Provided for non-commercial research and education use. Not for reproduction, distribution or commercial use.



This article appeared in a journal published by Elsevier. The attached copy is furnished to the author for internal non-commercial research and education use, including for instruction at the authors institution and sharing with colleagues.

Other uses, including reproduction and distribution, or selling or licensing copies, or posting to personal, institutional or third party websites are prohibited.

In most cases authors are permitted to post their version of the article (e.g. in Word or Tex form) to their personal website or institutional repository. Authors requiring further information regarding Elsevier's archiving and manuscript policies are encouraged to visit:

http://www.elsevier.com/copyright



Available online at www.sciencedirect.com



Accounting, Organizations and Society

Accounting, Organizations and Society 34 (2009) 58-84

www.elsevier.com/locate/aos

National differences in incentive compensation practices: The differing roles of financial performance measurement in the United States and the Netherlands $\stackrel{\text{\tiny{themselven}}}{\to}$

E. Pieter Jansen^a, Kenneth A. Merchant^b, Wim A. Van der Stede^{c,*}

^a Faculty of Economics and Business, University of Groningen, Groningen 9700 AB, The Netherlands ^b Leventhal School of Accounting, University of Southern California, Los Angeles, CA 90089, USA ^c Department of Accounting, London School of Economics, London WC2A 2AE, UK

Abstract

This paper describes the findings of a study aimed at providing an international replication of a US-based study by Gibbs et al. [Gibbs, M., Merchant, K., Van der Stede, W., & Vargus, M. (2004). Determinants and effects of subjectivity in incentives. The Accounting Review, 79(2), 409-436; Gibbs, M., Merchant, K., Van der Stede, W., & Vargus, M. (2006). The structure of incentive contracts: Evidence from auto dealerships. Working Paper, University of Chicago, University of Southern California, London School of Economics and University of Texas-Dallas] focused on the incentive compensation practices of firms in the automobile retailing industry. The purpose was to determine the extent to which these practices and their effects were similar across countries. Theory provides conflicting predictions as to whether international practices should reflect a situational "best fit" or "global best practices." We collected a dataset comparable to that of Gibbs et al. from Dutch automobile retailers. The findings reveal dramatic differences in practices across the two countries. As compared to the US firms, the Dutch firms are much less likely to provide their managers with incentive compensation in any form. Where Dutch firms do offer incentive compensation, the payouts are smaller and their bonus awards are less likely to be based on profit measures of performance. But where the Dutch firms use incentive compensation, their performance/ reward functions are more complex. Moreover, unlike in the US firms, in the Dutch firms the effects of the use of incentive compensation on net profit and pay satisfaction are negative. © 2008 Elsevier Ltd. All rights reserved.

Introduction

Coincident with the increasing globalization of business, many studies have focused on issues related to questions regarding whether management practices are affected by cross-national differences, and if so, how (e.g., Adler, 1987; Birnberg & Snodgrass, 1988; Bruce, Buck, & Main, 2005; Budhwar & Sparrow, 2002; Clark, Gospel, & Montgomery, 1999; Harrison, 1993; Kachelmeier & Shehata,

 $^{^{\}Rightarrow}$ This paper has benefited from comments made by participants of the Globalizing, Managing and Management Accounting Conference sponsored by the University of Alberta, the Finance and Control Program sponsored by the University of Maastricht and research workshops at Cardiff University, Manchester Business School and University of Tilburg and, particularly, Jan Bouwens and Bob Scapens.

Corresponding author. Tel.: +44 (0) 20 7955 6695.

E-mail address: w.van-der-stede@lse.ac.uk (W.A. Van der Stede).

^{0361-3682/\$ -} see front matter © 2008 Elsevier Ltd. All rights reserved. doi:10.1016/j.aos.2008.05.002

1997; Kanter & Corn, 1994; Merchant, Chow, & Wu, 1995; Rosenzweig, 1994). Several authors have suggested that some types of national differences are, indeed, important in shaping various management practices (e.g., Budhwar & Sparrow, 2002; Granovetter, 1985; Newman & Nollen, 1996). The general belief in this line of thinking, as Budhwar and Sparrow (2002: 382) phrase it, is that "something that 'works' in one country will not necessarily work in another." If this line of thinking is correct, then managers should adapt their practices to factors that vary across national environments. On the other hand, others have suggested that some "global best practices" exist, and cross-national differences should not be considered in at least these management areas (e.g., Alvesson & Willmott, 1996; Carr & Pudelko, 2006).

These conflicting prescriptions and predictions suggest that the issue as to what practices work best in any particular setting is, to a large extent, an empirical question. Much is yet to be learned about whether specific management practices do and should reflect "best fits" to national (and local) settings or "universal best practices" (Long & Shields, 2005). However, research progress in this area has been slow in large part because of the inherent difficulty in conducting cross-national studies (Budhwar & Sparrow, 2002; Chiang & Birtch, 2007).

This study addresses one piece of this void. It focuses on similarities and differences in uses of one particular management practice-incentive compensation systems-in firms in two countries: the US and the Netherlands. Incentive compensation systems are unquestionably important in many organizations because they presumably provide the primary means by which organizations elicit and reinforce desired behaviors. For the international comparisons, we chose to replicate in the Netherlands a study already conducted in the US. We chose the Netherlands as a representative European country example. Calori and de Woot (1994) argue that the smaller countries of Europe (i.e., the Netherlands, Belgium, Luxembourg) might provide an ideal way to observe "European" human resource management practices because these countries opened early to outside influences, and their companies have assimilated a blend of practices from British, Germanic, Latin and Scandinavian sources.

We conducted a Dutch replication of a study (Gibbs, Merchant, Van der Stede, & Vargus, 2004, 2006) that is notable because of the rich descriptive detail it provides regarding the complex *systems* of incentives used in US firms in one industry-automobile retailing. The Gibbs et al. database allows for explorations beyond the isolated facts provided in public disclosures, such as the mere existence of an incentive compensation plan or the size of the awards given, and into the detail of how the complex systems of incentives are designed. Gibbs, Merchant, Van der Stede, and Vargus (2006) describe how these firms (dealerships) offer general and department managers up to three contracts linking bonus payouts by formula to various quantitative performance measures. The largest ("primary") contract tends to be defined in terms of the "best" performance measure among those available. In addition, second, and sometimes third, formula bonuses plus one or more forms of discretionary bonuses are often used, in part, to adjust for weaknesses in the performance measure on which the primary contract is based. These additional contracts rebalance multitask incentives and reduce the managers' incentives to manipulate performance as defined in the primary bonus formula.

The automobile retailing industry provides for relatively clean and powerful tests for cross-national effects. The one-industry setting allows to control for many variables that are not descriptive of cross-national differences but that could affect the design of incentive compensation systems. The dealerships in the two countries are quite similar. They sell essentially the same products. With rare exceptions, all the firms are privately owned. Further, virtually all firms in the automobile retail industry have local owners, they employ local nationals, and virtually all of their sales are domestic. Thus, they are less subject to the possible homogenizing effects of operating multinationally. If crossnational differences are present, this relatively "pure" test is more likely to reveal them.

Because of the conflicting predictions and dearth of empirical evidence in this area of study, we designed our study primarily to be descriptive, to contribute stylized facts to inform and stimulate future research. Our research was guided by the following questions: Are the US and Dutch dealerships' incentive compensation practices largely the same? If not, how and why do they differ? Do incentives have the same effects in the two countries?

Our findings show that national setting is, indeed, important. We found dramatic differences between the practices of the firms located in the two different countries. As compared to the US firms, the Dutch firms are much less likely to provide their managers with incentive compensation in any form. Where the Dutch firms do offer incentive compensation, their incentive payouts are smaller and their bonus awards are less likely to be based on profit measures of performance. However, the Dutch firms that use incentive compensation tend to use more complex performance/reward functions (i.e., less likely to be in a simple linear form). Unlike in the US firms, in the Dutch firms the effects of the use of incentive compensation—on entity net profit and individuals' satisfaction with pay—are negative, suggesting that this particular practice does not fit well in the Dutch national setting.

To develop deeper insights into the reasons why these systems are designed as they are, we followed up with field studies of one seemingly typical US firm and two Dutch firms, one that was "typically Dutch" in that it made essentially no use of incentive compensation, and another that was an "outlier" in the Dutch context because it provided incentive compensation. We found supporting evidence. In the US firm, virtually everyone in the organization seemed to believe strongly in the power of incentives to influence employees' behaviors. In both Dutch firms, in contrast, we found strong, widely-held beliefs that various non-monetary incentives were potentially more effective than incentive compensation in motivating employees.

The paper proceeds as follows. Section 'Literature' reviews the theoretical literature and relevant evidence. Section 'Methods' describes the research method, the empirical design, sample characteristics, and measures. Section 'Univariate analyses' presents the descriptive results and the univariate tests of the key differences between the US and Dutch incentive compensation systems. Section 'Multivariate analyses' presents additional multivariate results. Section 'Field research follow-up' presents the findings of the field research follow-ups. Section 'Discussion and conclusions' concludes and offers directions for future research.

Literature

Surveys and studies of US practice (e.g., Merchant, 1989; Towers Perrin, 2006) consistently show that nearly all US firms of at least minimal size rely on incentive compensation. The US automobile retail industry is no exception. In a study of firms in the US automobile retail industry, Gibbs et al. (2004, 2006) found that the vast majority (in excess of 70%) of general and department managers in these firms were eligible to earn incentive compensation. The incentives paid to these firms' general and department managers were quite lucrative, generally averaging over 100% of base salary. The incentive packages offered to many of these managers consisted of systems of interrelated rewards. Most of the firms seemed to base their largest incentives on a performance measure deemed to be "best" (in terms of risk, distortion, and lack of potential for manipulation). Some of the firms also used smaller second, and sometimes third, formula bonuses to rebalance multitask incentives when the "best" available measure, often net or gross profit, distorts the managers' incentives. As compared to the largest contract, the supplemental contracts were more likely to be defined with performance thresholds (floors) and caps. Some managers were also given implicit promises of rewards in the form of potentials for discretionary bonuses, promotions, salary increases and/or "spiffs" (e.g., short-term sales contests providing special awards such as vacation trips).

Should we expect the same patterns of incentive compensation practices in Dutch automobile retailers as in US automobile retailers? No cross-national study has measured or even discussed the characteristics of incentive compensation systems at the level of detail considered by Gibbs et al.; no crossnational study has focused specifically on the automobile retail industry; and no cross-national study has focused explicitly on human resource management differences between US and Dutch firms. Thus, it is impossible to make definitive predictions regarding the basic question as to whether we should expect to find significant differences in incentive compensation practices between US and Dutch firms.

However, in the sections below we review relevant theory and evidence from related prior research. This review shows that plausible theoretical arguments can be made to support expectations in either direction. The existing empirical evidence, all of which is indirect, is mixed.

Arguments and evidence suggesting an international divergence of incentive practices

There are many differences between the US and the Netherlands that might cause cross-national

differences in the use of incentive compensation and other management practices. Researchers have developed many frameworks to categorize crossnational differences (e.g., Murray, Jain, & Adams, 1976; Schuler, Dowling, & DeCeri, 1993; Welch, 1994; Budhwar & Sparrow, 2002). We organize our discussion along two major categories of differences between the US and the Netherlandscultural and institutional-that might cause differences in uses of incentive practices (Chow, 2004; Sorge, 2004). Cultural factors include sets of norms, values and beliefs that are programmed into the minds, and therefore, are deeply engrained in individuals in a particular group. Institutional factors provide external forces that either coerce or motivate certain types of behaviors (Gooderham, Nordhaug, & Ringdal, 1999). In certain areas of study, among the potentially relevant institutional factors are the type of market structure (e.g., free vs. government-controlled), systems of laws, regulations and institutions, education and training levels and norms, labor rights and relations, and business conditions (e.g., labor and capital mobility). The cultural and institutional categories of factors are not independent as, for example, culture can shape certain national institutions. But they are differentiable.

Cultural factors

Some researchers have argued and shown that some cultural differences across nations have significant effects on some specific human resource management practices. Because they involve human feelings and social interactions, incentives are among the management practices that might be most strongly affected by cross-national cultural differences (Carr & Pudelko, 2006; Rowley, 1998).

Much debate has ensued regarding how best to identify and measure dimensions of culture that can be used to distinguish one nation from another. We do not wish to contribute to this debate. We just want to explain how some aspects of national culture identified by others, particularly those that vary between the US and the Netherlands, might contribute to differences in the usage of incentive practices in firms in the two countries. We have chosen to discuss three such cultural aspects. One is regarding beliefs about the purpose of corporations. The other two—masculinity and long-term orientation—are cultural dimensions originally identified by Hofstede (1980a, 1980b, 1991), Hofstede and Soeters (2002) and Hofstede and Hofstede (2005).¹

Beliefs about the role of corporations. Some researchers have identified culture-related differences between people in Anglo-Saxon countries and those in Continental-European countries with regard to their beliefs about the role of corporations (Looise & Paauwe, 2001; Boselie, Paauwe, & Jansen, 2001; Bruce et al., 2005). In particular, Boselie et al. (2001) described US managers as having a "shareholder perspective," while in the Netherlands a "stakeholder perspective" is more common.

This basic difference in beliefs could have implications for the design of incentive systems. With the shareholder perspective, the focus is on productivity and financial performance indicators, such as return on investment or equity. Employees are viewed primarily as "resources" who are serving the shareholders' interests. Incentive contracts can help align the employees' and the organizations' interests.

With the stakeholder perspective, corporations are seen to have a relatively complex objective function. Customers, suppliers, employees and trade unions, among others, are viewed as important stakeholders, and each can be involved in decision making. With regards to labor, it is typical in the Dutch or "Rhineland" model, particularly as it is implemented lower in the organization, to have collective bargaining arrangements, social security, and industrial democracy at the company level through work councils. Both the employees and the employers in a specific industry are represented by their respective unions. The labor unions and the employer unions negotiate so-called Collective Labor Agreements (CLA). A CLA is a written agreement that sets obligatory conditions of employment in a certain industry. These conditions

¹ Hofstede's is probably the most frequently-cited body of work on the effects of national culture on management practices. Certainly Hofstede's work has been criticized by numerous others (e.g., Baskerville, 2003; McSweeney, 2002). But we are not concerned with most of those criticisms. We are not measuring culture in this study; we are just comparing data collected in two different national settings. Further, Hofstede's dimensions can be related to other national culture schemes (Romani, 2004). Whether they are descriptive of national culture or something else (e.g., socio-political factors, as suggested by Baskerville (2003)), Hofstede's dimensions have proven to have value in explaining and predicting behavior in many studies, some of which we cite below.

are detailed and concern, for example, employees' compensation, holidays, and pension plan. The CLA also contains salary scales, a table that determines the salaries for a specific job in relation to the qualifications that are needed for that job. The payment of bonuses on top of the fixed base salary is allowed, but such bonuses have traditionally been relatively small.

Masculinity. Hofstede (1980a), Hofstede and Soeters (2002) and Hofstede and Hofstede (2005) identified five cultural dimensions and measured them in a broad sampling of countries. They found that employees in the US and the Netherlands are most different on the dimensions labeled "masculinity" and "long-term orientation." Table 1.1 shows that, as compared to the Dutch scores, US scores were significantly higher on the masculinity dimension and significantly lower on the long-term orientation dimension. Thus, we focus our theoretical discussion on the possible implications of these differences in causing differences in the uses of incentive compensation practices.

Masculinity refers to preferences for competitiveness, achievement, and material success (traits labeled as masculine), as opposed to an emphasis on relationships and quality of life (traits labeled as feminine). Like Hofstede, other culture researchers (e.g., Communal & Brewster, 2004; Trompenaars & Hampden-Turner, 1997) have noted the tendency of US culture to be more achievement-oriented than most other countries.

Predictions regarding the effects of masculinity on the use of incentives stem directly from the definition of the term, and some empirical evidence supporting those predictions exists. Hofstede (1980a, 1980b, 1991) argued that people high in masculinity tend to prefer basing rewards on performance, while those low in masculinity (high in femininity) prefer allocations based on need. Consistent with this theory, Chiang and Birtch (2007) found that employees in Canadian, British, and Hong Kong firms placed greater value on performance-based reward systems than did their Finnish counterparts who placed more value on skill- and competency-based reward systems and intrinsic rewards. They attributed at least part of this difference in practice to differences in levels of masculinity in the four country settings.

Hofstede (1984) suggested that the distinction between masculinity and femininity has significant implications for the improvement of work life. In the US, to improve the quality of employees' work life, the trend has been to make individual jobs more interesting by providing workers with both greater autonomy and greater accountability, something that is often called "empowerment" (e.g., Simons, 1995). In the Netherlands (and other feminine countries, such as those in Scandinavia), the trend has been to make group work more rewarding by allowing groups to function as self-contained social units and by fostering cooperation among group members. Thus, humanization of work means masculinization in the US, but feminization in the Netherlands.

Long-term vs. short-term orientation. Hofstede and Soeters (2002) and Hofstede and Hofstede (2005) focused on the cultural dimension labeled "longterm vs. short-term orientation." High scores on this dimension reflects the presence of values oriented toward the future, such as thrift (saving), perseverance, respect for tradition, and fulfilling social obligations. The US, and most other Western countries, scored relatively low on this cultural dimension. The scores for the Netherlands, however, were higher, so much so that the Netherlands was said to be the Western country with the most "Eastern" values. Benedict (1944) noted that this tendency of the Dutch to save has been observed for centuries. She described the Dutch as prudent, economical, and never reckless.²

This cultural trait has possible direct implications for the use of incentive systems. People high in longterm orientation have a preference for more stable

² Hofstede and Soeters (2002) argue that some institutional factors, such as the generally high levels of cooperation between Dutch employers, unions, and governmental agencies, are a direct reflection of this cultural trait. This spirit of consensus is often referred to as the Dutch Poldermodel. Conflicts are expected to be resolved harmoniously in a tradition of cooperation, consultation and consensus-seeking (also see Lijphart, 1975). Hofstede and Soeters (2002) describe the so-called Agreement of Wassenaar as an illustration. In 1982, the Dutch economy was in crisis. Unemployment was high, the government had a large budget deficit, and the profits of most Dutch companies were low. The heads of the most important unions of employers, labor unions, and key government officials met in Wassenaar (a town near The Hague) to address this problem. They agreed that salaries of Dutch workers would increase only very slowly and that the workers would get more vacation in return. At the beginning of the 1980s, the government also started to cut its spending and its tax rates. (The highest marginal income tax rate at that time was 72%.) Everybody would suffer in the short-term, but for the longterm good of the country.

E.P. Jansen et al. | Accounting, Organizations and Society 34 (2009) 58-84

	Individualism	Power distance	Uncertainty avoidance	Masculinity	Long-term orientation
US	91	40	46	62	29
The Netherlands	79	38	53	14	44

Table 1.1 National culture scores for the US and the Netherlands (Hofstede, 1980a, 1980b; Hofstede & Soeters, 2002)

fixed income rather than bonuses (Hofstede & Soeters, 2002).

Institutional factors

Institutional factors that could shape human resource management practices such as the use of incentive compensation include any relevant, reasonably stable conditions or systems that can coerce or otherwise affect peoples' behaviors (Gooderham et al., 1999). Many differences between the US and the Netherlands could be discussed under this rubric. We have chosen to discuss three such factors that might be particularly relevant in shaping uses of incentive practices. They include formalization of the terms of employment, tax rates, and experience with incentive systems.

Formalization of terms of employment. Communal and Brewster (2004), building on the work of D'Iribarne (1989), noted the relatively high emphasis on formalization in US companies, particularly with regard to the terms of employment. US companies tend to use contracts to regulate relatively unambiguously the relationships between employees and management. Appraisals in US firms tend to be based on measurable aspects of performance to maintain "visible" fairness. In addition, US managers are relatively free to punish or reward employees within the boundaries of a fair contract. In contrast, the guiding organizational principle in the Netherlands is ongoing communication and then, hopefully, consensus. Employees tend to resist formal pressures exercised by managers. In addition, Communal and Brewster (2004) explained that the US managers' relatively high "right to manage" was, in turn, shaped by (1) a private enterprise culture; i.e., the US is viewed as a land of opportunity in which any individual can succeed through hard work and self-improvement; (2) a low level of state involvement, most importantly in the area of regulation of personnel management; and (3) relatively high management antagonism toward trade unions. This last factor is more relevant in affecting management of lower-level workers, not managers.

Table 1.2

Federal marginal personal income tax rates in the US and the Netherlands

	Income	Marginal tax rate (%)
US	<\$15,100	10.00
	\$15,100-61,300	15.00
	\$61,300-123,700	25.00
	\$123,700-188,450	28.00
	\$188,450-336,550	33.00
	>\$336,550	35.00
The Netherlands	<€16,893	34.40
	€16,894-30,357	41.95
	€30,358-51,762	42.00
	>€51,762	52.00

Tax rates. As compared to the US, the Netherlands is much more prepared to pay for an expensive social security system and to accept a high tax burden to fund it.³ Thus, it is not surprising that marginal tax rates on income earned in the Netherlands are much higher than in the US (see Table 1.2). At their compensation levels, most general and department managers in Dutch car dealerships pay a marginal income tax rate of 42% or even 52%, while most of their counterparts in US dealerships pay a marginal rate of 33% or lower. In addition, unlike in the US, the Dutch government provides subsidies to families, for example for day care, and these subsidies vary with the level of income. An increase in income may lead to a decrease in subsidies. As a consequence, as compared to the US, the after-tax value of monetary incentives is significantly smaller in the Netherlands. Thus, it can be said that the incentive effects of

³ This difference can be related directly to the cultural factors discussed above. Feminine cultures tend to protect the "weak" in the labor market by adopting legislation to take care of the poor, the needy, and even the inept (Hofstede & Soeters, 2002). Consistent with this observation, the Dutch Disability Insurance Act includes broad definitions of illness and disability that includes many subjective health complaints related to stress and other work-related problems. Dutch labor laws also make it difficult to fire people. These laws make it more difficult for Dutch firms to use some powerful "negative incentives." But the Dutch concern for the weak and less concern for performance is reflective of the national culture that is relatively feminine.

monetary rewards are diluted in the Netherlands. Or, alternatively, it can be said that monetary incentives are more expensive to use in the Netherlands, so we might expect less use of them.

Experience with incentive systems. A third potentially relevant institutional factor that varies between the US and the Netherlands is an artifact of history: Most Dutch managers have less experience with incentive compensation practices than do their US counterparts. Some early studies found that Dutch (and other European) firms paid fewer and smaller management-level bonuses than do US firms. For example, Pennings (1993) found that all of the US firms he studied had an explicit incentive compensation system providing significant bonuses, and their systems provided quite varied payouts across managers. In contrast, Pennings found that bonus payments in Dutch (and French) companies were small, ranging from 0% to 10% of base salary, and showed little variance across individuals. With the exception of one firm, Pennings found that all Dutch firms downplayed differences in compensation, granted insignificant bonuses, and rarely granted stock options. Many of the Dutch executives he interviewed expressed doubt about the desirability of linking pay to either manager or firm performance.

However, Pennings did observe some possible signs of change. He found that some of the European firms were experimenting with modest attempts to institute bonuses to entice executives toward higher performance levels. About changes in incentive compensation, Pennings (1993: 274) observed that:

Both in France and in the Netherlands, compensation officers discern a slow but steady trend toward de-leveling. The term 'de-leveling' refers to the re-introduction of, and re-emphasis on, wage and salary differentials as a way to recognize variations in talent, responsibility, and above all, performance.

There is other evidence that US-like incentive compensation systems are spreading to other countries (e.g., Frocham, 2005; Nusbaum, 1999). Bekker et al. (2003) observed that Dutch companies are increasingly implementing pay-for-performance systems, primarily as a reaction to increased international competition. While Bekker et al. (2003) found that still only a minority of Dutch companies applied some form of pay-for-performance, the percentage of companies basing bonuses on either individual or group performance was increasing (1997: 33% | 1999: 36% | 2001: 40%). In addition, bonuses were increasingly being introduced in smaller companies and at lower hierarchical levels.

However, even if US incentive compensation practices are spreading to the Netherlands, most of the Dutch managers' experiences with those practices will be relatively recent. This could mean that the Dutch incentive compensation systems, where they exist, are relatively simple because research in corporate development suggests that systems become more complex and sophisticated over time. As managers acquire more experience with the systems, they add more features (e.g., Sandino, 2007; Greiner, 1998).

Arguments and evidence suggesting an international convergence of incentive practices

On the other hand, a different school of thought suggests that we might expect the incentive practices in the US and Dutch automobile dealerships to be quite similar. As Carr and Pudelko (2006, p. 75) state:

Since the dawn of classical management thought, dominant schools have tended to assume that economic imperatives create pressures for "world best practice" in management, irrespective of cultural or national context.

The core argument in this school of thought is that there are some management universalities, often described as "principles of management," "high performance practices," or "global best practices," that are invariant of national differences. An institutional perspective suggests that pressure from "competitive isomorphism" is driving companies toward greater consistency and standardization in management practices (Chiang & Birtch, 2007).

The use of incentives is sometimes specifically included among some of these management principles or statements of best practice. For example, Steven Kerr (2004: 122–123), a former academic and current Chief Learning Officer at Goldman Sachs, included incentives in his short list of management principles:

One of the primary principles of effective management is that rewards should be the third thing you work on. Measurements should come second, and both rewards and measurements should be subordinated to performance definition; i.e., clear and unambiguous articulation of what needs to be done.

Similarly, the advice provided by PWC (2006: 11) in the *Corporate Performance Management* white paper in its *Global Best Practices* series includes the following unqualified statement: "Best practices companies tie bonuses, profit sharing, and stock option plans to the achievement of performance measures." Likewise, a recent international McKinsey research study (Leslie, Loch, & Schaninger, 2006: 3) includes practices that improve employee accountability among a set of critical, complementary practices that lead to higher corporate performance in *all locales* because "Employees perform well when they are working toward a future that attracts them ... and [when they] are encouraged to improve constantly."

Standard economic theory, at least that assuming classical forms of economic behavior on the part of "agents" within firms (e.g., Jensen & Meckling, 1976), would seem to predict similar incentive practices across countries. Economic theory generally assumes that all people are alike and that incentives offset managers' (and all other agents') aversion to exerting effort. It is taken as a given that monetary payments are an important type of incentive. For example, Baker, Jensen, and Murphy (1988: 596) state that "the potential benefits of tying pay to performance are obvious," and thus it is generally seen as desirable to increase pay-performance sensitivities and incentive potentials (e.g., Jensen & Murphy, 1990). These economic predictions do not suggest any differences in incentive practices across countries.

A weaker argument, but one that leads to the same basic prediction, is that even if some of the institutional or cultural differences between the US and the Netherlands tend to lead to differences in firms' uses of incentives, the effects might be small relative to those of other contextual variables (Gerhart & Fang, 2005). The most important factors might be industry, management style or corporate culture (Solli & Demediuk, 2007).

This study provides a particularly powerful test of cross-national differences because the industry setting and the economics of the firms studied are nearly identical. The US and Dutch dealerships sell the same products and have the same ownership and organization structures. The actual jobs the managers perform are virtually identical. The dealerships also have essentially the same performance measurement systems, at least in the areas of financial performance and customer satisfaction, because the automobile manufacturers prescribe standard measurement methods and reporting formats to their dealers. In addition, both the US and the Netherlands are modern, Western countries with advanced educational systems, and large, multinational corporations are quite common in both countries. If a set of global best practices exists, it is highly likely that they would spread between these two countries. This homogenization of practice could dominate, or at least dampen, any crossnational differences in incentive compensation practices that otherwise might have existed.

Finally, there is some empirical evidence to support these theoretical predictions of little, or only minimal, cross-national differences in incentivesrelated management practices. Van der Stede (2003) found that multinational corporations' management control systems tend to be largely consistent across their business units. Similarly, in a large-scale study of 241 foreign-based subsidiary companies, Björkman, Fey, and Park (2007) found that with one exception the incentive compensation practices of US, Japanese, and European subsidiaries located in Russia, Finland and the US did not differ materially.⁴ These findings suggest that corporate culture and the desire for system uniformity generally dominate the effects that local business and operating conditions might have had. Pudelko and Harzing (2007) argued that the diversity of management practices in Europe has narrowed in recent years, and the primary focal point for conversion has been the American model, which has been setting the standards for "best practices" in management.

Allinson and Hayes (2000) measured the "cognitive styles" of managers in six countries expecting to find a dichotomy between Eastern and Western cultures. They did not find it. Instead they found that decision makers in Anglo, North-European and European-Latin countries clustered together as

⁴ The exception was a finding that incentive compensation was used to a greater extent in the Russian subsidiaries. The authors attributed this finding to a perceived high need by the managers of multinational corporations to clarify performance expectations for Russian employees. This high need was caused by a negative heritage from the Soviet period where performance expectations tended neither to be clear nor internalized by the workforce.

being relatively "intuitive" decision makers. They argued that it might be more fruitful to classify nations in terms of their stage of industrial development rather than the geographical area in which they are located. But the US and the Netherlands cannot be said to differ materially in terms of stage of economic development.

Research questions

The conflicting theory and evidence discussed above makes it difficult to make definitive predictions even at a general level as to whether the use of incentive compensation in Dutch automobile dealerships will differ significantly from that in US dealerships. Further, there is no prior theory or evidence to allow predictions either as to whether the *details* of the incentive systems used in Dutch dealerships are significantly different from those used in US firms or whether incentives are more or less effective in one of the two countries. Thus, we designed our study to be descriptive and to allow exploration of the following research questions:

- 1. Does the use (incidence) of incentive compensation vary significantly between firms in the US and the Netherlands?
- 2. Where incentives are used, do they differ significantly across the US and the Netherlands in terms of
 - a. The size of the rewards.
 - b. The bases (i.e., measures) on which the rewards are given.
 - c. The styles used to allocate the rewards (i.e., objective vs. subjective assignment).
 - d. The shape of the performance/reward function (e.g., thresholds, caps) determining the assignment of formula bonuses.
- 3. Do the relationships between uses of incentives and important outcomes, such as entity financial performance or employee pay satisfaction, vary between the US and the Netherlands?

Method

Data collection

We collected data that could be compared directly with those collected by Gibbs et al. (2004, 2006) from Dutch automobile dealerships. We sought and received cooperation from both the Dutch Dealer Association (NDA) and a Dutch consulting firm that specializes in working with automobile dealerships. The consulting firm has been collecting both financial data (profit, sales, and detailed cost data) and non-financial data (unit sales, employment) on behalf of the NDA for more than 10 years on a quarterly basis from approximately 320 car dealerships in the Netherlands. Consulting firm personnel shared with us their firm's data for the two most recent fiscal years.

We also collected additional data regarding the compensation of department managers as well as various dealership practices and situational factors using a translated version of the Gibbs et al. (2004, 2006) survey. The Dutch co-author and the NDA assisted in adapting the US survey to the Dutch situation where necessary. Such adaptations were minimal.

The consulting firm administered the survey to the dealers involved in their quarterly dealership performance surveys. Following the method used by Gibbs et al., we sent four surveys to each dealership: one each for the general manager and the sales, service, and parts department managers.⁵ The general manager survey included questions about the dealership's economic and competitive environment, dealership strategy and management practices, general manager delegation of decision rights, and various dealership and general manager demographics (e.g., dealership number of employees, general manager span of control and experience). The sales, service, and parts department manager surveys were largely identical. They asked about the elements of the manager's compensation package, departmental management practices, as well as various demographics (e.g., department manager experience).

The consulting firm did two follow-ups (one reminder letter and one follow-up with replacement) to non-respondents. Of the targeted respondents in the 293 dealerships that were sent a survey, we received 61 (21%) usable surveys from the general managers and 55 (19%), 44 (15%), and 46 (16%) usable surveys from the sales, service, and parts department managers, respectively. Overall, we

⁵ In the US, the four surveys consisted of one each for the general manager and the new sales, used sales, and service department managers. In the Netherlands, however, the new and used sales departments are usually combined, whereas the service department is usually split into service and parts. Therefore, in the Netherlands, the four surveys were sent one each to the general manager and the sales, service, and parts department managers.

received at least one survey from 80 of the 293 dealerships (27%). These response rates were almost exactly what Gibbs et al. obtained in their US study. While relatively low, they were to be expected because of the length and complexity of the questionnaires. Analyzing dealership characteristics on the archival data (profit, sales, and employment) across respondents vs. non-respondents did not reveal any systematic non-response biases.

Main measures of incentive compensation

As described above, we derive measures from both the survey and the independently-collected data in the dealership performance reports. As in Gibbs et al. (2004, 2006), where total compensation for any given US manager consists of up to four components, we measure the following four compensation elements for the most recently completed year using the survey instrument:

- 1. BASE SALARY, which typically increases each year for most employees.
- 2. FORMULA BONUSES, which are based on quantitative performance measures (e.g., department profit) and where some dealerships set contracts for some managers that include up to three formula bonuses.
- 3. DISCRETIONARY BONUSES, which are based on an evaluator's subjective judgment of the manager's performance.
- 4. SPIFFS, which are miscellaneous rewards, such as the use of promotional vehicles and certain incentives typically provided by the car manufacturers (e.g., vacation trips).

For each of these potential elements of compensation, we assess the INCIDENCE of the use of the element plus, where a compensation element is used, the SIZE of the rewards and, for the formula bonuses only, the BASES ON WHICH THE REWARDS ARE GIVEN (i.e., measures) and the SHAPE OF THE PERFORMANCE-REWARD FUNCTION (e.g., thresholds, caps). To facilitate comparisons, we annualize these awards.

Univariate analyses

Incidence and size of incentives

Table 2.1 provides descriptive statistics showing dramatic differences between the incentive compensation practices of the US and Dutch automobile retailers. Table 2.2 shows *t*-test results of crossnational differences for some of the key variables. Virtually all of these differences are statistically significant.

These findings show that, in sharp contrast to US practice, only a small percentage of Dutch car dealerships provide their managers with performance-dependent bonuses. For example, only 15% of Dutch general managers and 10% of Dutch department managers receive a formula bonus, as compared to 68% and 64% of the US general and department managers, respectively. In addition, the sizes of the Dutch formula bonuses, where they are received, are much smaller than in the US. The average formula bonuses given to Dutch general and department managers, respectively, are 17% and 9% of their total compensation, respectively, as compared to 51% and 55% for the US managers. Similarly, both discretionary bonuses and spiffs are given less often to Dutch managers, and where they are given, they are smaller. Across the entire Dutch sample, base salary constitutes 97% (98%) of total general (department) manager compensation.

If bonuses are not a major incentive component of pay in the Netherlands, then what is, if anything? Table 3.1 shows that "merit" raises (i.e., raises above and beyond the collectively-agreed raises in the industry) are more common in the Dutch firms than are bonuses. But still, about 74% of the Dutch general managers and 56% of the department managers do not get a merit raise.⁶

Table 3.2 shows the size of the average award when a Dutch manager received "something" beyond salary. That "something" could be in the form of a merit raise, formula bonus, discretionary bonus, and/or spiff. These figures show that about

⁶ For the US sample, only 41 (16%) of the 250 general managers report a positive raise; 152 (61%) indicate a zero raise; and 57 (23%) left the field blank. For the US department managers, only 91 (17%) of the 526 department managers report a positive raise; 117 (23%) indicate a zero raise; and 316 (60%) left the field blank. Hence, in the US sample, the evidence suggests that 83–84% of the managers do not receive "merit" raises as reflected by the high incidence of zeros and missing values. For those receiving (reporting) a raise, the average amount for general (department) managers is \$7153 (\$2714) or 9.3% (6.2%) of salary. These numbers indicate that those managers who report a raise in the survey possibly only did so when their raises were above and beyond the usual cost-of-living adjustments, which are typically in the 3-5% range. Regardless of this interpretation, the incidence of raises is low in the US sample.

Table 2.1 Elements of compensation package for general and department managers in the US and the Netherlands: descriptive statistics

		The US				The No	etherlands	
	Base salary	Formula bonus	Discretionary bonus	Spiffs	Base salary	Formula bonus	Discretionary bonus	Spiffs
General managers	()	V = 250) average tota	l compensation = \$190,6	58	(A	(=61) average total	compensation = €58,302	3
Compensation package breakdown	56.78%	36.45%	3.86%	2.91%	96.94%	2.58%	0.40%	0.08%
Number receiving	n = 238	n = 170	n = 49	n = 110	n = 61	n = 9	n = 3	n = 1
Percent receiving	95.20%	68.00%	19.60%	44.00%	100%	14.75%	4.92%	1.64%
Average amount	\$82,262	\$136,724	\$36,449	\$10,458	€56,029	€13,079	€6000	€3000
Average Pct. of total compensation ^a	58.24%	51.46%	18.90%	6.34%	96.94%	17.47%	8.12%	5.08%
Department managers	0	V = 526) average tota	al compensation $=$ \$72.3	90	(N	= 145) average tota	l compensation = €36.31	8
Compensation package breakdown	49.80%	36.17%	4.17%	9.86%	98.67%	0.89%	0.19%	0.25%
Number receiving	<i>n</i> = 433	<i>n</i> = 338	n = 118	n = 323	n = 145	n = 15	n = 10	n = 30
Percent receiving	82.32%	64.26%	22.43%	61.41%	100%	10.34%	6.90%	20.69%
Average amount	\$35,757	\$53,751	\$15,149	\$4585	€35,745	€3992	€940	€457
Average Pct. of total compensation ^a	58.66%	54.58%	18.01%	15.57%	98.68%	8.59%	2.73%	1.19%
Sales department managers	(1	V = 321) average tota	al compensation $=$ \$78,4	76	()	r = 55) average total	compensation = €42,874	4
Compensation package breakdown	45.80%	37.40%	4.58%	12.22%	97.53%	1.92%	0.23%	0.32%
Number receiving	n = 253	n = 202	n = 78	n = 228	n = 55	n = 11	n = 4	n = 11
Percent receiving	78.82%	62.93%	24.30%	71.03%	100%	20.00%	7.27%	20.00%
Average amount	\$36,684	\$62,036	\$17,417	\$5074	€41,742	€4555	€1150	€684
Average Pct. of total compensation ^a	56.12%	57.40%	18.19%	16.61%	97.53%	9.57%	3.20%	1.60%
Service department managers	(1	V = 205) average tota	al compensation $=$ \$62,9	58	()	(=44) average total	compensation = €34,984	4
Compensation package breakdown	56.00%	34.26%	3.53%	6.21%	99.06%	0.52%	0.16%	0.26%
Number receiving	n = 180	<i>n</i> = 136	n = 40	n = 95	n = 44	n = 3	n = 4	n = 10
Percent receiving	87.80%	66.34%	19.51%	46.34%	100%	6.82%	9.09%	22.73%
Average amount	\$34,455	\$41,444	\$10,728	\$3411	€34,621	€3092	€619	€422
Average Pct. of total compensation ^a	62.22%	50.38%	17.65%	13.07%	99.06%	7.59%	1.77%	1.15%
Parts department managers					()	7 = 46) average total	compensation = €29,75	5
Compensation package breakdown					99.67%	0.03%	0.16%	0.14%
Number receiving					<i>n</i> = 46	n = 1	n = 2	n = 9

ercent receiving	100%	2.17%	4.35%	19.57%
verage amount	€29,651	€500	€1161	€217
Average Pct. of total	99.67%	1.45%	3.71%	0.73%
compensation ^a				
Definitions:				
his table reports summary statistics (for 1998 for the US sample and 2001 for the Netherlands sample)	the compensa	tion package of n	nanagers who receive	any or all of the
espective compensation elements. Capital "N" indicates total number of managers in each sample: sma	"n" indicates	those managers ir	n each sample receivi	ing the particular

a 'n compensation element. The various compensation elements are defined as follows: resp

- TOTAL COMPENSATION CONSISTS OF ANY OF All OF the following components: BASE SALARY, up to three FORMULA BONUSES, DISCRETIONARY BONUS, and SPIFFS. All numbers are annualized
 - FORMULA BONUSES are based on quantitative performance measures (e.g., department profit). Some contracts have up to three formula bonuses.
 - DISCRETIONARY BONUS is based on the evaluator's subjective judgment of the manager's performance. I
- SPIFFs are miscellaneous rewards, such as the use of promotional vehicles and certain incentives provided by the car manufacturers (e.g., vacation trips)

For those who receive it. æ

one third (half) of the Dutch general (department) managers get some form of compensation in addition to their historical base salary; the other managers get no increases beyond the collectively-agreed cost of living raises in the industry. But even for the Dutch general (department) managers who received some incentive compensation, the augmentation of compensation, approximately 23% (8%) on average, is modest by US standards (as shown in Table 2.1).

To illustrate the point further, of the 12 (25) Dutch general (department) managers who received any type of bonus-nine (15) of whom received a formula bonus and three (10) of whom received a discretionary bonus-only two (six) of these managers (not tabulated) received their bonus without receiving a merit raise. This suggests that merit raises and bonuses are not primarily used as substitutes: the managers who get a bonus are also likely to get a merit raise.

Shape of the performancelreward function

Table 4.1 shows data describing many of the key features of the formula bonus plans-the bases for assigning the formula bonuses and the shape(s) of the performance/reward function(s)-where those plans are used. Panel A (B) presents the US (Dutch) data. Table 4.2 shows the results of statistical tests of some of the key differences, virtually all of which are statistically significant.

These findings show that where formula bonuses are used, the US firms are significantly more likely to base those bonus awards on profit measures, particularly net profit. The Dutch firms are significantly more likely to base their bonus awards on "other" measures, the most common of which is sales measured in units, with customer satisfaction a distant second. But, interestingly, the Dutch firms' performance/reward functions are more complex. The Dutch firms are much more likely than the US firms to identify a threshold (a performance level below which no bonuses are given) and a cap (a performance level above which no additional bonuses are given). Including performance bounds in incentive contracts is often evidence of lack of confidence in the design of the incentive plan (Merchant, 1989). This is perhaps not a surprising result given the Dutch managers' relative lack of experience with such plans. Moreover, the use of performance bounds, particularly upper bounds or caps, is also consistent with the

70

Table 2.2

Elements of compensation package for general and department managers in the US and the Netherlands: statistical test of differences of key elements

Panel A. General managers						
	US	Netherlands	t-statistic			
1. Base salary			(two-tailed <i>p</i> -value)			
- Incidence (% receiving)	95.20%	100.00%	$1.75 (p = 0.08)^*$			
- Average size (% of total compensation) ^a	58.24%	96.94%	9.73 $(p < 0.01)^{***}$			
2. Formula bonus(es)			ale ale ale			
- Incidence (% receiving)	68.00%	14.75%	$8.32 (p < 0.01)^{***}$			
– Average size (% of total compensation) ^a	51.46%	17.47%	$4.03 (p < 0.01)^{***}$			
- Average number of formula bonuses	1.29	1.58	$1.63 (p = 0.10)^*$			
3. Discretionary bonus			d. d. d.			
- Incidence (% receiving)	19.60%	4.92%	$2.78 \ \left(p < 0.01\right)^{***}$			
– Average size (% of total compensation) ^a	18.90%	8.12%	$1.14 \ (p = 0.26)$			
4. Spiffs			ale ale ale			
- Incidence (% receiving)	44.00%	1.64%	$6.59 (p < 0.01)^{***}$			
- Average size (% of total compensation) ^a	6.34%	5.08%	Insufficient d.f.			
	Panel B. Department ma	inagers				
1. Base salary	-	-	(two-tailed <i>p</i> -value)			
- Incidence (% receiving)	82.32%	100.00%	$5.57 (p < 0.01)^{***}$			
– Average size (% of total compensation) ^a	58.66%	98.68%	$18.38 (p < 0.01)^{***}$			
2. Formula bonus(es)						
- Incidence (% receiving)	64.26%	10.34%	$12.83 (p < 0.01)^{***}$			
- Average size (% of total compensation) ^a	54.58%	8.59%	8.66 $(p < 0.01)^{***}_{*}$			
- Average number of formula bonuses	1.74	1.38	$1.92 (p = 0.06)^*$			
3. Discretionary bonus						
- Incidence (% receiving)	22.43%	6.90%	$4.27 (p < 0.01)^{***}$			
- Average size (% of total compensation) ^a	18.01%	2.73%	$2.71 \ (p < 0.01)^{***}$			
4. Spiffs						
- Incidence (% receiving)	61.41%	20.69%	9.22 $(p < 0.01)^{***}_{***}$			
- Average size (% of total compensation) ^a	15.57%	1.19%	$3.15 (p < 0.01)^{***}$			

^a For those who receive it.

Table 3.1

Average "merit" raise for managers in the Netherlands (Euros and pct. of salary) when raise >0

		Size	when given
	Percent receiving	Euros	Pct. of salary
General managers $(N = 61)$	26.23% (n = 16)	6517	12.31%
Department managers $(N = 145)$	44.14% ($n = 64$)	2142	6.05%

relative preference of the Dutch for greater compensation equality or "leveling" (Pennings, 1993).

Multivariate analyses

Control variables

To help ensure that the findings are attributable to the cross-national differences we discussed in the literature section, we measured and controlled for the effects of a broad array of other variables that could both vary across country settings and have potentially relevant effects on incentive practices. In our study, we included the following control variables, all of which Gibbs et al. (2004, 2006) and others thought might have a significant effect on one or more characteristics of one or more of the elements of manager compensation: E.P. Jansen et al. | Accounting, Organizations and Society 34 (2009) 58-84

Table 3.2

Average "award" for managers in the Netherlands (Euros and pct. of salary) when manager receives "something" beyond salary

	Percent receiving	Euros	Pct. of salary
General managers $(N = 61)$			
Manager received raise, formula bonus, and/or discretionary bonus	31.15% (<i>n</i> = 19)	€12,631	22.76%
Manager received raise, formula bonus, discretionary bonus and/or spiffs	32.79% (n = 20)	€12,149	22.71%
Department managers $(N = 145)$			
Manager received raise, formula bonus, and/or discretionary bonus	48.28% (n = 70)	€2948	7.99%
Manager received raise, formula bonus, discretionary bonus and/or spiffs	55.86% (<i>n</i> = 81)	€2716	7.52%

- (1) DEALERSHIP SIZE (log of dealership revenues).
- (2) GENERAL MANAGER SPAN OF CONTROL (number of employees who report directly to the general manager).
- (3) GENERAL MANAGER EXPERIENCE (number of years that the general manager has been in the general manager position).
- (4) GENERAL MANAGER DELEGATION OF DECISION RIGHTS (5-item Likert scale; see Table 5).
- (5) DEALERSHIP COMPETITION (3-item Likert scale; see Table 5).
- (6) DEALERSHIP ENVIRONMENTAL UNCERTAINTY (5item Likert scale; see Table 5).
- (7) DEALERSHIP CUSTOMER SERVICE ORIENTATION (6item Likert scale; see Table 5).
- (8) DEALERSHIP DIFFERENTIATION STRATEGY (general manager's assessment of the dealership's predominant strategic focus, ranging from cost leadership to differentiation; see Table 5).
- (9) BONUS RECIPIENT EXPERIENCE (number of years that the incentive-eligible manager has been working at the car dealership).

Table 5 shows the detailed scales for each of these measures and descriptive statistics for the overall sample and for each country sample.

The findings in Table 5 show statistically significant differences between the firms in the two countries for all of these variables. Compared to Dutch dealerships, US dealerships are larger; their managers have larger spans of controls but less experience in their current position; they are more decentralized; they face greater levels of competition and more environmental uncertainty; and they are more likely to pursue customer serviceoriented and differentiated strategies. Thus, to guard against the possibility of spurious conclusions and, more generally, to explain better the sources of the variance across countries, these variables need to be taken into consideration in the statistical analyses.

Multivariate results

Table 6 shows the correlations among all the variables. None of the signs of the correlations is surprising. And, importantly, the magnitudes of the correlations indicate that multicollinearity is not a threat to the interpretation of our multivariate results.

Table 7.1 shows a logit analysis of the determinants of the incidence of performance-dependent incentives in any form—formula bonuses, discretionary bonuses, and/or spiffs—for both the overall sample and by country. Tables 7.2, 7.3, and 7.4 show similar analyses of the determinants of the use of formula bonuses, discretionary bonuses, and spiffs, respectively. Because the data include multiple observations from the same dealership, we report the results with robust standard errors.

Tables 7.1–7.4 support the conclusion from the univariate analyses that the incidence of incentive rewards is significantly less in the Dutch firms: The dummy variable DUTCH LOCATION is significantly negative in all tables. These findings show that the incidence of incentives is not solely attributable to any of these other variables, or even all of them in combination. The national setting has a significant effect by itself.

Overall, the results of these multivariate results are consistent with theory and findings from the incentives literature. The effects of the control variables are generally as expected. Use of incentives is greater where dealerships are larger, where managers have a larger span of control, where dealerships face greater competition, and where dealerships are pursuing a differentiation strategy.

Interestingly, however, the results reported in Table 7 are generally stronger for the Dutch

72

E.P. Jansen et al. | Accounting, Organizations and Society 34 (2009) 58-84

Table 4.1

Bases for assigning formula bonuses and shape of the performance/reward functions where formula bonuses are used: descriptive statistics

		P	anel A. The U	US				
	Formula	bonus 1	Formula	a bonus 2	Formul	a bonus 3	Al	1
	\$	Pct.	\$	Pct.	\$	Pct.	\$	Pct.
General managers								
• Formula bonus amount	132,618	93.71	48,633	3.92	31,629	2.37	136,724	100
• Performance measures	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
Dealership net profit	164	91.11	9	45.00	0	0.00	173	85.64
Dealership gross profit	10	5.56	2	10.00	0	0.00	12	5.94
Department net profit	3	1.67	2	10.00	0	0.00	5	2.48
Department gross profit	3	1.67	2	10.00	0	0.00	5	2.48
Department other	0	0.00	5	25.00	2	100.00	7	3.47
General manager total	180	100	20	100	2	100	202	100
	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
• Formula bonus floor >0	10	5.56	3	15.00	1	50.00	14	6.93
• Formula bonus cap	3	1.67	3	15.00	0	0.00	6	2.97
• Floor and cap	1	0.56	3	15.00	0	0.00	4	1.98
• Neither floor nor Cap	168	93.33	17	85.00	1	50.00	186	92.08
• Kinks (beyond Zero or Floor)	29	16.11	2	10.00	0	0.00	31	15.35
• When kink, convex	28		2		0		30	
• When kink, concave	1		0		0		1	
Department managers	\$	Pct.	\$	Pct.	\$	Pct.	\$	Pct.
• Formula bonus amount	47,808	85.25	16,704	11.76	8746	2.99	53,751	100
• Performance measures	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
Dealership net profit	5	1.10	11	6.63	7	17.50	23	3.49
Dealership gross profit	1	0.22	1	0.60	0	0.00	2	0.30
Own department net profit	170	37.53	47	28.31	10	25.00	227	34.45
Own department gross profit	256	56.51	41	24.70	6	15.00	303	45.98
Own department revenues	6	1.32	0	0.00	1	2.50	7	1.06
Own department other	6	1.32	51	30.72	12	30.00	69	10.47
Other department net profit	1	0.22	6	3.61	1	2.50	8	1.21
Other department gross profit	1	0.22	8	4.82	3	7.50	12	1.82
Other department revenues	0	0.00	0	0.00	0	0.00	0	0.00
Other department other	7	1.55	1	0.60	0	0.00	8	1.21
Department manager total	453	100	166	100	40	100	659	100
	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
• Formula bonus floor >0	24	5.30	48	28.92	15	37.50	87	13.20
• Formula bonus cap	7	1.55	32	19.28	5	12.50	44	6.68
• Floor and cap	7	1.55	31	18.67	5	12.50	43	6.53
• Neither floor nor cap	429	94.70	117	70.47	25	62.50	571	86.65
• Kinks (beyond zero or floor)	50	11.04	36	21.69	2	5.00	88	13.35
• When kink, convex	50		36		2		88	
• When kink, concave	0		0		0		0	

		Panel	B. The Neth	erlands				
	Formula	bonus 1	Formula bonus 2		Formula bonus 3		A	11
	€	Pct.	e	Pct.	€	Pct.	€	Pct.
General managers								
• Formula bonus amount	12,746	95.24	1500	2.38	1500	2.38	13,079	100
• Performance measures	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
Dealership net profit	10	83.33	0	0.00	0	0.00	10	58.82
Dealership gross profit	0	0.00	0	0.00	0	0.00	0	0.00
Dealership revenues	1	8.33	0	0.00	0	0.00	1	5.88
Dealership other	1	8.33	3	100	1	50.00	5	29.41
Department net profit	0	0.00	0	0.00	1	50.00	1	5.88
General manager total	12	100	3	100	2	100	17	100
-	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.

(continued on next page)

E.P. Jansen et al. | Accounting, Organizations and Society 34 (2009) 58-84

73

Table 4.1 (continued)

		Pane	l B. The Net	herlands				
	Formu	la bonus 1	Formula bonus 2		Form	ula bonus 3	A	A11
	e	Pct.	e	Pct.	€	Pct.	e	Pct.
General managers								
• Formula bonus floor >0	7	58.33	3	100	2	100	12	70.58
• Formula bonus cap	2	16.67	1	33.33	0	0.00	3	17.65
• Floor and cap	1	8.33	1	33.33	0	0.00	2	11.76
• Neither floor nor cap	4	33.33	0	0.00	0	0.00	4	23.53
• Kinks (beyond zero or floor)	0	0.00	0	0.00	0	0.00	0	0.00
Department managers	€	Pct.	€	Pct.	€	Pct.	€	Pct.
• Formula bonus amount	3390	92.38	750	7.62	0	0.00	3992	100
• Performance Measures	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
Dealership net profit	3	23.08	0	0.00	0	0.00	3	11.54
Dealership gross profit	0	0.00	0	0.00	0	0.00	0	0.00
Own department net profit	2	15.38	1	12.50	0	0.00	3	11.54
Own department gross profit	0	0.00	2	25.00	0	0.00	2	7.69
Own department revenues	1	7.69	0	0.00	0	0.00	1	3.85
Own department other	7	53.85	5	62.50	5	100	17	65.38
Department manager total	13	100	8	100	5	100	26	100
	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
• Formula bonus floor >0	7	53.85	6	75.00	4	80.00	17	65.38
• Formula bonus cap	2	23.08	1	12.50	0	0.00	3	11.54
• Floor and cap	2	23.08	1	12.50	0	0.00	3	11.54
• Neither floor nor cap	6	46.15	2	25.00	1	20.00	9	34.62
• Kinks (beyond zero or floor)	1	7.69	1	12.50	0	0.00	2	7.69
• When kink, convex	1		1				2	
• When kink, concave	0		0				0	

subsample than the US subsample, both in terms of overall model strength (Wald χ^2 and R^2) as well as in terms of the number and magnitude of significant regressors. We conjecture that this indicates that although incentives are much less prevalent in the Dutch sample, when incentives are used in the Dutch firms they appear to be chosen in ways that theory predicts. In the US sample, on the other hand, where the use of incentives is nearly universal, these contextual factors seem to have less effect on the design of the systems. In other words, this finding seems to suggest that where incentives have become "general practice," the effects of these contextual variables become muted.

Analysis of the effects of incentives

To test the effects of the use of incentives, we perform OLS regressions with NET PROFIT PER EMPLOYEE and PAY SATISFACTION as the chosen outcome measures, as shown in Table 8. We expected that if the incentive awards had an effect on performance and pay satisfaction, it would be in the subsequent performance period. The US (Dutch) managers learned about the outcome of their incentive compensation for 1998 (2001) in early 1999 (2002), which is coincident with when the surveys were conducted.⁷ Thus, for this analysis we used the net profit per employee in 1999 (2002) for the US (Dutch) sample.

As additional control variables we include "matched" entity size (that is, matched to the respondent's level, either dealership or department, for each record in the dataset) in both regressions,

⁷ If we examined the effect of 1998 (2001) incentives on 1998 (2001) performance, we would find—tautologically—that they are positively related because 1998 (2001) *performance-dependent* incentives are (at least to a large extent) a function of 1998 (2001) performance; e.g., 2% of net profit. In other words, within the same time period, incentives are—by definition—determined by performance, which leads to tautological relationships affected by endogeneity and simultaneity. This illustrates the importance of specifying an appropriate temporal model to investigate the effects of 1998 (2001) incentives on *subsequent* 1999 (2002) outcomes.

74

Table 4.2

Bases for assigning formula bonuses and shape of the performance/reward functions where formula bonuses are used: statistical test of differences of key elements

Panel A. General managers						
	US (202 contracts)	Netherlands (17 contracts)	t-statistic (two-tailed p-value)			
Bases for assigning formula bon	uses					
– Profits	195 (96.53%)	11 (64.71%)	5.69 $(p < 0.01)^{***}_{***}$			
– Revenues	0 (0.00%)	1 (5.88%)	$3.54 \ (p < 0.01)^{***}$			
– Other	7 (3.47%)	5 (29.41%)	4.72 $(p < 0.01)^{***}$			
Shape of performancelreward fur	nction:					
- Threshold	14 (6.93%)	12 (70.58%)	9.13 $(p < 0.01)^{***}$			
– Cap	6 (2.97%)	3 (17.65%)	$2.97 (p < 0.01)^{***}$			
- Linear in relevant range	171 (84.65%)	17 (100.00%)	$1.75 (p = 0.08)^*$			
	Panel B.	Department Managers				
	US (659 contracts)	Netherlands (26 contracts)	t-statistic (two-tailed p-value)			
Bases for assigning formula bon	uses					
- Profits	575 (87.26%)	8 (30.77%)	$8.32 (p < 0.01)^{***}$			
– Revenues	7 (1.06%)	1 (3.85%)	$1.29 \ (p = 0.19)$			
– Other	77 (11.68%)	17 (65.38%)	$8.17 \ \left(p < 0.01 \right)^{***}$			
Shape of performancelreward fun	nction					
- Threshold	87 (13.20%)	17 (65.38%)	7.56 $(p < 0.01)^{***}$			
– Cap	44 (6.68%)	3 (11.54%)	$0.96 \ (p = 0.34)$			
 Linear in relevant range 	571 (86.65%)	24 (92.31%)	$0.84 \ (p = 0.40)$			

plus sales growth and changes in employment in the net profit regressions. We include entity size to control, among other things, for the possibility that larger entities may be able to attract and retain more talented managers which could affect the observed net profit per employee as well as their pay satisfaction. Moreover, size also captures potential economies of scale which may affect net profit per employee. We include sales growth and changes in employment to control for trends in performance that might affect net profit per employee. Refer to the footnotes in Table 8 for further details on the measurement of the variables in the model.

The results in Table 8, Model [1], show no significant profit effects of incentives for the US sample (as shown by the insignificant coefficient on variable [B]). However, a significantly negative effect is indicated in the Dutch sample (as shown by the significantly negative effect (an *F*-test) of the summed coefficients on [B] + ([A] × [B]); p < 0.01). This finding appears when we do the analysis for each of the incentive elements separately; that is, for formula bonuses, discretionary bonuses, and spiffs, and thus, we do not tabulate these permutations of the overall model. These results control for entity size and entity sales and employee growth. Only sales growth is a significant predictor in this model and the unta-

bulated models for each of the incentive components separately.⁸

Regarding pay satisfaction, the results in Model [2] suggest that the use of incentives enhance pay satisfaction in the US (as shown by the significantly positive effect from variable [B]) but weaken pay satisfaction in the Netherlands (as shown by the significantly negative effect from variable $[A] \times [B]$, where the total effect of incentives on pay satisfaction in the Netherlands { $[B] + ([A] \times [B])$ } is significantly negative (an *F*-test) at p < 0.10). This finding is again consistent for each of the incentive elements (except for spiffs where the direction of the effects is the same but insignificant). These results control for entity size, which appears to have a positive effect on pay satisfaction.

The negative effect of the use of incentives on pay satisfaction in the Netherlands suggests some "aversion" towards incentive pay in the Netherlands (which the field results in the next section of the paper also reveal). Not only does this aver-

⁸ We do not interpret the coefficient for DUTCH LOCATION as that variable is measured in 2002 for the Dutch sample as compared to 1999 for the US sample (which is captured by the intercept), which makes a direct comparison of absolute profit numbers inappropriate.

	US		Nethe	erlands	t-statistic
	Mean	Std. Dev.	Mean	Std. Dev.	(two-tailed <i>p</i> -value)
Dealership size ^a	50,779,829	38,816,419	9,268,499	7,580,789	$26.81 (p < 0.01)^{***}$
General manager span of control ^b	23.34	32.81	11.40	13.54	$7.03 (p < 0.01)^{***}$
General manager experience ^c	7.26	5.34	11.56	9.38	5.63 $(p < 0.01)^{***}$
General manager delegation ^d	4.14	0.53	3.90	0.65	$4.36 (p < 0.01)^{***}$
Dealership competition ^e	4.35	0.59	3.67	0.55	$13.79 (p < 0.01)^{***}$
Dealership environmental uncertainty ^f	3.44	0.47	3.15	0.43	$7.52 (p < 0.01)^{***}$
Dealership customer service orientation ^g	4.12	0.56	4.04	0.45	$1.85 (p = 0.06)^*$
Dealership differentiation strategy ^h	3.55	0.98	3.37	0.69	$2.67 (p < 0.01)^{***}$
Bonus recipient experience ⁱ	9.82	8.06	13.49	10.51	$4.35 (p < 0.01)^{***}$

 Table 5

 Variable definitions and descriptive statistics

^a DEALERSHIP SIZE: dealership sales as reported in industry consultant database.

^b GENERAL MANAGER SPAN OF CONTROL: measured by survey item *How many employees report directly to you?*

^c GENERAL MANAGER EXPERIENCE: measured by survey item *How many years have you been in your current position?*

^d GENERAL MANAGER DELEGATION: measured by the following five survey items: (1) To what extent do you check with subordinates before making changes that affect them?; (2) To what extent do you encourage suggestions for improvement from subordinates?; (3) To what extent do you invite participation in decision making from subordinates?; (4) To what extent do you incorporate the ideas and suggestions of subordinates in decisions? and (5) To what extent do you allow subordinates to have substantial responsibility/discretion in carrying out work activities and making decisions?, fully-anchored on a 5-point Likert scale from Not at All to Very High Extent. Factor analysis (principal components) retains one factor (eigenvalue = 3.24) that explains 64.70% of the variance. The composite scale's Cronbach Alpha is 0.86.

^e DEALERSHIP COMPETITION: measured by the following three survey items: (1) In your trading area, how much competition does your dealership face?; (2) How intense is the competition for good employees in the car dealership business? and (3) How intense is price competition for new cars?, fully-anchored on a 5-point Likert scale from Very Low to Very High. Factor analysis (principal components) retains one factor (eigenvalue = 1.98) that explains 66.06% of the variance. The composite scale's Cronbach Alpha is 0.74. In terms of general validity, the scale correlates significantly with the number of dealerships located in the relevant trading area (r = 0.30; p < 0.01).

^f DEALERSHIP ENVIRONMENTAL UNCERTAINTY: measured by the following five survey items: (1) *How predictable are the market actions of car dealerships with which you compete?*; (2) *How accurately can you predict your future new car sales over the next year?*; (3) *How stable are the customer preferences and tastes for new car purchases?*; (4) *How stable are the legal constraints facing your car dealership?* and (5) *How stable is the economic environment facing your car dealership?*, fully-anchored on a 5-point Likert scale from *Very Low* to *Very High* (reverse coded). Factor analysis (principal components) retains one factor (*eigenvalue* = 1.89) that explains 37.72% of the variance. The composite scale's *Cronbach Alpha* is 0.58.

^g DEALERSHIP CUSTOMER SERVICE ORIENTATION: measured by the following six survey items: (1) To what extent do you evaluate department managers on customer service performance?; (2) To what extent do you review customer service issues in meetings with department managers?; (3) To what extent do you consider customer service to be a way to increase profits?; (4) To what extent do you find customer service important relative to financial performance?; (5) To what extent do you provide feedback to department managers about their customer service performance?; and (6) To what extent do you provide training to employees to increase customer service awareness in the car dealership?, fullyanchored on a 5-point Likert scale from Not At All to Very High Extent. Factor analysis (principal components) retains one factor (eigenvalue = 3.24) that explains 54.02% of the variance. The composite scale's Cronbach Alpha is 0.82.

^h DEALERSHIP DIFFERENTIATION STRATEGY: measured by the following survey item: Generally speaking, a car dealership can pursue one of two strategies. A cost leader emphasizes offering the lowest price to customers and pursues a low cost position relative to competitors; such dealerships often pursue a high volume of sales as well. A differentiator, on the other hand, focuses on creating something that is perceived by customers as unique through superior customer service, unique marketing approaches, etc. Please indicate the strategy of your car dealership, fully-anchored on a 5-point Likert scale from Predominantly Cost Leader to Predominantly Differentiator.

¹ BONUS RECIPIENT EXPERIENCE: measured by survey item *How many years have you been working at this dealership?*

sion seem to affect pay satisfaction (a "soft" outcome), it also seems to have an adverse effect on "hard" performance (net profit). Regarding this latter inference, however, we must caution that we cannot rule out the possibility that this result is driven by "reverse causality." That is, we cannot rule out the argument that dealerships with performance or employee productivity problems (such as those with a low net profit per employee) are more likely to use incentives to try and remedy their performance problems.

Field research follow-up

Because the Dutch data are so dramatically different from the US data, we decided to add a field research phase to our study to try to develop deeper insights into why the incentive systems are designed as they are and with what effects. We conducted detailed interviews with general and department managers in one US firm and two Dutch firms. All of these firms were relatively large and privately owned. The US firm was typical in that it offered

Author's personal copy

E.P. Jansen et al. | Accounting, Organizations and Society 34 (2009) 58-84

Table 6

Correlations											
	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.
1. Formula bonus (1/0) ^b											
2. Discretionary bonus $(1/0)^{b}$	0.24***										
3. Spiff (1/0) ^b	0.26^{***}	0.16***									
4. Dealership size	0.29^{***}	0.08**	0.27***								
5. General manager span of control	0.12***	-0.01	0.13***	0.22***							
6. General manager experience	0.09 ^{***}	0.04	0.10***	0.10***	0.01						
7. General manager delegation	0.12***	-0.01	0.06*	0.18 ^{***}	0.07*	-0.01					
8. Dealership compensation	0.21***	0.09**	0.22***	0.46 ^{***}	0.20***	0.08**	0.24***				
9. Dealership environmental uncertainty	0.13***	0.02	0.07*	0.27***	0.11***	0.07**	0.05	0.05			
10 Dealership customer service orientation	0.08**	-0.01	-0.02	0.13***	0.16***	0.04	0.33***	0.21***	0.17***		
11. Dealership differentiation	0.09***	0.13***	-0.01	-0.08^{**}	0.01	0.06*	0.10***	-0.09^{**}	0.06*	0.22***	
12. Bonus recipient experience	-0.02	0.02	-0.06^{*}	-0.04	0.02	0.41***	-0.02	-0.06	-0.03	0.02	0.08**

^a Pairwise correlations. Smallest N = 650. Two-tail significance (*** p < 0.01; ** p < 0.05; * p < 0.10).

^b FORMULA BONUS (1/0), DISCRETIONARY BONUS (1/0), SPIFF (1/0) are indicator variables for the incidence (=1) of formula bonuses, discretionary bonuses, and spiffs, respectively. The other variables are as defined in Table 5.

lucrative incentive compensation to managers (and some other employees). We selected one Dutch firm for study because it appeared to be "typically Dutch" in the sense that it made little or no use of incentive compensation. We selected the other Dutch dealership because it appeared to be different; its use of incentive compensation made it an "outlier" in the Dutch setting.

In our field visits, we wanted to understand how the firms' incentive systems were designed, how (or if) they worked, and whether managers were going to continue to use them. We were particularly looking for statements of management philosophies and beliefs regarding the use, or lack of use, of incentives.

The US firm

The US firm, located in Southern California, runs seven dealerships, three Toyota dealerships and one each for BMW, Ford, Hyundai, and Volkswagen. Most of the bonuses for dealership managers were based on a percentage of profit before tax for the relevant organizational entity (i.e., dealership or department), but other measures, including customer satisfaction and sales in units, were also considered. The bonuses were quite lucrative, averaging well over 100% of base salary. Many lowerlevel employees, particularly in the sales and service areas, were also offered potentially lucrative incentive compensation opportunities based on measures of performance that they could influence.

One corporate manager explained that motivating employees was the key to success in his business and that the motivation was largely accomplished through the incentive compensation packages offered:

This is very much a people business. It's people who give us our biggest successes as well as our biggest challenges. At our Toyota store, in sales, I would say that about 20% of our people are loyal to the company and really want to do a good job. The other 80% are just in this for the money ... and they can make more money here than anywhere else.

The managers in this firm could not imagine running their business without the types of incentive compensation plans they offered. They noted that the incentives served many valuable purposes, most

Table 7.1 Logit analysis of the determinants of the use of incentive compensation^a

	Overall	US	Netherlands
Intercept	-2.11	3.59	-5.08
	(3.27)	(5.32)	(4.10)
Dutch Location ^c	-2.48^{***b}		
	(0.41)		
Dealership size	0.25^{*}	-0.07	0.19
	(0.17)	(0.29)	(0.26)
General manager span of	0.01	0.01	0.03^{*}
control	(0.01)	(0.01)	(0.02)
General manager experience	0.03^{*}	-0.04	0.06^{**}
	(0.02)	(0.04)	(0.03)
General manager delegation	0.09	0.07	-0.05
	(0.17)	(0.20)	(0.25)
Dealership competition	-0.02	0.08	-0.04
	(0.18)	(0.24)	(0.30)
Dealership environmental	0.35**	0.34*	0.72**
uncertainty	(0.22)	(0.25)	(0.38)
Dealership customer service	0.41**	0.29	1.07***
orientation	(0.19)	(0.24)	(0.36)
Dealership differentiation	-0.04	-0.24	0.40^{*}
strategy	(0.17)	(0.21)	(0.31)
Bonus recipient experience	0.04	0.08^{**}	0.04
	(0.01)	(0.03)	(0.02)
Ν	606	474	132
Wald χ^2	124.96***	15.84	19.44 ^{**}
Pseudo R^2	27.00%	5.99%	11.84%

^a Logit regression with USE OF INCENTIVE COMPENSATION as the dependent variable set to one if the manager received a formula bonus, discretionary bonus, and/or spiff (zero otherwise).Refer to Table 5 for the definitions and descriptive statistics of the independent variables.

^b One-tail significance (*** p < 0.01; ** p < 0.05; * p < 0.10); standard errors in parentheses.

^c Equals one if dealership located in the Netherlands (zero if in US).

particularly including individual motivation, shaping of attitudes and teamwork, and attraction and retention of good employees.

But the corporate manager also recognized that his company's incentive systems were not perfect. He explained that they did not motivate all the right behaviors; for example, his salespeople were not consistently effective in following up with potential customers with whom there has been an initial contact. Some employees were also prone to manipulate some of the measures on which rewards were based, particularly customer satisfaction and time spent in service operations. Some management oversight was essential.

Our compensation attracts some very talented people. But some of these people are sharks who try to get away with whatever they can. Oth-

Table 7	.2
---------	----

Logit	analysis	of the	determinants	of the us	e of form	ula honuses ^a
Logit	analysis	or the	determinants	of the us		ula bolluses

	Overall	US	Netherlands
Intercept	-12.09 ^{***b}	-5.76^{*}	-28.93***
1	(3.32)	(4.00)	(9.53)
Dutch Location ^c	-1.89***	()	
	(0.39)		
Dealership size	0.69 ^{***}	0.33*	1.63***
	(0.18)	(0.22)	(0.60)
General manager span of	0.01^{**}	0.01^{*}	0.02
control	(0.00)	(0.00)	(0.03)
General manager	0.02	0.07^{***}	-0.02
experience	(0.02)	(0.03)	(0.03)
General manager	0.11	0.02	0.65*
delegation	(0.14)	(0.16)	(0.47)
Dealership competition	0.29**	0.20	0.53*
	(0.17)	(0.19)	(0.43)
Dealership environmental	-0.03	0.01	0.23
uncertainty	(0.19)	(0.21)	(0.61)
Dealership customer	0.05	0.06	0.18
service orientation	(0.14)	(0.15)	(0.48)
Dealership differentiation	0.26**	0.15	0.33
strategy	(0.12)	(0.13)	(0.51)
Bonus recipient	0.01	0.02	-0.00
experience	(0.01)	(0.02)	(0.02)
Ν	606	474	132
Wald χ^2	131.76 ^{***}	20.12**	24.93 ^{***}
Pseudo R^2	23.78%	5.25%	22.97%

^a Logit regression with USE OF FORMULA BONUSES as the dependent variable set to one if the manager received a formula bonus (zero otherwise).Refer to Table 5 for the definitions and descriptive statistics of the independent variables.

descriptive statistics of the independent variables. ^b One-tail significance (*** p < 0.01; ** p < 0.05; * p < 0.10); standard errors in parentheses.

^c Equals one if dealership located in the Netherlands (zero if in US).

ers have personal problems. They live from paycheck to paycheck; that is their mentality. Still others are cancers whose bad habits can spread. We coach and counsel; we give written notices; and for most of the employees, once they get the message that is the end of the problems. But for some others ...

I think the key to management in this business is all about managing attitude. How can we keep the team moving in the same direction, to get everybody to be part of the team, and prevent the cancers from spreading?

The service department manager in the Toyota dealership made the same point more tersely: "Bad habits can be corrected; bad mechanics can't."

The incentives-related beliefs of the managers in this firm were not surprising. In many ways, this firm's compensation systems, which place a high

E.P. Jansen et al. | Accounting, Organizations and Society 34 (2009) 58-84

Table 7.3 Logit analysis of the determinants of the use of discretionary bonuses^a

	Overall	US	Netherlands
Intercept	-1.36	-1.46	1.31
-	(2.71)	(3.19)	(4.95)
Dutch Location ^c	-0.93^{***b}		
	(0.39)		
Dealership size	-0.01	-0.01	-0.31
-	(0.15)	(0.18)	(0.34)
General manager span of	-0.01	-0.01	0.01
control	(0.01)	(0.01)	(0.02)
General manager experience	0.01	-0.01	0.03*
	(0.02)	(0.02)	(0.02)
General manager delegation	0.19*	0.21*	0.11
	(0.13)	(0.14)	(0.34)
Dealership competition	0.10	0.15	-0.40
	(0.13)	(0.14)	(0.54)
Dealership environmental	-0.06	-0.06	0.14
uncertainty	(0.18)	(0.19)	(0.54)
Dealership customer service	-0.01	-0.02	0.31
orientation	(0.16)	(0.16)	(0.51)
Dealership differentiation	0.26***	0.24**	0.51*
strategy	(0.10)	(0.11)	(0.41)
Bonus recipient experience	0.01	0.01	-0.01
	(0.01)	(0.01)	(0.03)
Ν	606	474	132
Wald χ^2	24.85***	9.86	14.28*
Pseudo R^2	4.69%	1.57%	4.55%

^a Logit regression with USE OF DISCRETIONARY BONUSES as the dependent variable set to one if the manager received a discretionary bonus (zero otherwise).Refer to Table 5 for the definitions and descriptive statistics of the independent variables.

^b One-tail significance (*** p < 0.01; ** p < 0.05; * p < 0.10); standard errors in parentheses.

^c Equals one if dealership located in the Netherlands (zero if in US).

proportion of compensation at risk, seem to be "typically American." In this US setting, even recognizing the possible unintended effects of the potentially lucrative incentive contracts, the systems seem to work. Most of the dealerships owned by this firm are earning excellent profits, and they have been recognized consistently with manufacturerprovided awards for being among the best-run dealerships in the US.

A "Typically-Dutch" firm?

The Dutch firm whose practices seem relatively typical for the country operates seven Volvo dealerships in cities and towns in the southern part of the Netherlands. Its managers explained that they started a decentralization program in 2004. One explained:

Table 7.4			
Logit analysis of	the determinants of	of the use of spi	ffs ^a

0,		-	
	Overall	US	Netherlands
Intercept	-2.49	-3.30	-3.60
-	(2.67)	(3.43)	(4.90)
Dutch Location ^c	-1.70^{***b}		· · ·
	(0.36)		
Dealership Size	0.01^{**}	0.01^{**}	0.05^{***}
	(0.00)	(0.00)	(0.02)
General Manager Span of	0.18	0.22	0.15
Control	(0.15)	(0.19)	(0.33)
General Manager Experience	-0.02	-0.02	-0.01
	(0.02)	(0.02)	(0.03)
General Manager Delegation	0.02	-0.08	0.34
	(0.11)	(0.13)	(0.33)
Dealership Competition	0.15*	0.06	0.76 ^{***}
	(0.11)	(0.14)	(0.27)
Dealership Environmental	0.17	0.11	0.58^{*}
Uncertainty	(0.16)	(0.17)	(0.45)
Dealership Customer Service	-0.10	-0.12	0.14
Orientation	(0.15)	(0.16)	(0.43)
Dealership Differentiation	0.03	0.06	-0.12
Strategy	(0.10)	(0.11)	(0.34)
Bonus Recipient Experience	0.01	0.01	0.02
	(0.01)	(0.01)	(0.02)
Ν	606	474	132
Wald χ^2	93.54 ^{***}	7.69	18.23**
Pseudo R^2	13.50%	1.29%	10.05%

^a Logit regression with USE OF SPIFFS as the dependent variable set to one if the manager received a spiff (zero otherwise). Refer to Table 5 for the definitions and descriptive statistics of the independent variables.

^b One-tail significance (*** p < 0.01; ** p < 0.05; * p < 0.10); standard errors in parentheses.

^c Equals one if dealership located in the Netherlands (zero if in US).

We started to give more responsibilities to mechanics and to salesmen, instead of giving them clearly defined tasks. We wanted to inspire our employees to think about their contribution to this company and our customers. They need freedom to do that, instead of us prescribing their detailed activities.

In a US firm implementing such an "empowerment" program, one would expect to see a greater use of incentives, but this Dutch firm does not provide monetary incentives to any of its employees, not even its sales people. Even though the firm did not use them, the company's CEO expressed some interest in incentive payments based on group performance, but certainly not individual performance:

I want to motivate my team as a whole. I want them to cooperate with each other. If

E.P. Jansen et al. | Accounting, Organizations and Society 34 (2009) 58-84

OLS analysis of the effects of the use of incentive compensation^a

	[1] Net profit per employee	[2] Pay satisfaction
Intercept	22,433.21	-0.78^{*}
-	(30,109.96)	(0.52)
[A] Dutch Location ^c	36,001.44 ^{***b}	-0.18
	(10,212.76)	(0.19)
[B] Use of incentives ^d	-928.39	0.17*
	(8251.75)	(0.13)
$[A] \times [B]^e$	$-27,425.85^{**}$	-0.37^{**}
	(11,976.04)	(0.21)
Size ^f	-103.20	0.04*
	(1,758.68)	(0.03)
Sales growth ^g	20,918.01**	
	(9181.62)	
Change in employment ^h	2697.33	
	(10,095.84)	
Ν	615	653
F	7.16***	9.31***
R^2	6.60%	5.44%

^a OLS regressions with [1] NET PROFIT PER EMPLOYEE and [2] PAY SATISFACTION as the dependent variable. We match NET PROFIT PER EMPLOYEE to the respondent's level for each record in the dataset; that is, when the record is for a dealership (department) manager, we compute the NET PROFIT PER EMPLOYEE variable as dealership (department) net profit divided by the number of employees in the dealership (department). For the US observations, we use 1999 data to compute this variable; for the Dutch sample, we use 2002 data. We measure PAY SATISFACTION as the extent to which the respondents are satisfied with: (i) the level of their salary; (ii) the level of their bonuses; (iii) how their bonus plans are designed; (iv) how their bonus plans are implemented; and (v) how their performance is evaluated in general, fullyanchored on a 5-point Likert scale from Not At All to Very High Extent. Factor analysis (principal components) retains one factor (eigenvalue = 3.64) that explains 72.98% of the variance. The composite scale's Cronbach Alpha is 0.90. ^b One-tail significance (*** p < 0.01; ** p < 0.05; * p < 0.10); standard errors in parentheses. ^c Equals one if dealership located in the Netherlands (zero if in US).

^d Equals one if the manager received a formula bonus, discretionary bonus, and/or spiff (zero otherwise).

^e Interaction term of DUTCH LOCATION and USE OF INCENTIVES.

f size of matched entity expressed as the logarithm of entity sales; that is, dealership or (respective) department sales for dealership or (respective) department managers, respectively.

^g sALES GROWTH of matched entity expressed as $(\text{Sales}_{t+1} - \text{Sales}_t)/\text{Sales}_t$, with $t_{Netherlands} = 2001$ and $t_{\text{US}} = 1998$.

^h CHANGE IN EMPLOYMENT of matched entity expressed as (Employment_{t+1} – Employment_t)/Employment_t, with $t_{\text{Netherlands}} = 2001$ and $t_{\rm US} = 1998.$

we applied bonuses, I would want to give a bonus to each member of the team, not to individuals. In such a system, people will correct each other.

The company's CFO elaborated on this idea:

I am against bonuses for individual employees, even for salesmen. Individual bonuses stimulate competition amongst colleagues, which is a bad development ... We want to stimulate mutual trust and cooperation.

Money only motivates in the short-run, but not in the long-run. People easily get used to money. Consequently, you need other incentives to motivate people. It is more effective to focus on the value of work to an employee. As an employer, you should aim at offering employees work that they enjoy doing and that fits with their competencies.

The managers in this firm do measure performance and they provide feedback in formal and informal performance reviews. Performance reviews provide both positive and negative feedback. One of the dealership managers explained:

My people should have the feeling that they are appreciated and that I take notice of their efforts. People spend most of their time at work and, therefore, it is important that they work in an agreeable organization and with nice colleagues. It is important that I express my appreciation for what they do.

In addition to this recognition for good performance, the firm provides other, implicit incentives. Employees who perform well have promotion possibilities, as the firm has a strong preference for filling vacancies from within. If they have potential for career advancement, they are also offered training opportunities.

Salary levels and increases are not performancedependent. With rare exceptions, all employees in the same job category earn the same salary. The CFO explained:

I do not want to give raises to people who just do a good job. That is what we pay them for. In my opinion, raises are ineffective. It might motivate people right after they get the raise, but the effect is only temporary. If the work that people do does not change, then they should not get a raise.

A dealership manager elaborated on this idea:

Even if I have a good employee who performs well, I will generally not give him a raise. I will give him positive feedback and will discuss with him the training and career progression opportunities that we can offer during the coming years.

This firm has no intention of changing its management system. One dealership manager explained:

People stay here for a long time because this is a nice company to work for. I am proud of that. Our people have nice colleagues, good equipment, and a good working atmosphere. That is a more important reason to stay than the level of the salaries that we pay.

The CFO added that employee motivation is not a problem:

Most of our people put in more effort than they should. Officially the working day ends at 6:00, but many people stay longer. They do that because they are motivated by their work and are loyal to this company.

A Dutch "Outlier"?

The second Dutch firm appears to be an outlier in the Dutch context because it does use formal incentive plans. This firm operates 10 dealerships: four Opel, one Toyota, one Suzuki, one Chevrolet/Daewoo, and three that offer brands with small market shares in the Netherlands, including Alfa Romeo, Cadillac, Corvette, Honda, Hummer and Saab. The firm is family owned. The current CEO succeeded his father in 2001. Much of the company's growth over the years has come from acquiring other dealerships or by acquiring new dealerships directly from the manufacturer.

After he took over from his father, the current CEO made some significant changes. One change was to decentralize the company. He delegated much decision-making authority to dealership and department managers and started providing the managers with much more detailed performance information, including one weekly report called a "balanced scorecard."⁹ The managers were instantly interested in their performance reports. They compared their scores with their histories and with those of other departments, and they tried to implement improvements.

The firm had already been offering bonuses to some salespeople. The new general manager, however, also introduced bonus plans for dealership general and department managers. The bonus payments are small relative to those paid in US dealerships. If they achieve their annual net profit targets, dealership general (department) managers can earn bonuses of up to 25% (8%) of their base salaries. Sales people receive a bonus of \notin 18.50 for every car they sell, but this bonus is doubled if they achieve their targets, this bonus is about 30-35% of base salary.

The general manager explained why he introduced the new bonus plans:

I introduced bonuses to make managers conscious that something had changed. They now had more decision-making authority, but they also had a new responsibility to achieve a certain performance. The implementation of the bonus contributed to making people conscious of the changes and of the performance that I expect from them.

As in the other Dutch firm, merit salary increases were not important. In recent years, they had been given to only 10% of employees. Because of the acquisitions that had been made over the years, there were some differences between salary levels of personnel performing the same jobs, but firm managers wanted to standardize the salaries.

While this firm used incentive compensation, there was widespread disbelief throughout the organization that monetary incentives provided

⁹ Despite the labeling of these reports as "Balanced Scorecards" in this company, these reports do not resemble the types of reports recommended by the Balanced Scorecard Collaborative.

much motivation. Here are some representative quotes:

It is very difficult to answer the question as to whether bonuses are effective motivational tools. It is important that the target be realistic. A bonus can easily have the wrong effect. If somebody received a bonus for several subsequent years, people often see the bonus as an acquired right. And denying the bonus in a bad year has very negative effects on the motivation of these employees. I am not convinced that bonuses are effective tools to motivate people. [general manager]

I know that it is a cliché, but I believe that giving attention to people and demonstrating interest in their work are powerful motivators. Giving people compliments and highlighting their accomplishments in meetings with other employees are more effective than monetary incentives. [general manager]

Due to the economic conditions, 2004 was not a good year. Consequently, many of my department managers did not realize their targets and did not receive their bonus. In my opinion, this has hardly affected their motivation. [dealership manager]

. . .

. . .

Money is not the main incentive for our people to do their best. It is a complete package, including the appreciation by a superior, a compliment, and the ability to work for an interesting company. Pay is important, but it is not the most important motivator. [CFO]

With such lack of enthusiasm throughout the organization for incentives, it was far from clear that they would continue to be offered. In fact, perhaps as a precursor of the future, some employees had already been allowed to exchange their bonus potentials for guaranteed salary payments, as one dealership manager explained:

It happened several times that good employees put us under pressure to abolish their bonus in exchange for a higher fixed salary. Usually these guys had good offers to work for another company in the region. We decided several times to comply with the requests to abolish the bonus and to raise the base salary. Apparently these people highly appreciate the security of a fixed income.

The field studies sharpened our understanding of the differences in management philosophies across the two countries. The US managers believed strongly in the power of incentives to influence behavior. They also used the incentive contracts to serve other purposes, including the attraction and retention of good people. In contrast, Dutch managers emphasized the importance of non-monetary motivators, such as recognition. The Dutch management styles appear typically "feminine." The Dutch managers are inclined to give their employees a degree of independence, but they also take care of them and emphasize cooperation and equality. The long-term orientation aspect of culture is also observable. Some Dutch managers argue that money only has a short-term effect, and most people prefer the security of a fixed income, even if the variable income has the potential to be significantly higher.

Discussion and conclusions

This study was aimed at providing a better understanding of the similarities and differences in the incentive compensation practices used in US and Dutch automobile retailers. When we began our study, we did not have definite expectations as to what we would find. Plausible explanations could be given for predictions of both similarities and differences in practices across the two countries.

Our results suggest strongly that the national setting does matter. Its effects on the design of these practices are not dominated by other situational factors. The results show dramatic differences in incentive compensation practices between the US and Dutch firms. As compared to the US firms, the Dutch firms are much less likely to provide their managers with incentive compensation in any form. Where incentive compensation is used, significant cross-country differences exist. US firms provide larger incentives, and they are significantly more likely to base formula bonus awards on a summary financial measure, particularly net profit. The Dutch firms are significantly more likely to base their bonus awards on other performance measures such as, most commonly, sales measured in units. As compared to the US firms, the Dutch firms are much more likely to use complex performance/

^{. . .}

reward functions that define both performance thresholds and caps.

Our results also suggest that in the relatively few instances where Dutch dealerships rely on incentives, their use accords more consistently with predictions from incentives theory than in the US sample. In the US sample, on the other hand, where incentives are nearly universal, the differentiations across settings appear less distinct. This suggests that when incentives become "general practice," the effects of contextual differences become muted.

Finally, we found evidence supporting a "contextual fit" hypothesis. While we could not detect a positive effect on profits from the use of incentive compensation in the US firms, we did find a positive effect on pay satisfaction in those firms. In the Dutch firms, though, the effects of the use of incentive compensation on both net profit and pay satisfaction were negative. This finding suggests that provision of incentives should not be considered part of a set of "global best practices." This finding suggests that some incentives-related theories, such as agency theory, should be modified to make them situationally contingent.

While this study reveals some dramatic crossnational differences in practices relating to the design and use of incentives, we are just scratching the surface in understanding the nature and causes of these differences. Much more research is needed in this area both to mitigate the limitations of this study and to extend the research in useful directions. In particular, instead of blunt cross-country contrasts, better measures of, or other controls for, the many other possibly relevant "independent" variables are needed. These variables include multiple aspects of national culture, including the ones discussed in this paper-beliefs about the role of corporations, masculinity, and long-term orientation-as well as many that fall under the broad rubric of institutional variables. In this paper we discussed three potentially relevant institutional variables: formalization of the terms of employment, tax rates, and experiences with incentive systems. After we conducted the study we learned of another institutional factor that could contribute to our findings. In the Netherlands, bank financing calculations, such as for the purchase of a house, often only consider individuals' fixed incomes, while such calculations in the US typically consider total compensation, including bonuses. This difference could explain some of the Dutch managers' preferences for fixed salary.

In closing, we should acknowledge some limitations of this study. First, there was a three-year lag between the time of the collection of the US data and collection of the Dutch data. The major elements of the incentive systems probably did not change over this period, but some minor elements might have. Second, this study focused only on monetary incentives. Obviously these incentives must be understood in the contexts in which they are used, and part of that context includes other incentives that are offered to employees, such as stock awards, promotions, and layoffs. Virtually all automobile dealerships are privately owned, so stock-based compensation is not an important concern for the firms studied here, but the findings might be different in publicly-traded firms. Finally, these findings and extensions should be studied in other industry settings to see if they can be generalized.

References

- Adler, N. (1987). *International dimensions of organizational behavior*. Boston, MA: Kent Publishing.
- Allinson, C., & Hayes, J. (2000). Cross-national differences in cognitive style: Implications for management. *International Journal of Human Resource Management*, 11(1), 161–170.
- Alvesson, M., & Willmott, H. (1996). Making sense of management: A critical introduction. London: Sage Publications.
- Baker, G., Jensen, M., & Murphy, K. (1988). Compensation and incentives: Practice vs. theory. *Journal of Finance*, 43(3), 593–616.
- Baskerville, R. F. (2003). Hofstede never studied culture. *Accounting, Organizations and Society, 28*(1), 1–14.
- Bekker, S., Fouarge, D., Kerkhofs, M., Román, A., de Voogd-Hamelink, M., Wilthagen, T., et al. (2003). Trendrapport: Vraag naar Arbeid 2002 (Tilburg, August 2003).
- Benedict, R. (1944). Notities over het gedrag van Nederlanders. In: van Ginkel, R. (1977). Notities over Nederlanders: Antropologische Reflecties Amsterdam/Meppel: Boom, pp. 87–97.
- Birnberg, J. G., & Snodgrass, C. (1988). Culture and control: A field study. Accounting, Organizations and Society, 13, 447–462.
- Björkman, U., Fey, C., & Park, H. (2007). Institutional theory and MNC subsidiary HRM practices: Evidence from a threecountry study. *Journal of International Business Studies*, 38, 430–446.
- Boselie, P., Paauwe, J., & Jansen, P. (2001). Human resource management and performance: Lessons from the Netherlands. *International Journal of Human Resource Management*, 12(7), 1107–1125.
- Bruce, A., Buck, T., & Main, B. (2005). Top executive remuneration: a view from Europe. *Journal of Management Studies*, 42(7), 1493–1506.

- Budhwar, P., & Sparrow, P. (2002). An integrative framework for understanding cross-national human resource management practices. *Human Resource Management Review*, 12, 377–403.
- Calori, R., & de Woot, P. (1994). *A European management model: Beyond diversity*. New York: Prentice-Hall.
- Carr, C., & Pudelko, M. (2006). Convergence of management practices in strategy, finance and HRM between the USA, Japan and Germany. *International Journal of Cross Cultural Management*, 6(1), 75–100.
- Chiang, F., & Birtch, T. (2007). The transferability of management practices: Examining cross-national differences in reward preferences. *Human Relations*, 60(9), 1293–1330.
- Chow, I. H. (2004). The impact of institutional context on human resource management in three Chinese societies. *Employee Relations*, 26(6), 626–642.
- Clark, T., Gospel, H., & Montgomery, J. (1999). Running on the spot? A review of twenty years of research on the management of human resources in a comparative and international perspective. *International Journal of Human Resource Man*agement, 10(3), 520–544.
- Communal, C., & Brewster, C. (2004). HRM in Europe. In A. Harzing & J. Van Ruysseveldt (Eds.), *International Human Resource Management* (pp. 167–194). London: Sage.
- D'Iribarne, P. (1989). La Logique de L'Honneur: Gestion des Enterprises et Traditions Nationales. Paris: Seuil.
- Frocham, M. I. (2005). Executive pay the Latin way. World-at-Work Journal (Fourth Quarter), 72–79.
- Gerhart, B., & Fang, M. (2005). National culture and human resource management: Assumptions and evidence. *The International Journal of Human Resource Management*, 16(6), 971–986.
- Gibbs, M., Merchant, K., Van der Stede, W., & Vargus, M. (2006). The structure of incentive contracts: Evidence from auto dealerships. *Working Paper*, University of Chicago, University of Southern California, London School of Economics and University of Texas-Dallas.
- Gibbs, M., Merchant, K., Van der Stede, W., & Vargus, M. (2004). Determinants and effects of subjectivity in incentives. *The Accounting Review*, 79(2), 409–436.
- Gooderham, P., Nordhaug, O., & Ringdal, K. (1999). Institutional and rational determinants of organizational practices: Human resource management in European firms. *Administrative Science Quarterly*, 44, 507–531.
- Granovetter, M. (1985). Economic actions and social structure: The problem of embeddedness. *The American Journal of Sociology*, 91(3), 483–510.
- Greiner, L. E. (1998). Evolution and revolution as organizations grow. *Harvard Business Review*, 76(3), 55–66.
- Harrison, G. L. (1993). Reliance on accounting performance measures in superior evaluative style: The influence of national culture and personality. *Accounting, Organizations* and Society, 18(4), 319–339.
- Hofstede, G. (1980a). Culture's consequences: International differences in work-related values. Beverly Hills, CA: Sage.
- Hofstede, G. (1980b). Motivation, leadership and organization: Do American theories apply abroad? *Organizational Dynamics*, 8, 42–63.
- Hofstede, G. (1984). The cultural relativity of the quality of life concept. Academy of Management Review, 9(3), 389– 398.
- Hofstede, G. (1991). *Cultures and organizations: software of the mind*. New York, NY: McGraw-Hill.

- Hofstede, G., & Hofstede, G. J. (2005). *Cultures and organizations: software of the mind* (2nd ed.). New York, NY: McGraw Hill.
- Hofstede, G., & Soeters, J. (2002). Consensus societies with their own character: National cultures in Japan and the Netherlands. *Comparative Sociology*, 1(1), 1–16.
- Jensen, M., & Meckling, W. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305–360.
- Jensen, M., & Murphy, K. (1990). Performance pay and top management incentives. *Journal of Political Economy*, 98(2), 225–264.
- Kachelmeier, S., & Shehata, M. (1997). Internal auditing and voluntary cooperation in firms: A cross-cultural experiment. *The Accounting Review*, 72(3), 407–431.
- Kanter, R., & Corn, R. (1994). Do cultural differences make a business difference? Contextual factors affecting cross-cultural relationship success. *Journal of Management Development*, 13(2), 5–23.
- Kerr, S. (2004). Establishing organizational goals and rewards. Academy of Management Executive, 18(4), 122–123.
- Leslie, K., Loch, M., & Schaninger, W. (2006). Managing your organization by the evidence. The McKinsey Quarterly, 3 (October 2).
- Lijphart, A. (1975). The politics of accommodation: Pluralism and democracy in the Netherlands. Berkeley, CA: University of California Press.
- Long, R., & Shields, J. (2005). Best practice or best fit? High involvement management and base pay practices in Canadian and Australian firms. *Asia Pacific Journal of Human Resources*, 43, 52–75.
- Looise, J., & Paauwe, J. (2001). HR research in the Netherlands: Imitation and innovation. *International Journal of Human Resource Management*, 12(7), 1203–1217.
- McSweeney, B. (2002). Hofstede's model of national culture differences and their consequences: A triumph of faith-a failure of analysis. *Human Relations*, 55(1), 89–118.
- Merchant, K. (1989). Rewarding results: Motivating profit center managers. Boston, MA: Harvard Business School Press.
- Merchant, K., Chow, C., & Wu, A. (1995). Measurement, evaluation and reward of profit center managers: A crosscultural field study. *Accounting, Organizations and Society*, 20(7/8), 619–638.
- Murray, V., Jain, H., & Adams, R. (1976). A framework for the comparative analysis of personnel administration. Academy of Management Review, 1(1), 47–57.
- Newman, K., & Nollen, S. (1996). Culture and congruence: The fit between management practices and national culture. *Journal of International Business Studies*, 27, 753–779.
- Nusbaum, A. (1999). Management pay in Japan: Salarymen's fat bonus goes West. The Financial Times (January 21, 1999), 19.
- Pennings, J. M. (1993). Executive reward systems: A crossnational comparison. *Journal of Management Studies*, 30, 261–280.
- Pudelko, M., & Harzing, A. (2007). How European is management in Europe? An analysis of past, present and future management practices in Europe. *European Journal of International Management*, 1(3), 206–224.
- PricewaterhouseCoopers (2006). Corporate Performance Management. www.globalbestpractices.com>.

- Romani, L. (2004). Culture in management: The measurement of differences. In A. Harzing & J. Van Ruysseveldt (Eds.), *International Human Resource Management* (pp. 141–166). London: Sage.
- Rosenzweig, P. M. (1994). When can management science be generalized internationally? *Management Science*, 40(1), 28–39.
- Rowley, C. (1998). Human resource management in the Asia Pacific region: Convergence questioned. London: Frank Cass.
- Sandino, T. (2007). Introducing the first management control systems: Evidence from the retail sector. *The Accounting Review*, 82(1), 265–293.
- Schuler, R., Dowling, P., & DeCeri, H. (1993). An integrative framework of strategic international human resource management. *International Journal of Human Resources Management*, 4, 717–764.
- Simons, R. (1995). Control in an age of empowerment. Harvard Business Review, 73(3), 80–88.
- Solli, R. & P. Demediuk (2007). Global is local: Recycling familiar components. Unpublished paper presented at Glob-

alizing, Managing, and Management Accounting Conference, University of Alberta.

- Sorge, A. (2004). Cross-national differences in human resources and organization. In A. Harzing & J. Van Ruysseveldt (Eds.), *International Human Resource Management* (pp. 117–140). London: Sage.
- Towers Perrin (2006). Managing global pay and benefits: 2005–2006 worldwide total remuneration survey report. Stamford, CT: Towers Perrin.
- Trompenaars, F., & Hampden-Turner, C. (1997). *Riding the* waves of culture: Understanding cultural diversity in business (2nd ed.). London: Nicolas Brealey.
- Van der Stede, W. (2003). The effect of national culture on management control and incentive system design in multi-business firms: Evidence of intra-corporate isomorphism. *European Accounting Review*, 12(2), 263–285.
- Welch, D. (1994). Determinants of international human resource management approaches and activities: A suggested framework. *Journal of Management Studies*, 32, 139–164.