed and formalized than in hierarchy culture, and more than in clan culture. It can also be expected that performance appraisal system in market culture is slightly more developed and formalized than in adhocracy culture. The reason for this is that market culture is focused on achieving results on the market. In order to determine this result, it is necessary to measure the performance of entire organization, but also of the groups and individuals in it. In addition, in this culture, quantitative results expressed financially are appreciated the most and they are precisely enclosed in the performance appraisal system. In adhocracy culture, changes, innovations and creativity are the most important, and they are much

harder to "capture" by the performance appraisal system than financial results. Therefore, performance appraisal system is developed in adhocracy culture, but it cannot be as important, developed and formalized as it is in market culture. A good deal of criteria important for performance appraisal in this type of culture is qualitative in character, and whether the criteria are met or not can be verified only by means of subjective methods.

The nature of performance appraisal criteria is different in different organizational cultures. It depends on what is measured by the performance appraisal, as well as on how the appraisal is conducted. The answer to the question what is measured is given in the basis for the criteria. According to the described performance appraisal criteria, four types of organizational culture can be differentiated. In clan culture, qualitative, subjective and internally oriented criteria are favored. Since the focus in this culture is on internal harmony, harmonious interpersonal relations and people development, and since the leader in this culture has a role of the "father of the family", therefore he/she will be the one who conducts performance appraisal and will do so based on subjective impression about the contribution of individuals and groups to the development and maintaining of harmonious relationships in the organization and to the development of the people within it. While appraising the employees, the leader is oriented towards their traits and behaviors, rather than towards their results. In hierarchy culture organization is viewed as a machine; hence performance of individuals and groups is measured by their contribution to the functioning of the "machine" through performing of their tasks in accordance to the defined structures, systems and procedures. This contribution is quantified and objectively measured whenever it is possible. This is why the employees' results, and not their traits and behaviors are the focus of performance appraisal. In this matter, the orientation in performance appraisal is internal and directed towards enabling harmonious functioning of the organization. Market culture favors performance appraisal criteria with external orientation. Since organization is in this culture completely focused on the result achieved on the market, it is therefore clear that the criteria for employees' appraisal will be based

on their ability to contribute to achieving results on the market, such as sales revenue, market share, margin and stock turnover. The result of individuals, groups, as well as the entire organization is, whenever possible, measured objectively, quantitatively and, preferably, in financial form. Just like in hierarchy culture, in this culture as well the employees' results and not their traits and behaviors are the basis for performance appraisal system. Finally, performance appraisal criteria that suit adhocracy culture will be qualitative and subjective, and externally oriented. Adhocracy culture is focused on innovations, and the employees are appraised according to their ability to, through their creativeness, contribute to innovations. In most cases, it is not possible to quantify and objectively measure this contribution of the employees, and therefore qualitative and subjective performance appraisal criteria are used. Since the success of the organization is measured by its leading position on the market, the performance appraisal criteria will have external orientation. For similar reasons, employees' appraisal is based more on their traits and behaviors, than on their results.

Aside from the nature of criteria, organizational culture also determines the performance dimensions that will be measured, monitored and evaluated. According to the described values and norms of the four types of organizational cultures, we can assume that certain performance dimension will be favored in each of the culture types. Thus, the most important performance dimension to be appraised in clan culture will be interpersonal influence on the collective work environment. Market culture will, with its values and norms, favor performance quantity, while hierarchy culture will imply the use of performance efficiency as the dimension of the measured result. Finally, in adhocracy culture it is only natural that autonomy, initiative, innovativeness, development and learning, but also performance quality emerge as the dominant performance dimension.

It can be assumed for a reason that organizational culture impacts both the performance appraisal time horizon and employees' rewarding. The time horizon refers to time interval in which performance is appraised and rewards are awarded to the employees based on their performance. It can be short, ranging from one to three months (quarter), medium-length, ranging from three to six months, and long, ranging from six months to one year and even longer, up to several years. Organizational culture with its assumptions, values and norms significantly impacts the time horizon of the entire business operations, and therefore it also impacts the time horizon of performance appraisal and rewarding. Based on the knowledge about the values and norms contained in specific types of organizational cultures, it can be assumed that market culture will have the shortest performance appraisal and rewarding time horizon. It is followed by hierarchy culture and clan culture, while adhocracy culture will have the longest time horizon. Market culture is oriented towards achieving results on the market, in particular quantitative results, expressed financially and objectively measurable. Since these results can be relatively easily determined on the market in a month time or in even shorter period, hence the performance appraisal time horizon of every person in the company will be very short. Not all employees have performance that is directly measured on the market, but the principle of short-term determining of the achieved results is easily transferred from the level of the entire organization to organizational units and all employees. Hierarchy culture treats organization as a tool, a machine to serve the interests of the stakeholders. This machine must be efficient in order to justify its existence, and this effectiveness is evaluated through achieving the specified performance in a short period of time. Therefore, the time period of evaluating the successfulness of the entire organization, and also its units and even employees, is also short. In contrast, in adhocracy culture, achieving of innovations and changes is most important. This, however, usually requires a lot of time. This is why in evaluating the results of the entire organization, and even of its employees, a relatively long time horizon is used, usually one year or longer. Clan culture is focused on a long-term development and learning of the employees, as well as on integration of the collective. This in itself implies a long deadline for evaluating the successfulness of the organization as a whole, and thus also the results of its units and employees.

Organizational culture type also impacts the importance and the degree of development of the benefits

system. Benefits have a twofold role in an organization. They are, above all, the system of direct appropriations of the company to its employees, who, through benefits, acquire additional material gain over their direct earnings. On the other hand, benefits are important status symbols. Benefits systems are most often structured in such a way that people at higher positions have benefits that are greater and of finer quality than the ones of those at lower positions. Thus, enjoying certain benefits, such as the use of company car, tells more about the status that an individual has in the organization. For this particular reason, the developed and hierarchically structured benefits systems are compatible with organizational cultures which contain values of uneven distribution of power in an organization. Such are clan and hierarchy organizational cultures. In these cultures, it is important that the power of individuals and groups are differentiated and clearly displayed, so benefits are used as an instrument for achieving this goal. The fact that power is differentiated on different bases, based on hierarchical level in hierarchy culture and based on closeness to the leader in clan culture, is in this case of little importance. In clan culture there is one additional reason for importance of benefits system. This culture is

based on the idea of the development of the collective and care for the employees. Benefits are precisely the way for a company to show concern about its employees' well-being. On the other hand, market and adhocracy organizational cultures contain the values of even distribution of power in an organization. Since organization strives to level, and not to differentiate the power, thus benefits become less important as status symbols and thereby also less developed. They do not fade completely because they still have their basic function of indirect earnings, but they are certainly less differentiated, less developed and less important in the organization.

A summary of the characteristics of compensation systems according to organizational culture types can be viewed in Table 1.

Conclusion

Organizational culture and compensation system are in the relationship of mutual dependence and mutual impact. Since both organizational culture and employees' compensation system influence, in different ways, the behavior and performance of employees and managers,

Table 1: Characteristics of compensation systems according to organizational culture types

	Clan culture	Market culture	Adhocracy culture	Hierarchy culture
Purpose and aim of the compensation system	Integration of organizational members	Stimulation of performance	Change and innovation generation	Control of behavior
Basis (criterion) of rewarding	Loyalty (years of service), commitment, contribution to integration	Performance on the market (sale, profit)	Innovativeness, initiative, learning and development	Efficiency in performing of tasks
Role of managers in appraising and rewarding	"Father"	Distant evaluator	Role model, mentor	Administrator
Portion of incentive payments in total earnings	Low	Very high	High	Very low
Development and formalization of PA system	Informal and undeveloped	Developed and formalized	Averagely developed and formalized	Highly developed and formalized
The nature of performance appraisal criteria	Qualitative, subjective, internal, based on personal traits and behavior	Quantitative, objective, external, based on result	Qualitative, subjective, external, based on personal traits and behavior	Quantitative, objective, internal, based on result
Performance appraisal criterion	Interpersonal influence	Performance quantity	Innovativeness, performance quality	Performance efficiency, discipline
Time horizon of appraisal and rewarding	Long	Short	Long	Short
Benefits	Developed, important	Undeveloped, unimportant	Undeveloped, unimportant	Developed, important

therefore it is extremely important to harmonize their influences. If cultural values and norms would guide the behavior of employees and managers in one direction while the rewards and punishments in the compensation system guide it in a different direction, this would weaken the influence of both the culture and the compensation system, decrease the efficiency of management and, eventually, endanger the performance of organization. Therefore, it is important for the company's management to know the mechanism and direction of mutual impact of organizational culture and compensation system.

Organizational culture determines the compensation system by shaping, through its values and norms, the target behavior and results to be achieved by the individuals and groups in a company and also by the company as a whole. Organizational culture also determines the criteria for appraisal of work and results of everybody in the organization, as well as the type of rewards to be distributed in the organization. On the other hand, compensation system influences shaping of organizational culture by imposing on the employees certain behaviors which imply very particular values and norms. Compensation system also influences the culture as a symbol of cultural values and norms, since it clearly shows to the employees what is valued and rewarded in the organization.

Matching compensation system with organizational culture increases the efficiency of managing the company. Therefore, it is useful for company management to know the features of compensation systems that match different types of organizational cultures. The purpose and aim of compensation system, the basis or criteria for rewarding, the role of the leader in compensation system, as well as the portion of incentive payments are important characteristics of compensation system that are different in different types of organizational cultures. Also, development and formalization of performance appraisal system, selection of performance appraisal criteria as well as their nature, and also performance appraisal time horizon should be harmonized with values and norms of organizational culture. Finally, development and importance of benefits are different in different types of organizational cultures. Knowing these facts, company management should provide the harmony between compensation system and

organizational culture that exist in the company. This can be done by changing the compensation system or the organizational culture, or both.

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