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Rewards and Organizational Performance in Japan and the United States: A Comparison

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Some reward practices are effective only within particular cultural norms.

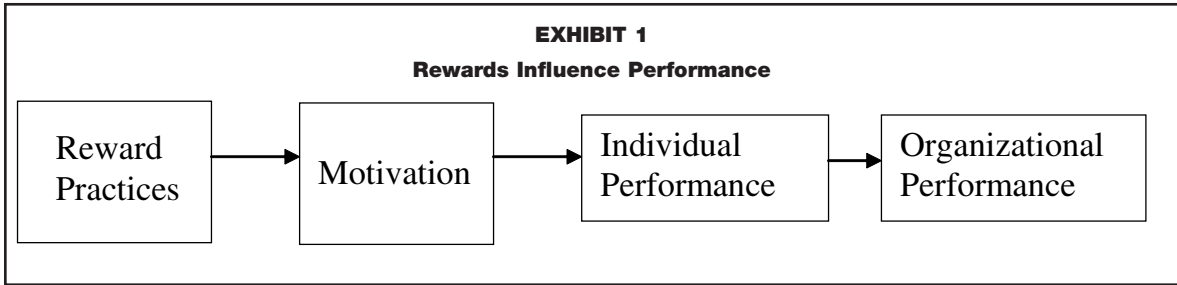
Reward practices play an important role in motivating employees to perform. Some reward practices are more effective than others in influencing performance. As summarized in Exhibit 1, most researchers agree that reward practices logically serve as motivators in shaping the behavior of employees and motivating them to perform at higher levels, and the use of proper rewards can culminate in improved firm performance at the organizational level.

A previous study¹ investigated the degree to which a variety of reward practices can best be used to achieve organizational performance goals in American companies. Indeed, it found that the use of employee stock ownership plans (ESOPs), individual-based performance plans, regular expressions of appreciation by managers to their employees and customer satisfaction monitoring were significantly correlated with higher levels of organizational performance.

With the growth of international business, the authors expanded the exploration of reward practices to other cultures. Japan has long been an important international business player but

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has maintained a distinct national culture. For this reason, the potential relationships between reward practices and performance used by organizations in Japan are fertile ground for study and comparison with previous U.S. findings.

Reward Practices in the United States

More companies today are attempting to identify innovative compensation strategies directly linked to motivating employees to improve the organization’s performance. Prior research² suggests it is critical to integrate rewards with an organization’s system of performance definition and measurement.

Traditional employee incentives based on position and longevity have been replaced or augmented by other types of individual and group or team-based rewards such as profit sharing, gain sharing and stock option plans. Rewards are now commonly based on a host of quantitative and qualitative recognition measures including customer satisfaction and market share.³ Yet even with the growth of team-based rewards, individual rewards are still important in the American culture. Individual rewards work in the United States because they are culturally compatible with an individualistic culture. But can it be assumed that these individual-focused set of rewards would be predictors of performance outside of the United States in a country with a very different set of cultural values and management practices such as Japan?

Traditional Rewards in the Japanese Culture

There is abundant empirical support for the proposition that national culture has a significant relationship with reward policies and practices.⁴ In addition, evidence suggests that when rewards practices that reinforce cultural values are in

place, they are more likely to produce better performance.⁵ Thus, the need for identifying which reward practices produce superior performance in a given country is imperative.⁶

Reward practices in Japan are no exception to these findings⁷ and emphasize family, group, harmony and commitment to the long term.⁸ The Japanese model for organization is based on the cultural foundation of family, which places a high value on interpersonal obligation and group subjugation. This cultural foundation has been argued as the main reason why teamwork and group-based reward are so prevalent in Japan.⁹

According to Bapphu,¹⁰ the equalization of reward among group members eliminates the need for comparison. It is believed that Japanese organizational performance is a direct result of rewards systems that encourage teamwork and discourage competition among employees.¹¹

The annual bonus, based on company performance, is paid to all employees regardless of their performance or contribution, and an additional irregular bonus is paid in equal amounts to all members of a high-performing team.¹² By rewarding everyone in the organization equally, and in those special cases of rewarding team performance at equal levels for all team members, the Japanese need for acceptance is satisfied.¹³ Another cultural component of reward practices in Japan has been the long-term time orientation of the Japanese manager and worker¹⁴ with a system of lifetime employment.

Finally, in Japan, there is a long tradition of seniority-based pay, in which Japanese workers could expect an increase in base salary every year, regardless of the organization’s performance.¹⁵ Employees in Japanese firms expect their status to increase both in promotion to higher level jobs and as a “senior” person, repaying the indebtedness of the company for their long service and obligating subordinates to treat them with respect and honor.¹⁶

Rewards in Japan Today

The postbubble era in Japan has seen an erosion of the lifetime employment system, downsizing, increased foreign competition and exploding joint-venture partnerships from Europe and the United States. According to Ahmadjian and Robinson¹⁷ and Sasajima,¹⁸ the traditional Japanese reward practices are being replaced by newer, more Western forms.

Identifying Organizational Performance Measures

Measuring the performance of a company is also challenging,¹⁹ and researchers have defined business performance as the total economic results of the activities undertaken by an organization. Studies on organizational performance use a variety of financial (sales, profit, cash flow, turnover, return on investment, growth return on capital and inventory turnover) and nonfinancial measures (innovation and market standing). When performance is measured at a variety of levels (e.g., national, industry, company and product) comparisons of results is even more difficult.

Primary dimensions of performance can be grouped into the three categories: effectiveness, efficiency and adaptability, but there is little agreement as to which measure is best. In many research situations, it is realistically impractical or impossible to have access to objective measures of organizational performance. Even if such measures were available, they do not guarantee the accuracy of performance measurement, and comparisons across industries are problematic. When limited to a single industry, the performance measures may be more comparable, but the generalizability is problematic.

Research Study

Using the Allen and Helms²⁰ study of reward practices in the United States as a starting point for comparison, the survey was adapted for use in Japan. The survey was translated and then pilot tested for clarity in language and meaning. Based on the feedback from the pilot study, minor adjustments were made to clarify meaning, then we back translated the final version to make sure no meaning was changed from the original English version.

The survey included a cover page to explain the purpose and asked respondents to select a single organization as a point of reference to an-

swer the questions. Respondents were guaranteed anonymity. If the organization under study had multiple divisions or subsidiaries, respondents were asked to base their answers on the specific division or subsidiary in which they worked. Respondents were given ample time to complete the survey and researchers were on hand to personally administer the questionnaire and answer any questions.

The traditional Japanese reward practices are being replaced by newer, more Western forms.

In addition to summary information about the organization and its location, respondents were polled as to their time employed, number of employees in the organization, the primary business sector, whether the organization was unionized, and their positions within the organization.

Reward Practice Questions

The final list of the 24 items included in the survey was identical to those included in the original American study. Although certain practices such as individually based rewards may not seem appropriate for the Japanese sample (other examples include a cafeteria-style benefit plan, comp time and flex time), the authors agreed that it was critical to establish a clear retesting of all 24 items to remain open to all reward possibilities. As previously mentioned, globalization has impacted management practices, and it is well known that Japanese companies are currently experimenting with "made in America" rewards practices. As in the American study, the Japanese respondents were asked to estimate the percentage of employees in their organizations who were covered by or eligible for these rewards to get a clearer picture of the magnitude of the use of these practices. Some illustrative examples of items are shown in Exhibit 2.

Organizational Performance Questions

Because the original American sample included a broad range of organizations to improve the generalizability of the findings and to reduce the like-

EXHIBIT 2
Reward Practices

	None (0%)	Almost None (1%-20%)	Some (21%-40%)	About Half (41%-60%)	Most (61%-80%)	Almost All (81%-90%)	All (100%)
Employee stock-ownership plan —employees are rewarded with company stock, thus giving them an ownership stake in the organization.	1	2	3	4	5	6	7
Individual-based performance system —performance appraisals, pay increases, bonuses and promotions are based primarily on individual achievements as opposed to work group/team accomplishments.	1	2	3	4	5	6	7
Regular expressions of appreciation by managers/leaders to employees —such as praise or “pats on the back” to acknowledge achievement of strategic goals.	1	2	3	4	5	6	7
Special amenities —wherein special bonuses or perks are used to attract and retain employees (such as signing bonuses, extra vacation time, special work space, company sponsored club memberships, etc.).	1	2	3	4	5	6	7

likelihood of industry-specific performance effects, this study replicated the methodology with the Japanese sample. Firm performance was measured using a scale of five items that has been successfully used by prior researchers. This five-point, Likert-type scale asked respondents to rate how their organizations compared with competitors on a series of key objective performance indicators including total revenue growth, total asset growth, net income growth, market share growth and overall performance or success. Respondents were asked to compare their organizations’ performance levels with competitors’ performance for each of the five items for the most recent three-year period.

Respondents were cautioned that some of the measures might not apply to the organization chosen as their point of reference. For example, market share growth might not apply to a government agency. A *not applicable* choice was available for respondents in these situations. Sample questions are shown in Exhibit 3.

This organizational performance scale allows for the comparison of a wide variety of organizations on performance measures commonly accepted as valid indicators of organizational success. The scale allows comparisons across

industries because it does not rely on specific results in each category but instead is based on how well the organization is performing relative to its competitors. Thus, an organization that is doing extremely well (top 81%-100%) in a low-performing sector can be compared with one doing as well in a high-performing sector.

The Sample

The sample consisted of 101 employees and managers working in Japanese companies in Tokyo. As with the original American sample, the majority of the participants were graduate students enrolled in an evening MBA program. The subjects represented a broad cross section of working adults. For inclusion in the final study, it was determined a respondent needed six months of employment at the organization under study to have adequate organizational knowledge to accurately complete the questionnaire.

Respondents had an average of eight years work experience, and the time employed ranged from six months to 35 years with a standard deviation of 8.6 years. More than 84% of the respondents were employed full-time. Twenty-one percent held professional or technical positions in

EXHIBIT 3
Sample Organizational Performance Questions

	Lowest (1%-20%)	Lower (21%-40%)	Middle (41%-60%)	Next (61%-80%)	Top (81%-100%)	Not Applicable
Total revenue growth (average over three years)	1	2	3	4	5	n/a
Total asset growth (average over three years)	1	2	3	4	5	n/a
Net income growth (average over three years)	1	2	3	4	5	n/a
Market share growth (average over three years)	1	2	3	4	5	n/a
Overall performance/success (average over three years)	1	2	3	4	5	n/a

their organizations, 16% were in middle management, 4% were in administrative roles, 7% were front-line managers and 3% were senior managers.

The organizations included in the sample had an average of 633 employees. Fifty-three percent were service organizations, 21% were manufacturing and 4% were government/nonprofit organizations. Fifty-six percent of the organizations were unionized (in Japan, unions are “company unions” in which all employees belong to a union within the company).

Analysis and Results

A regression equation was calculated using overall organizational performance as the dependent variable and the reward practices as independent variables. An analysis of variance indicated that overall, the reward practices were significant predictors of performance ($F = 7.935, p < .0001$), and the reward practices explained nearly 30% of the variance in organizational performance ($r^2 = 0.295$).

Examining specific reward practices indicates a relatively small number explained the bulk of the variability in organizational performance. The strength of association of each reward practice with organizational performance is detailed in Exhibit 4.

Four reward practices were found to be statistically significant predictors of organizational performance in the Japanese sample:

1. Regular expressions of appreciation by managers to employees

- 2. Group- or team-based incentives
- 3. Customer-satisfaction monitoring
- 4. Position-based pay

Implications for Managers

More than anything else, this study underscores the importance of managers’ selecting reward practices both associated with superior organizational performance and compatible with the cultural and organizational context. In the Japanese study, four rewards variables were significantly associated with higher levels of organizational performance. Allen and Helms²¹ also found that four rewards are associated with organizational performance, but there were important differences in the reward practices that were effective with the American sample as compared with this Japanese sample. It appears that it is important for managers and human resource professionals to carefully consider national cultural values when designing a rewards system to fit their organizations. Some reward practices may be universally effective regardless of culture, whereas others may be culturally sensitive.

For example, regular expressions of appreciation by managers and leaders to their employees was significantly effective for both the Japanese and the American samples. This lends credence to the notion that frequent and visible communication about performance is universally important for employee motivation. A basic tenet of effective behavior modification is the application of rewards as close in time as possible to the appropriate action taken by the employee. Regular expressions of appreciation are readily available to

EXHIBIT 4

Regression Results for Japan

Reward Practices	Standardized Beta Coefficient	t-value	Significance Level
Work group or team incentives	0.782	2.441	.005**
Position-based pay	-0.760	-2.318	.036*
Regular expression of appreciation by managers	1.011	2.886	.005**
Customer-satisfaction monitoring	0.655	2.065	.042*

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

Regression Results for the United States

Reward Practices	Standardized Beta Coefficient	t-value	Significance Level
Employee stock ownership	0.223	2.953	.004**
Individual-based performance system	0.192	2.430	.016*
Regular expressions of appreciation by managers/leaders to employees	0.257	2.801	.006**
Customer-satisfaction monitoring	0.198	2.493	.014*

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

managers and can be used immediately and frequently in either American or Japanese companies.

Customer satisfaction is another practice that seems to work well in both American and Japanese cultures. Customer satisfaction represents the ultimate service to organization and society for the Japanese worker.²² Regular feedback to employees regarding their efforts to satisfy the needs of the customer reinforces the honor in hard work and the sacrifice for the good of society. Customer-satisfaction monitoring also allows continuous improvement of self and work system, another tradition in Japanese management which acts as a motivator for employees.²³ Thus, customer-service monitoring is a high motivator for the Japanese employee. Not surprisingly, it is a strong predictor of organizational success.

Several reward practices appear to be uniquely well suited to the Japanese culture because they were only significant for the Japanese sample. For example, group- or team-based incentives represent the traditional approach to rewards in Japan and appear to remain embedded in the Japanese management system. The fact that Japanese organizations using team-based rewards have superior performance is no surprise. Japan has long been viewed as a team-oriented culture. American companies have been trying to

increase teamwork since the Total Quality Management movement of the early 1980s, but the impact of these types of reward practices did not prove significant with the American sample. Team-based rewards may not fit the individual-oriented American culture, and forcing these practices onto American workers may not be an effective human resource strategy.

This was reflected in the results of the Japanese sample, which did not show individual-based performance plans to be effective, as they were with the American sample. The debate over changes in the Japanese performance management system will continue to rage.

Finally, an interesting finding was that position-based pay was a negative predictor of performance. At first glance, this may appear contradictory that a non-group-based dimension of rewards is operating in the Japanese context, but upon further investigation, this reward is simply an example of a seniority-based reward. Position-based pay was defined as the amount employees are paid and is based primarily on a person's relative position or level in the organization. The Japanese seniority-based promotion system relies exclusively on time worked. Therefore, pay is associated with tenure in the organization and not necessarily with the position. Thus, position-

based pay would negate a person's long-term contribution and therefore be an unpopular reward preference for Japanese employees.

Finally, an interesting finding was that position-based pay was a negative predictor of performance

Although the four key rewards are important, an interesting finding is that a large number of widely used rewards in Japan did not exhibit a significant relationship with firm performance. The findings suggest that either American style rewards practices are not widely used in Japan or that certain rewards, if they are in use or have been adopted in Japan, may not be the best choices to effect superior firm performance. For example, practices currently in vogue in Japan such as ESOPs, performance-based rewards, and increased job autonomy were not significant predictors of firm performance. Although human resources literature suggests and recommends the use of these popular practices, our findings indicate these practices may not be as important as originally thought. Further research on these relationships is warranted.

Future Research

As with any exploratory research, additional interesting and important research questions have been uncovered. Is an organization's environment a moderator on the effects of rewards on performance? Do reward practices that appear to work in both Japan and the United States work in other cultures as well? Are some practices universally effective without regard to national culture? Does the relative importance of rewards change over time? Does globalization affect the degree to which reward practices converge across cultures? Should American firms in Japan adapt totally to the "Japanese way"? Should Japanese firms doing business in America adapt their practices to fit American culture? Can the influence of organizational culture supersede national culture? Do the four significant reward practices lose their effectiveness or change over time? Do trends in orga-

nizational restructuring, information technology, demographics and globalization influence the choice and implementation of organizational rewards? These are all important questions for future research, the answers to which will impact the practice of human resource management, motivation and leadership in an increasingly global world of business.

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