

Pay for Performance in Korean Companies: Explanations from Institutional and Motivation Theories*

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Despite fundamental conflicts with their culture and traditional management practices, pay for performance has emerged as an ascendant compensation method in Korean companies within the recent decade. The current research attempts to explain the phenomena, relying on institutionalism and motivation theories. The research develops instrumentality perception as an index of legitimacy at the level of individual employees, and explores whether aspects of a company adoption of pay for performance influence employees' instrumentality perception. With a multilevel frame of data from 635 individual employees from 30 companies in Korea, results are, in general, congruent with the premises of institutionalism. Factors such as proportion of employees under the pay-for-performance system, proportion of individual performance as a determinant of the pay mix, and industry adoption rate influence employees' perception of instrumentality. Discussion and implications of the results are included.

Key words: pay-for-performance, isomorphism, instrumentality perception

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1. Introduction

Issues of behaviors of participants and the wider context in which such behaviors occur have resided as the main theme of organizational sociology, and this is especially the case with institutional theory (Scott, 2001). Even though institutionalism does not preclude individual or collective interests in explaining specific organizational and societal phenomena (DiMaggio, 1988), the theory is originally rooted in the predominance of institutional

pressures embedded in observed changes in the organization field. Why do companies adopt similar management practices, and why do scattered organizations resemble one another? To these questions, institutionalism responds that it is due to institutional pressures (DiMaggio & Powell, 1991). Compared to the straightforward and well supported answer, however, how individual employees at the micro level respond to the institutional pressure has rarely been examined: how do employees respond to a new practice, especially when the practice conflicts with their existing values?

How does the diffusion process occurring at the company level influence employees' perception?

Pay for performance in Korean companies provides a very suitable case to explore such research questions. The outburst of the pay-for-performance system in Korean companies is quite notable. In 1997, only 3.6% of Korean firms with more than 100 employees used the system, but the proportion has risen to 37.5% in 2003 (Korea Ministry of Labor, 2003). The pay system is in fundamental conflict with traditional Korean cultural values and management practices (Hofstede, 1991; Kim, Park & Suzuki, 1990), and strong resistance was reported when the pay system was first introduced in representative conglomerates in Korea, such as Samsung and Doosan (Bae & Rowley, 2001). Despite the suspicions, however, data indicate that the new pay system has grown at a rapid rate, and, moreover, recent studies suggest that the pay system works to enhance Korean employees' motivation (Chang, 2003, 2001). That is, the new pay system that is markedly in conflict with their traditional practices and values, may, in fact, work to motivate employees. What is in the black box? Relying upon institutional theory, the current research attempts to explain this phenomenon, and to explore the links between scenes at the company level and stories at the individual level.

II. Management Practices Diffusion and Employees' Perceptions

Originally rooted in the open systems theory of highlighting the importance of the wide context or environment (Scott, 2001), institutionalism has been ramified upon diverse spheres, not only in the sophistication of the dynamic politics in changes but also in the applications in a wider empirical settings and agenda. Regarding the dynamic politics embedded in organizational changes, going beyond a mere diffusion of certain organizational forms, the issue is highlighted as to why organizations respond differently to seemingly similar institutional pressures (DiMaggio, 1988; Oliver, 1991; Scott, 2001). Regarding the width of the applications, on the other hand, scholars have benefited from the theory in attempts to explain phenomena in diverse management areas such as strategy diversification (Haveman, 1999), incentive systems (Eisenhardt, 1988), family-friendly issues (Goodstein, 1994; Ingram & Simons, 1995; Milliken, Martins, & Morgan, 1998), and employee resistance at the workplace (Pradas & Pradas, 2000).

As to the second sphere of ramification, to which the current research belongs, the main premise is the diffusion of a management practice, i.e., organizations with considerable diversity in approach and form in the initial

stage are vulnerable to the inexorable push and institutional pressures toward homogenization, and such practice becomes a constraining process that forces units to resemble others (DiMaggio & Powell, 1991). As reflected in the famous metaphor of the 'iron cage' (DiMaggio, 1988), humans become powerless and inert in the face of inexorable social processes. The homogenization process is captured by isomorphism, or the process that forces one unit in a population to resemble other units that face the same set of environmental conditions. DiMaggio and Powell (1991) further assert three facets of isomorphism: coercive, normative, and mimetic, wherein managers compulsively conform to rules or regulations (coercive), may look for norms or acceptable solutions held in their field (normative), or may model their organizations after other organizations in the industry (mimetic).

The homogenization premise is especially valid in instances of diverse management practices in explaining diffusion of compensation practices, because adopting a pay system is clearly up to environmental or institutional pressures (Eisenhardt, 1988). Compensation practice in Korean companies in the last decade clearly supports the idea of isomorphism. In the 1990s, there existed a trend to transform companies toward performance-based management from traditional seniority-based compensation. These attempts

to survive in the competitive environment have been identified as the New Human Resource Management trend (NHRM). However, the economic crisis and the IMF bailout have strikingly hastened the change. The efficacy of seniority pay systems has been seriously questioned and there has been increasing interest in more flexibility and performance in the pay mix (Bae & Rowley, 2002). Companies in Korea have been under severe pressure to transform their systems of management, especially their compensation practices, to adapt to performance-based management.

The institutional theory asserts that adoption of a management practice is a reflection of external pressures more than a result of efficiency, and, indeed, the pay-for-performance system has been adopted at a rapid rate among Korean companies without any proven effect on firm performance or employee motivation. Moreover, the institutional theory insists that by virtue of their size and visibility, pressures for isomorphism and requirements for social legitimacy are particularly salient in large organizations (Goodstein, 1994). Empirical studies demonstrate that family-friendly policies, for instance, are more often utilized in larger companies (Goodstein, 1994; Ingram & Simons, 1995). Statistics on the diffusion of pay for performance among Korean companies also show consistent trends: a report by the Korea

Ministry of Labor (2002) provides information that 87.5% of companies with more than 5000 employees have adopted the system, a notable contrast to 26.0% in the case of companies with 100 and 299 employees.

In addition, industry type has been regarded as a factor that explains differential institutional pressures. For instance, studies by Goodstein (1994), Ingram and Simons (1995), and Miliken, Martins and Morgan (1998) prove the effect of industry type on the adoption of family-friendly policies in the way that service industries tend to adopt more policies than do traditionally male-dominated industries, such as manufacturing. Statistics on the pay-for-performance practice in Korean companies provide information consistent with these premises. The Korea Ministry of Labor report (2002) shows that the adoption rate of the pay-for-performance system in Korean companies differs by industry type: finance and insurance industries show the highest rate (53.3%), while the lowest rate (10.8%) is reported in the transportation and warehousing industries.

Central to the institutional theory is the assumption that humans have a preference for certainty and predictability (DiMaggio, 1988), and the isomorphic process rules out, to some extent, potential uncertainties of a firm in a field because isomorphism demonstrates the social fitness of an organization as well as organizational conformity to insti-

tutional demands (Deephouse, 1996; DiMaggio & Powell, 1991; Goodstein, 1994; Meyer & Rowan, 1977). Therefore, institutionalization implies that people conform to taken-for-granted ways of doing things and processes (Eisenhardt, 1988). Legitimacy results from conforming to the isomorphic phenomena, and, accordingly, status is conferred by internal and external actors. This means that a legitimate organization is defined as one whose values and actions are congruent with other actors' values and expectations in the society (Deephouse, 1996; Pfeffer & Salancik, 1978).

As DiMaggio and Powell (1991) assert, similarity to other organizations or conforming to conventional customs can make it easier for organizations to transact with other organizations, to attract career-minded staff, and to be acknowledged as legitimate and reputable. Therefore, as organizations achieve similarity and legitimacy in the external environment, they can gain functional consequences as the labor force may also perceive such practices as more acceptable and legitimate. That is, legitimization can also occur inside the company, or among members (Meyer & Rowan, 1977).

The belief that employees' perception is influenced by diffusion at the institutional and company level is also supported in the social information processing approach (Salancik & Pfeffer, 1978). This approach

asserts that the social environment provides a direct construction of meaning by providing socially acceptable beliefs and attitudes, and that, therefore, individuals develop attitudes and beliefs as a function of the information available in the social environment. The approach further supports that, in such social environments, individuals' beliefs and norms will be influenced by salient information regarding the necessity or taken-for-granted status of the new practice. Enriched by the institutionalism, the premise is that as more and more companies in the industry adopt a management practice, employees in the industry tend to be exposed to a social atmosphere in support of the practice as an industry norm. In this sense, the level of implementation in a company may enhance the level of internalization of employees such that employees tend to take certain practices for granted and to attach symbolic meanings to the practices as the company implements them (Kostova, 1999).

How do members perceive legitimacy of the newly adopted practice? It may occur in diverse facets/forms. For instance, Kostova (1999) identified this process of achieving internal legitimacy as internalization. She explains that internalization is characterized by a strong belief in and acceptance of a practice's goals and values and a willingness to exert considerable effort for the implementation of the practice. Institution-

alism asserts that legitimacy of norms and practices indicates acceptance as a "taken-for-granted status," which increases with the diffusion of the practice (DiMaggio & Powell, 1991; Ingram & Simons, 1995), and internalization means that the diffusion enhances employees' acceptance of certain practices as taken for granted. House and colleagues (1995) also suggest that groups of individuals tend to collectively construct shared interpretations of an ambiguous reality, and thus through the process of collective sense making, individuals and organizations may show homogeneity of common beliefs and values for certain events and practices.

Instrumentality perception of the employees, or the belief that the newly adopted practice will actually contribute to gaining the intended outcomes may be regarded as one profile of such internalization. If an individual believes that an object leads to desired consequences, that employee will shape a positive attitude toward it and thus show enhanced job performance (Sheridan, Slocum & Min, 1975; Vroom, 1964; Wanous, Keon & Latack, 1983). Empirical proofs exist that the instrumentality concept can be utilized to explain employee attitudes at the workplace. For instance, a study shows that employees' union instrumentality perception significantly influenced their behaviors toward the union such that employees tend to express a higher propensity to unionize or make a positive

union vote when they perceive greater instrumentality of the union in attaining outcomes such as higher wages and job security (DeCotiis & LeLouarn, 1981). This instrumentality concept was originally developed in the expectancy theory (Vroom, 1964), but has been proven to be cross-culturally valid (Matsui & Terai, 1975).

Application of this concept to the case of the new pay system in Korea tenders a consistent issue. The report by Korea Ministry of Labor (2002) shows that companies adopt the pay-for-performance practice mainly to enhance firm performance, motivate employees, and recruit and retain capable employees. Therefore, the instrumentality perception in the case becomes how employees perceive the instrumentality of the new pay system in achieving these objectives. Those who perceive instrumentality at higher levels will better accept the values and goals of the new pay practice.

Overall, organizations tend to become homogenized in diffusing a certain management practice, as do members' beliefs regarding the practice. As to the institutional factors, institutional studies reveal diverse factors. Among company-specific factors, the pay structure varies across companies (e.g., Eisenhardt, 1988), and thus, employees' perceptions may be influenced by the diverse facets of the pay structure. The first is the proportion of employees under the pay-for-

performance system in a company. Companies can report that they adopted the new system even though the employees who are paid under the system are indeed very few, or only employees in certain areas are covered by the pay practice. Moreover, employees can be more sensitive to the proportion of employees whose compensation depends on individual performance than to whether the practice is merely adopted or not, as a company policy. For instance, they may not care if the pay-for-performance practice is mainly managed for high-level managers. Therefore, the proportion of employees under the pay-for-performance system in a company, or the width of the pay system coverage, seems to be an appropriate institutional factor that influences employees' perception. Therefore, it was hypothesized that,

Hypothesis: Institutional factors will influence employees' instrumentality perception of the pay-for-performance system such that

1. as the proportion of employees under the pay system in the company increases, employees' instrumentality perception will increase.

The next factor is related to the strength of the pay-for-performance practice. Very few companies in Korea that have adopted pay-for-performance use it for the entire

portion of the pay mix. The report by the Korea Ministry of Labor (2002) shows that about 90% of the companies that have adopted pay for performance limit the variable portion up to 50%. Therefore, the proportion of individual performance as a determinant of the total compensation can be an institutional factor that influences the perception of pay practice among employees. Therefore, it was hypothesized that,

2. as the proportion of individual performance as a determinant of the compensation level increases, employees' instrumentality perception will increase.

In addition, the year that the company adopted the pay system may be an institutional factor. Considering that pay for performance is quite at odds with their traditions and cultural values, employees under the pay system for a longer time may become institutionalized, with the resultant collective sense making that occurs enabling the practice to become taken for granted. In a similar vein, it is also noted that, as organizations become mature, macro-level variables (e.g., company-level factors) will have more influence on micro-level variables (e.g., individual-level factors) (House et al., 1995). Therefore, the year the company adopted the pay system, or the length or maturity of the pay system in the company,

may influence employees' perception of the system. Therefore, it was hypothesized that,

3. as the company has utilized the pay system for a longer time, employees' instrumentality perception will increase.

Finally, industry adoption rate (e.g., how many companies in the industry have adopted the practice) can be an institutional factor that influences employees' instrumentality perception. The existing studies supported the effect of adoption rate in an industry on the decision of a company (e.g., Goodstein, 1994) (e.g., as more organizations within the sector adopt a practice, the greater pressure an organization faces to adopt the practice). This institutionalization process can be expanded to the case of individual employees. That is, employees in an industry with a high adoption rate may be exposed to more information of the need to adopt a new practice, and thus shape positive perceptions. The mechanism is supported by the networking theory. According to the theory, informal network can be easily developed beyond the boundary of the company and can be expanded to colleagues in the same field. Through the informal networking, information is diffused and individuals are influenced by the opinions and information held by the community (e.g., Granovetter, 1973; Morrison, 2002). Therefore,

it was hypothesized that,

4. as the proportion of the companies in the industry using the pay system increases, employees' instrumentality perception will increase.

III. RESEARCH METHODS

3.1 Data Collection

The current research utilizes a multilevel research design. I collected data from HR managers, individual employees, and a secondary resource. HR managers were asked about company pay-for-performance practices as well as company background information, while individual employees were asked about their perceptions and attitudes. The 2002 report of the Ministry of Labor was used as a secondary data source to collect information on the average adoption rate of the pay-for-performance system across diverse industries.

I collected data from 635 individual employees from 30 companies in Seoul, Korea, from August 2002 to January 2003. The sample consists of 11 companies (250 individuals) in manufacturing, 6 companies (149 individuals) in banking/finance, 10 companies (164 individuals) in service industries, 1

company (34 individuals) in construction, and 2 companies (38 individuals) in consulting industries. A total of 1,010 individual questionnaires were distributed and 652 individual questionnaires were collected, representing a 64.6% response rate. Excluding 17 insufficient individual responses, 635 individual questionnaires were used for the analysis.

Questionnaire items were first translated and then re-translated by a third person into English; finally, the re-translated items were compared with the original expressions to examine the validity of the translation. Moreover, a group of Korean Ph. D. candidates with work experience in the HR area of Korean companies discussed each translated item to avoid any misunderstanding caused by cultural differences.

3.2 Variable Measurements

Instrumentality perception of pay-for-performance Individual employees were asked the degree to which they believe the pay-for-performance system will contribute to (1) selecting capable employees, (2) retaining capable employees, (3) enhancing individual performance, and (4) enhancing firm performance. Each question was measured on a seven-point Likert scale. Factor analysis revealed that these responses were clustered as one factor, and a reliability test

showed an alpha coefficient of .81. Therefore, an average was taken to reflect employees' instrumentality perception.

Proportion of employees under the pay-for-performance system in the company

The variable was measured to reflect the scope of the pay system coverage in the company. All the sampled companies reported that they had already adopted the pay-for-performance system. I further asked HR managers about the proportion of the employees whose compensation reflects the pay-for-performance system. The proportion ranged from 28% to 100%.

Proportion in pay mix I asked HR managers the proportion of individual performance in determining the total amount of an employee's compensation. In order to solicit more valid responses, I asked them to fill out proportions of each of the mix components including seniority, individual performance, team performance, and organizational performance so that responses to these factors totaled 100%. Then, I used the proportion written for individual performance as the variable.

Year adopted I asked HR managers in which year the company had adopted the pay-for-performance system. The variable was then calculated by subtracting the year from 2003.

Industry adoption rate The variable was collected from the 2002 report of the Korea

Ministry of Labor. The report provides proportions of companies within each industry that have adopted the pay-for-performance system. The adoption rate of the industry that each sampled company belongs to was coded as proportions.

Control Variables Five individual demographic variables were statistically controlled: age, tenure, education, gender, and position. Tenure was coded by the months in the current organization. Education was coded as "high school graduate" (1) up to "graduate school and above" (4). Gender was dummy-coded (male 0 and female 1), and position was measured by the level of the position in the company, starting from clerk (coded 1), and ending with general manager (coded 5).

In addition, two company variables were controlled in the analyses. The first was the size of the company, measured by the number of total employees. The next control variable was the age of the company. I asked the HR manager when the company was established. The age of the company variable was then calculated by subtracting the year from 2003. These two variables have been regarded as significant institutional factors affecting the isomorphic process (Eisenhardt, 1988; Judge & Zeithaml, 1992), and thus need to be controlled in the analyses.

IV. RESULTS

Descriptive statistics and correlations among the variables at the two levels are shown in <Table 1>. Notable results at the individual level are significant correlations of instrumentality perception with age ($r=.09$, $p<.05$), education level ($r=.08$, $p<.05$), and position level ($r=.13$, $p<.01$). The results indicate that as employees get older, are more educated, and are promoted to higher levels, they tend to perceive greater instrumentality of the pay-for-performance system.

Moreover, at the firm level, positive correlations are found between firm size and firm age ($r=.52$, $p<.01$) as well as between

firm age and proportion of employees under the pay system ($r=.40$, $p<.05$). These results imply that as the firm becomes older, it becomes not only bigger in size but also tends to utilize the pay-for-performance system for a larger portion of employees.

The current research examines the effects of institutional factors (collected from HR managers) on employees' instrumentality perception (collected from individual employees). This is a multi-level model, and the Ordinary Least Squares regression is not appropriate in this case because of the individuals nested in companies. Therefore, the Hierarchical Linear Model (HLM, hereafter) was used to examine the research hypotheses. The HLM is a two-stage strategy: in the first stage,

<Table 1> Descriptive Statistics and Pearson Correlations among the Variables

Variables	Means	s.d.	1	2	3	4	5	6
Individual Level								
1. Gender	1.24	.43	1.00					
2. Age	31.72	5.19	-.45**	1.00				
3. Tenure	71.36	54.91	-.25**	.69**	1.00			
4. Education	2.78	.68	-.23**	.20**	-.05	1.00		
5. Position	2.19	1.14	-.31**	.64**	.51**	.21*	1.00	
6. Instrumentality perception	5.59	.85	-.05	.09*	.05	.08*	.13**	1.00
Firm Level								
1. Company size	5230	10234	1.00					
2. Company age	21.27	15.45	.52**	1.00				
3. Year adopted	6.66	6.45	-.06	.18	1.00			
4. Proportion of employees	79.38	26.51	.12	.40*	.16	1.00		
5. Proportion in pay mix	39.62	25.00	.13	.13	-.03	.12	1.00	
6. Industry adoption rate	40.18	5.86	-.18	.29	.17	.23	.13	1.00

* $p < .05$ ** $p < .01$

$n=619$ at least for individual level and $n=30$ for firm level.

relationships among level-1 variables (i.e., individual-level variables) are estimated separately for each higher-level unit (i.e., for each company), and in the second stage, the higher-level variables are used to predict the intercepts (main-effect model) and slopes (cross-level interaction) found at the first stage (Hofmann, Griffin & Gavin, 2000). In the current research design, all the predictors at the individual level were treated as control variables, and the independent variables were all at the company level. Therefore, only the main-effect model

was examined. In addition, due to the significant differences in scales, all the company-level variables were standardized before being entered in the analyses.

Results show that, among the control variables, size of the company ($B=.12$, $p<.05$) shows a positive effect on employees' instrumentality perception, indicating that employees in large companies tend to perceive the pay-for-performance system as more instrumental in attaining the intended purposes. Among the independent variables, proportion of employees in the company under

<Table 2> Hierarchical Linear Modeling Results for Instrumentality Perception^a

Variables	Instrumentality Perception
Level 1	
Age	-.07 (.00)
Gender	-.12 (.04)
Tenure	.01 (.00)
Education	.03 (.06)
Position	.28 (.00)
Level 2 ^b	
Company size	.12**
Company age	.06
Year Adopted	.01
Proportion of employees	.16**
Proportion in pay mix	.09*
Industry adoption rate	.14**
Model Deviance	1608.34
Level 1 Variance	.60
Level 2 Variance	2.86 (9.14) ^c

** $p<.01$ * $p<.05$

^a N (companies) is 30. Entries are estimations of fixed effects with robust standard errors, and estimations of variance components are in the parentheses.

^b Level 2 variables are all standardized.

^c Chi-square values are in the parenthesis.

the pay-for-performance system ($B=.16$, $p<.01$), proportion in the pay mix ($B=.09$, $p<.05$), and industry adoption rate ($B=.14$, $p<.01$) enhance employees' instrumentality perception. Therefore, all the hypotheses except the case of the year adopted were supported.

The results, in general, seem to support the impact of institutional factors on employees' perception of instrumentality. That is, employees under strong (as reflected in the proportion in the pay mix) and wide (as reflected in the proportion of employees under the pay system) utilization of pay for performance tend to perceive an enhanced level of instrumentality of the pay system. DiMaggio and Powell (1991) explain the three possible mechanisms of isomorphism, and an attempt was made to further examine the mechanisms of the spread of the pay system. I asked HR managers, "Out of the three to five major competitors, how many companies do you think have adopted the pay-for-performance-system?" Then I calculated the proportion of the competitors that already have adopted the pay system.

This was intended to measure the perception of the company regarding the isomorphism within the industry.

A correlation analysis was attempted to examine whether this perceptual isomorphism correlates with implementation of the pay system in the company. Results in (table 3) show positive correlations with proportion in pay mix ($r=.38$, $p<.05$) and also with proportion of employees ($r=.36$, $p<.05$). These results imply that as the company perceives that more competitors have adopted the pay system it tends to implement the pay system at a wider (as reflected in the proportion of employees under the system) as well as a stronger (as reflected in the proportion of individual performance in the pay mix) level. Considering that pay for performance is not regulated by law, and also that the report by the Korea Ministry of Labor (2002) shows companies responding to not-yet-visible effects of the pay system, such correlations suggest the possibility of a mimetic isomorphism of the pay system. Namely, when companies adopt the new pay system, they

〈Table 3〉 Pearson Correlations with perceptual isomorphism

Variables	1	2	3	4	5
1. Perceptual isomorphism	1.00				
2. Year adopted	-.07	1.00			
3. Proportion of employees	.36*	.16	1.00		
4. Proportion in pay mix	.38*	-.02	.17	1.00	
5. Industry adoption rate	.04	.12	.15	.20	1.00

* $p < .05$ ** $p < .01$ $n=30$

are essentially copying what competitors are doing (DiMaggio & Powell, 1991). This is a possibility, and further research is surely needed to examine the mechanisms in a more comprehensive way.

V. DISCUSSION

The current research attempted to explain the spread and consequences of the pay-for-performance practice in Korean companies using institutionalism and motivation theories. Relying on the two approaches, the current research developed hypotheses that institutional pressures such as adoption and utilization of pay for performance will influence employees' perception that the new pay system is instrumental in achieving the intended purposes. Using a multilevel frame, the current research found results that, in general, are supportive of the propositions from institutionalism. Specifically, proportion of employees under the pay-for-performance system, proportion of individual performance as a determinant of the pay mix, and industry adoption rate tend to shape institutional pressures toward employees' instrumentality perception. That is, employees in an industry with a higher adoption rate showed a stronger belief that the pay-for-performance practice would contribute to

enhancing individual and firm performance. Moreover, employees of a company in which pay for performance is more widely and strongly utilized among the workforce, showed a higher level of this belief.

It is notable that many of the existing institutional studies on HR practices focus on diffusion of certain practices (e.g., family-friendly policies) (Eisenhardt, 1988; Goodstein, 1994; Milliken, Martins & Morgan, 1998), while the consequences of such isomorphic phenomena (e.g., effects on employee attitudes) are largely untouched. Some exceptions include research by Judge and Zeithaml (1992), which showed that the isomorphic phenomenon of board involvement was associated with enhanced firm performance. Incorporating both institutionalism and motivational theories, the current research examined the consequences of isomorphism in pay for performance and showed that the practice may enhance employees' belief in the instrumentality of the new pay system. Even though institutionalism insists that adoption or spread of management practices is an isomorphic process, which does not reflect an efficiency criterion, findings of the current research imply that as the isomorphic process develops and matures, certain (though not all) management practices may be internalized among the members.

Moreover, it is notable that, among the 30 sampled companies in the current research,

only five companies report that they adopted the pay-for-performance system before the IMF bailout, and 11 companies adopted the system in 1998 when the crisis became visible. Considering the tremendous impact of the economic crisis on every aspect of Korean management as well as taking into account the impending requirements from foreign investors to give up the tradition of seniority-based management and lifetime employment, the data seem to support that the diffusion was intensified by the IMF bailout.

Do the results of the current research indicate that diffusion of the pay practice acquires indicates gaining more efficiency and thus enhancing firm performance? The answer so far seems to be "not always." Scott (1987) insists that a late adopter of the new system may be in an advantageous situation insofar as gaining legitimacy, but at the same time, the company may lack rational self-interest compared to early adopters. As for the instrumentality perception of employees, late adopters, compared to early adopters, may enjoy an enhanced level of instrumentality perception among their employees at the starting stage, but this tendency may not reflect the articulated belief systems of "rational" individuals but rather means that "individuals" have become merely institutionalized (Simon, 1997). In the latter case, the effectiveness or con-

sequences may become unpredictable because beliefs of the institutionalized employees are vulnerable to changes as they accumulate functional or dysfunctional experiences. That is, employees' instrumentality perception, originally influenced by the institutional factors, will not be free from functional efficiency, as they accumulate counter information.

The reconciliation of isomorphism of a practice without a functional purpose and internalization of the practice by members as a reflection of a rational choice seems to be an issue that needs further research. In a similar vein, Galaskiewicz (1991) noted that the dynamics of interactions between facets on different levels (e.g., macro vs. micro) may be better analyzed along diverse stages, and House and colleagues (1995) proposed that the effects of company factors on individual aspects might vary with the passage of time. Therefore, the differential effects of firm isomorphism on employees' perceptions as well as the changing aspects of the seemingly rational perception of employees as they experience inconsistent results, may be better understood when a multi-stage model is applied.

The main contribution of the current research seems to be that it utilized institutional variables such as isomorphism and legitimacy and motivational constructs such as instrumentality to explain the outburst and the effects of the pay-for-performance practice.

Such a multilevel analysis in explaining implementation of management practices should allow for a more thorough understanding of the process and the effects of management transfer (House et al., 1995; Kostova, 1999), and the current research upholds the assertion. In addition, a potential contribution of the current research seems to be that it has conceptualized the internalization aspect of the pay-for-performance system based on conventional motivation theory. Internalization may be developed as diverse profiles (e.g., affective perception as in Kostova, 1999), but in the case of compensation practice, the instrumentality concept seems to be appropriate because it focuses on whether the pay system achieves the intended objectives of utilizing human resources and enhancing performance.

VI. Limitations and Suggestions for Future Research

Reviewing premises of management practices transfers in multinational corporations, Kostova (1999) suggested a country's institutional profile could serve as an alternative to a culture-based approach in measuring country-level effects. At the employee level, the current research suggests motivational profiles of employees as an alternative to relying on

their cultural values. Internalization of practices seems to be a matter of individual acceptance, which is not necessarily determined by traditional cultural values. This premise seems to be especially valid in the case of examining the attitudes of employees in developing countries such as Korea, because reactions from employees are reported to be inconsistent with their cultural values in certain situations (Chang, 2002). The current research, however, neither measured nor controlled for cultural values. Studies with a more sophisticated design are required before any specific conclusion about the differential effects of cultural values and individual acceptance is made.

Relying upon the premises of isomorphism, the current research is limited in that it did not examine the specific facets of the pay system developed by companies. Considering the increasing importance of strategic reactions of companies in responding to institutional pressures (e.g., Goodstein, 1994; Oliver, 1991), the issue of *how* to develop the new pay system needs to be brought into focus. In particular, future research needs to examine employees' attitudes as consequences since employees are influenced by a variety of practices at the workplace rather than exclusively by a single practice (Chang, 2003). Employees' instrumentality perception may be influenced by the specific design of the pay system as well as other

related aspects, such as the effectiveness of performance appraisal practice, job training opportunity, and the process of communication among members. Future research will need to examine these strategic reactions of the company as well as differential responses from the individual employees in a more comprehensive way.

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성과급제의 활용 및 효과에 관한 연구: 제도이론과 동기부여 시각의 multi-level 분석

장은미*

요 약

국내 기업에서 연봉제 또는 성과급제의 활용이 증가하고 있지만, 이러한 보상 제도에 대한 종업원들의 인지에 대한 연구는 매우 드물다. 성과에 기반한 보상은 우리나라 기업과 종업원들이 오랜 기간동안 익숙해져 왔던 연공서열적 관리와는 상반된 특성을 지니기 때문에 종업원들이 이에 대하여 매우 부정적인 생각을 갖고 있을 확률은 매우 크다고 하겠다. 본 연구는 동형화 현상에 초점을 맞춘 제도 이론과 종업원들의 정보 처리에 환경적인 영향을 강조하는 동기부여 관련 이론들에 기반하여, 우리나라 방식과는 이질적인 성과급제에 대하여 종업원들이 어떻게 인지를 하는가를 분석하고 있다. 본 연구는 30개 회사의 635명의 종업원들에게서 수집된 자료를 다수준 분석 (multi-level analysis)하고 있다. 분석 결과, 회사내 성과급제의 대상이 되는 종업원들의 비율, 보상 구조에 있어서의 개인 성과의 비중 정도, 그리고 동종 산업 내에서 성과급제를 도입한 회사들의 비율이 증가함에 따라 종업원들은 성과급제가 기업과 개인의 성과 향상에 도움이 되리라는 도구성을 보다 인지하고 있는 것으로 나타났다. 이러한 결과는 종업원 인지에 있어서도 동형화 현상이 발생한다는 점과 종업원들은 환경적 특성에 따라 특정 제도에 대해서 선택적인 정보 처리를 하게 된다는 점으로 설명되고 있다. 이러한 결과에 대한 시사점들이 제공되고 있다.

한글 색인어: 성과급제, 동형화 현상, 도구성 인지

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