Culture, Competencies and Compensation: A Framework for Pay for Performance Incentives

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The extant literature on pay for performance (PFP) compensation either focuses on factors dealing with the implementation of those programs, or the viability of PFP as a universal 'best practice'. Alternatively we suggest that different organizational culture types align with unique firm competencies, and are supported by specific pay systems. We contend that a 'clan' culture might best foster the employee competencies of adaptability, innovation and technical expertise, and best be supported by a skill-based pay (SBP) compensation system. Alternatively, a 'market' culture might best foster the competencies of customer orientation and performance orientation, and be best supported by PFP.

INTRODUCTION

Pay is essential to both individual employees, and the organization, as it is perhaps the most important reward employees receive yet represents one of the biggest costs for an organization (Gupta & Jenkins, 1996). If people represent a potential source of sustained competitive advantage for the firm (Barney, 1991) then the area of compensation might be significant to the success or failure of an organization. However, among academics there appears to be disagreement regarding whether PFP programs should be used in organizations as a compensation strategy to enhance organizational performance or whether they are inherently ineffective or even counterproductive in that role (Luthans & Stajkovic, 1999). This suggests that within the compensation literature there is still a great deal of confusion and conflicting evidence regarding the use of PFP incentive systems. Consequently, this lack of consensus among management scholars regarding appropriate PFP compensation deployment becomes a critical issue for both academics and practitioners.

The present paper departs from the prevailing literature by focusing on the organizational circumstances that managers might consider before implementing a PFP compensation program. We suggest organizations should consider an alignment of factors inside the firm to insure a PFP complimentary fit to these factors. We contend that PFP itself must be aligned with the organizational culture, and also with the employee competencies that the organization wishes to foster, which are both supported by a compensation program appropriate to those factors.

By 'pay for performance' (PFP) we mean a compensation system that bases reward on individual performance results (Diaz-Fernandez, Lopez-Cabrales, & Valle-Cabrera, 2013; Gomez-Mejia &

Welborne, 1988). While a commission scheme might be a pure example of PFP, generally PFP means that there is a meaningful proportion of total compensation that is 'pay at risk' (Begley & Lee, 2005) so that the employee understands that there is a direct relationship between their performance results and their compensation reward. In PFP programs the linkage between the employee's performance and their pay is assumed to provide an incentive for the employee to perform (Boudreau & Berman, 1991; Diaz-Fernandez et al., 2013; Oliver & Anderson, 1995; Perry, Engbers, & Jun, 2009). For instance, Cammann and Lawler (1973) make a connection between expectancy theory (Lawler & Porter, 1967) and PFP. They note that the expectancy of effort can lead to a successful performance and the resulting positive outcome might motivate employees.

Our discussions will also center on a contrasting compensation scheme, 'Skill-Based Pay' (SBP), or 'Pay-For-Knowledge'. Gomez-Mejia and Balkin (1992) identify performance and skill-based pay as different concepts. SBP is a compensation system that bases salaries and wage rates on the repertoire of skills an employee demonstrates or applies to his/her job, which means that an SBP system pays for an employee's knowledge, skills and abilities (Ingram, 1990). Under an SBP program, an employee's pay is based on the range, depth, and types of skills they are capable of using, rather than for the job they are performing at a particular time (Lee, Law, & Bobko, 1999). Thus, SBP motivates employees to acquire new competencies and skills (Klarsfeld, Balkin, & Roger, 2003).

LITERATURE REVIEW

The present paper addresses the question of whether PFP is a preferable option over SBP compensation systems, and if so under what circumstances. To this end we first focused our attention on PFP compensation research. Indeed, a number of researchers have suggested that PFP compensation should be a 'best practice' for all organizations at all times (Delery & Doty, 1996; Gupta & Shaw, 1998; Huselid, 1995; Pfeffer, 1995) and point to many examples of organizational performance enhancements using PFP compensation programs.

Deckop, Mangel and Circa (1999) propose that the degree to which employees' interests and their organization goal are in line would be a key factor in the impact of control systems on organizational citizenship behaviors (OCB) (Podsakoff, MacKenzie, Moorman, & Fetter, 1990). They used multi-theoretical frameworks to observe how the degree of interest alignment between employees and organization moderates the impact of pay for performance on OCB. Their results suggest that utilizing a PFP compensation program has a positive impact on extra-role behaviors of employees, resulting in a high degree of value alignment between employees' interests and the organization's goals.

Eisenberger, Rhoades and Cameron (1999) examined PFP compensation on several levels. They found a correlation between a reward for high performance and perceived self-determination and intrinsic motivation. The accomplishment of performance standards for college students had a positive relationship with perceived self-determination and competence, expressed task enjoyment, and free time spent performing the task. A second study documented that self-determination can mediate positive correlation between employees' performance-reward expectancy and perceived organizational support, positive mood at work, and job performance. Additionally, they observed that employees' expectancy for performance reward system had positive relationship with expressed interest about their daily job activities.

Other research suggests that PFP might be effective in enhancing performance but that planning and execution for PFP implementation are critical. For instance, Bryson, Forth and Laroche (2011) point out those researchers who argue in favor of PFP suggest that successful PFP schemes depend on thoughtful implementation. For example, if the PFP program has clear goals and provides adequate compensation it would have a better chance of success.

Greiner, Dahl, Hatry, and Millar (1977) argue that a successful PFP program depends on whether there is a connection between pay and performance in the mind of the employee, whether there is a pay difference between excellent performer and poor performer and whether there is a reasonable standard to measure. They discuss further that employees must understand their PFP plan to respond positively. This

suggests that the payoff structure between pay and performance should be simple and easy for employees to calculate and understand.

Kaplan and Norton (1992) propose that PFP compensation might be effective if a 'balanced scorecard' approach to performance is used by managers. The balanced scorecard allows managers a comprehensive evaluative perspective by tapping performance, financial, and customer satisfaction measures. This again suggests the importance of performance metrics in assessing employees but also stands in contrast with the idea that performance metrics should be simple and understandable for employees.

McGraw (1978), Kohn (1993) and Amabile (1996) write in similar themes that PFP encourages the repetition of past tasks. They view reward compensation for accomplishing standard performance objectives to be exclusively aligned with repetitive physical effort. Similarly, Edward (2000) states that PFP might only be best applied where it is practical to implement a 'piece-rate plan', in which workers are paid for the identifiable finished work they do, not the work they could have done (Gibbons, 1987). Shearer (2004) finds similar result in a randomized field experiment with Canadian tree planters. In sum this research suggests that PFP programs might be effective within the realm of repetitive, manual tasks. In his criticism of PFP programs, Kohn (1993) suggests that much of the research on successful PFP programs has been limited to simple, mindless tasks and short-term results.

Researchers also argue that PFP should only be used when objective, quantifiable standards and goals are available to assess employee performance (Diaz-Fernandez, et al., 2013; Eisenhardt, 1988). Lawler (1990) advises that clear performance goals and measures must be used to tie pay to individual performance. Grizzle (2002) writes about the unexpected consequences which might come from performance metrics. Objectives that promote efficiency are much easier to quantify than objectives leading to effectiveness, thus the organization potentially trades efficiency for effectiveness in a PFP compensation program. Also, Radin (2000) discusses why measuring processes might become flawed due to the internal discord between budgeting, management, and planning.

Campbell, Campbell and Chia (1998) also point out the issue of time lapse, that employees might reduce their effort were there a significant temporal gap between objective accomplishment and the actual reception of an associated reward. There is also the issue of rewarding behaviors that are unintended. For instance, Bevan and Hood (2006) observed hospitals which did not hesitate to cancel required operations to obtain targeted results under a PFP program. Casalino, Alexander, Jin, and Konetzka (2007) also provide empirical evidence from the health care industry, observing that physicians would avoid high-risk patients who might cause them not to meet performance objectives under a PFP compensation scheme.

Our observation is that the focus of PFP research in the extant literature has been either centered on whether PFP is valid as a 'best practice' for all situations or on what factors might be important for PFP program implementation. Unfortunately, the literature is sparse regarding the appropriate organizational circumstances that favor the use of PFP over other compensation programs.

One such avenue that has been explored is to link the strategy of the organization with the use of PFP. Lawler (1990) and Zarifian (1999) both summarized four sets of an environmental situation which organizations might face. They suggest SBP would be a more appropriate fit in unstable and competitive market conditions, when organizations need to be more adaptive and less rigid. Further they suggest SBP is appropriate when pursing a differentiation strategy or when trying to operate in a technology-rich environment. Kerr and Slocum (1987) offer vision into the relationship between organizational culture and compensation programs, including PFP. More recently, Diaz-Fernandez, Lopez-Cabrales and ValleCabrera (2013) provided evidence linking employee competencies with both PFP and SBP compensation schemes.

In sum, the extant research on PFP compensation programs to enhance organizational performance is inconclusive and offers little direction to practitioners beyond the necessity for careful implementation. In particular, the literature seems bereft of research that might offer guidance for linking organizational factors situationally with the use of different compensation programs. The purpose of the present paper is to offer insight to managers as to what organizational factors might help guide them regarding the choice of an appropriate compensation program that optimally meets their circumstances.

We noted that Lawler (1990) and Zarifian (1999) specifically contrasted PFP and SBP programs in their contingency approaches. The present authors were also intrigued with the work of Kerr and Slocum (1987) and Diaz-Fernandez, Lopez-Cabrales, and Valle-Cabrera (2013) and we wondered if there might be an important link between the strategic competencies an organization is trying to deploy, and the culture and compensation program that might align best to support that specific competency.

DISCUSSION

Employee Competencies and Their Relationship to Compensation Programs

Ledford (1995) defines employee competencies as specific characteristics of individuals including knowledge, behavior and skills that employees possess in relation to their jobs. Several studies emphasize the importance of employees' competencies and assert that the firm's ability to retain employees who possess critical competencies for an organization's competitive advantage is one of the most important factors for firms (Cappelli, 1993; Rodriguez, Patel, Bright, Gregory, & Gowing, 2002). Employee competencies are believed to provide significant advantages for organizations. Barney and Wright (1998) discuss the two necessary conditions to maintain an organization's competitiveness, first that employees should have valued competencies, and second that the organization should formulate its strategies around those competencies. This theme is echoed also in the research of Wright, Dunford, and Snell (2001) who suggest that employee capabilities should drive the strategy of the firm. Overall this research suggests that employee competencies are an important aspect of organizational success and worthy of research attention.

In their study, Díaz-Fernández, López-Cabrales and Valle-Cabrera (2013) utilize an established framework of employee competencies previously established in the literature (see Boyatzis, 1982; Collins & Porras, 1995; L. Spencer & S. Spencer, 1993; Zingheim, Ledford, & Schuster, 1996; Zingheim & Schuster, 2003) to examine the situationally appropriate use of either PFP or SBP programs. As a result, their study suggests that PFP or SBP compensation programs should be selectively applied to support the different employees' competencies of innovation, adaptability, technical expertise, customer orientation and results orientation.

Five Employee Competencies

Innovation Competency

The concept of innovation is defined by the production of knowledge (Arrow, 1969; Weitzman, 1979). Employees who possess innovation competency creatively try to identify and solve problems that organization faces, so that organizations can obtain their goals (L. Spencer & S. Spencer, 1993; Zingheim & Schuster, 2003). Siguaw, Simpson and Enz (2006) suggest that well-developed innovation competencies can affect better firm performance through ideal innovation contexts. Tucker (2001) insists that if organizations want to manage innovation in a complex business environment, they need to focus employee involvement in the innovation process. When employees possess innovation competency they will offer ideas to improve or promote the goals of an organization, and they are likely to identify a problem, obstacle or opportunity and take actions to address them (Diaz-Fernandez et al., 2013).

Adaptability Competency

Karaevli and Hall (2006) assert that the competency of employee adaptability is important in a dynamic business environment. Almahamid, McAdams and Kalaldeh (2010) emphasize the importance of employees' adaptive responses to cope with new environmental situations.

Employees who have adaptability competency might be flexible, which means that they do not hesitate to work closely with other individuals. Moreover, they handle their job effectively even if they face various situations (Diaz-Fernandez et al., 2013).

Technical Expertise Competency

Benner and Tushman (2002) write that technical expertise should be associated with making physical products through the employees' knowledge (Benner & Tushman, 2002; Song, Nason, & Di Benedetto, 2008). Employees who acquire technical skills could lead efforts toward skill development of other employees in addition to contributing more for their organizations. Furthermore, highly skilled employees can apply their skill and knowledge more appropriately for the organization (L. Spencer & S. Spencer, 1993; Zingheim & Schuster, 2003).

The competency of technical expertise refers to personal learning and development, and refinement of technical and professional skills related to an employee's job. Employees possessing this competency may proactively take advantage of developmental opportunities and appropriately apply those new skills. Technical expertise is also the ability for a company to make products and consists of resources such as engineering ability (Diaz-Fernandez, Lopez-Cabrales & Valle-Cabrera, 2013).

Customer Orientation Competency

Mansfield (1996) proposes that employees who possess customer orientation capability could respond effectively to customer needs and proactively investigate customer concerns. Klidas, Berg and Wilderom (2007) observed that organizational customer orientation combined with an empowering management style correlated significantly with empowered employee behavior.

Customer orientation competency may be associated with assisting and serving customers to meet their given set of needs. This would include an understanding of the customer's perspective, an ability to ascertain customer needs, finding the best way the organization can meet those needs, and would of necessity include an ability to match customer requirements to existing products and services. Thus, a customer orientation competency 'includes resources such as knowledge of customer needs, customer purchasing procedures, customer good will and communication channels for the exchange of information between the firm and customers' (Diaz-Fernandez et al., 2013).

Result Orientation Competency

A results orientation includes the setting of goals and priorities to optimize organizational resources and an orientation toward matching firm objectives and results. Employees who possess results orientation competency 'work to achieve desired policy and program outcomes' (Diaz-Fernandez et al., 2013).

Diaz-Fernandez and her associates (2013) empirically tested the relationship between these various employee competencies and PFP and SBP compensation systems. They found that the competencies of innovation, adaptability and technical expertise were associated with use of SBP compensation programs, and that a result orientation was associated with the use of a PFP program. Though hypothesized, this research found no relationship between customer orientation and a specific compensation program.

Diaz-Fernandez and her colleagues (2013) note that innovation, adaptability and technical expertise represent the domain of a set of knowledge skills and abilities that enable individuals to deal with problems, create opportunities and apply them to unique situations. These competencies are naturally supported with employee incentives to learn and develop new skills and work in cooperation with other employees, suggesting an alignment with SBP based compensation programs. As a competency describes a combination of skills, attitudes and behaviors (Diaz-Fernandez et al., 2013, p. 645), they suggested that SBP fosters proactive behaviors that are supportive of the activities inherent in innovation, adaptability and technical expertise competencies. In addition, it is appropriate to base compensation on skill rather than performance where attitudes and behaviors are difficult to observe, and where tasks are not standardized.

These authors go on to note that the results of the competencies of customer orientation and results orientation are easier to observe and monitor and more attuned to standardized procedure therefore more appropriately supported with a PFP compensation system. Results orientation is associated with the tendency to apply skills and knowledge to generate measurable results that are easily assessed (Diaz-Fernandez et al., 2013).

Organizational Culture and its Relationship to Compensation Programs

Research evidence suggests that compensation practices might favor either a PFP or SBP compensation scheme as dictated by the organizational capability being supported. Importantly, however, additional research evidence also suggests that organizational culture type might also be mutually supportive of one or the other of these compensation schemes.

We define organizational culture as 'the pattern of shared values and beliefs and help individuals understand organizational functioning and thus provide them with the norms for behavior in the organization' (Deshpande & Webster, 1989; Lukas, Whitwell, & Heide, 2013). Organizational culture reflects the values, beliefs and attitudes of its members which foster and influence norms of behavior for employees (Kerr & Slocum, 1987).

For instance, Lawler (1990) suggests that an organization's reward system can have a strong influence on the resulting culture. He notes that while some organizations develop a culture of teamwork and commitment in part because of its egalitarian reward system, others that give large rewards to risk takers develop a culture in which risk taking is valued and supported. Lawler highlights the perils of a miss-match between organizational culture and reward systems citing the example of United States President Jimmy Carter's failed approach to implement PFP compensation practices in the Federal government in the 1970's. Additional support along these lines is provided by Kessler, Heron and Gagnon's (2006) study of U.K. public sector employees who reacted with hostility toward a carefully implemented PFP compensation scheme. Also, Schmidt, Trittel and Mueller (2011) document German public sector PFP schemes as being minimally accepted (Wright, 2010). This research might demonstrate how perceptions of risk inherent in a PFP compensation scheme are problematic in a culture where risk taking is anathema.

Kuhn (2009) provides an explanation as to why culture might be compatible with specific types of compensation programs. Specific compensation plans might serve as a signal to potential applicants even before they become organizational members. Self-selection of organizational membership, caused in large part by the pay scheme used by the organization, draws individuals to companies that are perceived to have shared values. Kuhn found that organizations with individualized performance-based pay were perceived by applicants as having an individualistic culture while those with pay schemes based on corporate performance were perceived as having a more collectivistic culture. For applicants, when asked to choose between hypothetical jobs at organizations with different pay schemes, 'the relationship between individual differences and job preference was contingent on their organizational culture perceptions.' (Kuhn, 2009). This suggests that individuals who make up the organization might have self-selected into that company in large part because the prevailing compensation plan matched their personal values which were also compatible with their organization's culture.

Wright (2010) further documents the possible link between culture and compensation practices. She outlines a potential framework linking aspects of the reward system to diverse cultural perspectives that possibly compliment a reward system. Her work further proposes a movement toward research in the application of social schemes that might augment extant research using economic and psychological perspectives.

Kerr and Slocum (1987) suggest that an organization's reward system is a powerful means for influencing that organization's culture. They write, 'The reward system—who gets rewarded and why—is an unequivocal statement of the corporation's values and beliefs.' (Kerr & Slocum, 1987, p. 99). Utilizing an adaptation of Ouchi's (1980) framework of corporate governance, Kerr and Slocum (1987) examine two diverse types of cultures, clan culture and market culture, and suggest how these culture types are supported through either a hierarchy-based or a performance-based reward system, respectively.

A clan culture is characterized by a long-term commitment between organizational members and the organization, an interdependent relationship between members, supervision based on mentorship and development, a sense of collective collegiality, and rests on mutual interests and shared fate. Relatively frequent promotions are based on tenure and often motivated by the individual's need for development through exposure to new functional areas.

Kerr and Slocum (1987) suggest that a clan culture is best supported by a hierarchy-based reward system. A hierarchy-based reward system is one that emphasizes security and salary, with salary increases coming from supervisory assessments that focus on tenure and mostly subjective, qualitative factors including cooperative, rather than competitive, member behavior. Here, assessment feedback is oriented toward employee development rather than strict evaluation of performance. Bonuses are a relatively small portion of total compensation and based on corporate performance rather than individual performance.

Thus, hierarchy-based reward systems support cultural values of employee development, cooperative interdependencies, and a long-term relationship between the organization and its members. Considering the nature of SBP reviewed above, we suggest that Kerr and Slocum's (1987) conception of hierarchy-based pay shares many attributes of a SBP compensation programs.

Kerr and Slocum (1987) go on to contrast a clan culture with a market culture. A market culture is characterized by mutual short-term commitments between the organization and its members, elevated levels of member independence, supervisors as negotiators and resource allocators, a sense of individual initiative and ownership, and rests on self-interest, competition and utilitarianism. The market culture encourages individuality in which everyone pursues their own interests. Relative to a clan culture, promotions are infrequent, with promotion from within as the exception rather than the norm and motivated primarily to fill a vacancy rather than employee development.

In their research Kerr and Slocum (1987) recommend a performance-based reward system to support a market culture. A performance-based system bases reward on evaluative rather than developmental criteria that is quantitatively defined and explicitly links rewards to short-term individual performance. Bonuses are a significant part of compensation and based on the individual managers' performance outcomes, with the potentially generous size of bonuses communicating the value of the 'Star' performer. Salary increases are affected by the external labor market, the cost of living as well as aspects of performance.

We see that performance-based reward systems support values of employee independence, individual initiative and risk-taking, and the short-term, transactional nature of the relationship between the organization and its members. We submit that Kerr and Slocum's (1987) conception of performance-based reward systems is identical to what we have identified as a PFP compensation system as described above.

The concepts of clan and market cultures are expanded and further defined by Cameron, Quinn, Degraff and Thakor (2014) in their book, *Competing Values Leadership*, which appears to be in concert with Kerr and Slocum's (1987) perspective of the characteristics of these cultural types. The Cameron and associates' (2014) framework attempts to identify how organizations create value in organizations. For example, a clan culture's orientation for creating value is a long-term perspective based on collaboration between employees and a focus on employee growth and skill development.

Conversely a market culture orientation watchword is competition with a short-term focus on market share, goal achievement, profitability and attention to performance outcomes. While these researchers do not offer a recommendation on the kind of compensation systems to use for different culture types, it seems reasonable to suggest that skill-based pay, with its ability to incentivize and reward employee growth and development, appears to be most compatible with a clan culture. Further, there is evidence to suggest that the effectiveness of SBP is enhanced when coupled with actions, policies and programs that promote joint activities and interdependence (Shaw, Gupta, & Delery, 2001), which is a hallmark of the clan culture (Cameron, Quinn, Degraff, & Thakor, 2014). On the other hand, Performance based pay does not seem to be a reasonable compensation scheme to support a clan culture because PFP often creates inter-organizational competition and detracts from collaboration (Shaw, Gupta, & Delery, 2001). Conversely, a market culture's focus on goal attainment of specified metrics might make pay for performance compensation models a more compatible choice.

Configurationally Fitting Competencies, Culture and Compensation Systems

Kerr and Slocum (1987) suggest that different organizational cultures might fit best with specific compensation programs such as PFP or SBP. Diaz-Fernandez, Lopez-Cabrales, and Valle-Cabrera (2013)

propose that employee capabilities are supported optimally either with a PFP or SBP compensation system. In extending this research, the present authors further suggest that employee competencies are supported within specific types of organizational culture, which are then mutually supported by either a PFP or SBP compensation scheme. As prior research suggests clan or market cultures might best be supported with either an SBP or PFP compensation approach, it follows that employee capabilities that are optimized within a type of corporate culture might also be best supported with either a SBP or PFP compensation approach. Importantly this suggests it might be possible to envision a framework in which specific employee capabilities of innovation, adaptability, technical expertise, result orientation and customer orientation, are optimized within a specific culture, and supported with a specific compensation approach.

For example, Buschgens, Bausch and Balkin (2013) specifically identify the capabilities of innovation and adaptability with clan culture. In their empirical research, these researchers used a meta-analysis approach to examine the relationships between the degree of focus on innovation and aspects of clan culture including an emphasis on employee development and group trait orientation. They found that an organizational focus on innovation was positively associated to the presence of employee development within the culture. Further, they also found that an organizational focus on innovation was positively related to the presence of group trait orientation.

These researchers explain their results by suggesting that clan cultures focus on employee development which encourages the accumulation of knowledge within the organization. Organizational learning in turn is a process of resource acquisition that is a prerequisite of a flexible organization because it allows for adapting to a changing environment. Further, the focus on development means that organizational members prefer the goals of growth and resource acquisition, which is in line with innovation capability as innovation can be considered as a means to achieve those goals (Buschgens, Bausch, & Balkin, 2013; Quinn & McGrath, 1985).

Buschgens and his colleagues (2013) assert that under a clan culture the preferred goal of a group trait, human resource development, is strongly compatible with intention to be innovative. One of the values of group trait is organizational supportiveness (Abbey & Dickson, 1983; Baer & Frese, 2003; Belassi, Kondra, & Tukel, 2007; Berson, Oreg, & Dvir, 2008; Hurley & Hult, 1998; Wei & Morgan, 2004). Supportive cultures can provide a sense of psychological safety and therefore are likely to increase employee propensity to propose new ideas (Baer & Frese, 2003). Additionally, organizational encouragement, also inherent in a clan culture, has been found to be conducive to creativity (Amabile, Conti, Coon, Lazenby, & Herron, 1996).

As clan culture seems to be associated with the employee capabilities of innovation and adaptability, we suspect that these employee capabilities are best supported using a SBP reward program:

Proposition 1: The employee competency of innovation is optimally supported within a clan culture using a skill-based compensation system.

That SBP plans might also work well to improve workforce flexibility seems to make sense. Gupta, Ledford, Jenkins and Doty (1992) as well as Shaw, Gupta, Mitra and Ledford (2005) link workforce flexibility with SBP compensation programs. As SBP compensation incentivizes skill development, a resulting increase in the ability of the workforce to perform diverse tasks serves to also increase the plasticity of the organization to cope with stress in unique ways rather than relying on established procedure and precedent. This argument is supported by Lawler and Ledford's (1987) study documenting increased flexibility as a result of SBP compensation programs in a manufacturing job process. Gomez-Mejia and Balkin (1992) argue that PFP systems might result in inflexible performance of employees because they are interested in only activities which are related to reward.

Proposition 2: The employee competency of adaptability is optimally supported within a clan culture using a skill-based compensation system.

Another employee capability identified above is technical expertise, and there is evidence to suggest that clan cultures are optimal for fostering this capability as well. Chuang, Morgan and Robson (2012) identify just such a link utilizing the concept of clan culture within Chinese organizations. For these researchers, clan culture 'emphasizes the development of shared values, beliefs and goals within the organization and aims to reduce the discrepancies of goals preferences of organizational members through the establishment of these values' (Alvesson & Lindkist, 1993; Chuang, Morgan, & Robson, 2012). In clan culture, people see their interests and organizational orientations as convergent. Thus, their conceptualization of clan culture includes aspects of group trait orientation though they don't specifically identify employee development as being a facet of clan culture. However, these researchers specifically identify Ouchi's (1979) as well as Wilkins and Ouchi's (1983) concept of corporate clan control as the basis of their concept of clan culture, connecting this closely to Kerr and Slocum's (1987) concept of clan culture which does include employee development.

Chuang and his colleagues (2012) found empirical evidence linking clan culture with new product technical performance through the mediators of strategic analysis and strategic defensiveness. Strategic analysis reflects a firm's knowledge building capabilities and enabling processes (Cohen & Sproull, 1991), as well as the organization's ability to adapt to and learn from the environment. This concept of strategic analysis seems related to the employee capabilities of innovation and adaptation and suggests that technical expertise might emanate from a firm's ability to innovate and adapt. Strategic defensiveness emphasizes the organizational emphasis on the ability to modify manufacturing technology and the use of cost control system to monitor performance. Product quality is emphasized, along with technological efficiency (Chuang, et al., 2012). Consequently, technological expertise as an employee capability might be derived from an organization's ability to harness the clan culture's ability to encourage knowledge creation through employee development.

As clan culture seems to be associated with the employee competency of technical expertise, we suspect that this employee capability is best supported using a SBP reward program:

Proposition 3: The employee competency of technical expertise is optimally supported within a clan culture using a skill-based compensation system.

Yet another employee competency is customer orientation. A possible proxy for customer orientation might be the product capability level that a firm provides to its customers, and the degree to which that product's capabilities meet or exceed the expectations and needs of customers. This might make sense because a company that is highly oriented to its customers should insure that its products are provisioned so that they fully meet or exceed customer needs and expectations.

Lukas, Whitwell and Heide (2013) approached the issue of how culture shapes product capability decisions. Their qualitative study was designed to capture relationships between a culture types and product capability provisioning. They define product capability as 'the consumer's beliefs about the product's ability to perform desired functions.' (Thompson, Rebecca, Hamilton, & Rust, 2005). They also looked at customer orientation as a possible moderator. In their results they reported a significant correlation between market culture and customer orientation and a significant correlation between customer orientation and product capability. This further suggests a relationship between market culture and customer orientation, thus product capability might indeed be a proxy for customer orientation.

In their findings, Lukas and his associates (2013) were able to demonstrate that higher levels of market culture were associated with higher levels of product capability provisioning. They found no such relationship between clan culture and product capability. Additionally, they found that customer orientation did not moderate the relationship between market culture and product capability. These researchers explain their results through the market orientation literature (e.g., Kohli & Jaworski, 1990; Naver & Slater, 1990) which suggests that a customer orientation translates customer needs into matching organizational responses. Product capability provisioning represents a manifestation of the market culture to respond to the needs of their customers. They propose that the nature of the market culture, with its highly competitive mind-set, tends toward highly provisioning products to trump its competition. That

customer orientation did not moderate the market culture's tendency to highly provision might be because the market culture lacks flexibility to adapt to fine tune its offering to customers (Lukas, Whitwell, & Heide, 2013).

Cameron and his colleagues (2014) also suggest that, within a market culture, organizational effectiveness is associated with achieving desired outcomes, fast response and customer focus. Further, they recommend that leadership strategies should be based on short-term profitability, and as such customers and clients are of the highest priority. Financial success is derived from rapid response to customer needs.

Given that product capability might be a proxy for customer orientation and given that market culture has a relationship with product capability and as PFP is supportive of a market culture, a pay for performance compensation program appears to be optimal. Also taking into consideration the direction by Cameron, et al., (2014) we note that an emphasis on meeting short-term targeted performance goals is entirely consistent with a compensation program that rewards performance. Therefore, we propose the following:

Proposition 4: The employee competency of customer orientation is optimally supported within a market culture using a pay for performance-based compensation system.

The final employee capability to examine is performance orientation. Intuitively it would seem that the competitive and individualistic nature of the market culture might be associated with a results orientation, as would a PFP compensation program. While we are not aware of any direct empirical evidence that supports a relationship between a market culture and results orientation, we note that research has defined what might be called a 'performance culture'. The definition of a performance culture seems to align with the performance orientation of the market culture as outlined by Kerr and Slocum (1987).

For example, Reid and Hubbell (2005) suggest that a performance culture involves an alignment of individual talent and organizational needs. In the performance culture, individual and organizational capabilities are continually assessed for fit (Reid & Hubbell, 2005, p. 3). They further suggest a rigorous measuring and reporting of results, and a focus on measurable priorities, which does seem to align with the quantitative, competitive and individualistic nature of assessment in the market culture. Similarly, Rampersad (2008) advocates an alignment of individual and organizational goals as the path to a 'high-performance culture'.

Considering the relationship between employees and the organization in a market culture is short-term and transactional (Kerr & Slocum, 1987), it stands to reason that an individual's poor performance would signal a misalignment causing the organization to reassign or terminate the employee. Further evidence that this might be a precept of the performance culture might come from Reid and Hubbell's (2005) use of Jack Welch as the exemplar for leadership in the performance culture.

In their book *Winning*, Jack and Suzy Welch (2005) famously advocate for 'differentiation', or what is more commonly referred to as 'stacked rankings', in which managers are forced to rank a given percentage of employees as either superior, average, or underperforming. These authors advocate that those employees ranked as underperforming, the bottom 10% of the workforce, should be terminated at each evaluation period. They also propose that high performers, the upper 20% of the workforce, should be financially incentivized and rewarded within a PFP compensation scheme.

Further evidence that the idea of PFP is in keeping with a performance culture comes from Diaz-Fernandez and her colleagues (2013) where they found that performance-based compensation systems encourage result-based competencies. These researchers write, 'Employees who possess results orientation competency work to achieve desired policy and program outcomes.' (Diaz-Fernandez et al., 2013, p. 647), suggesting that an important aspect of results orientation is the alignment of individual and directly measurable organizational goals. These researchers also suggest that SBP is oriented more to behaviors than results while PFP is oriented to results (Diaz-Fernandez et al., 2013; Murray & Gerhart 1998). Further, they note that PFP requires an objective means of evaluating performance, which is

consistent with a market-based culture necessarily using quantifiable performance metrics to evaluate employees (Kerr & Slocum, 1987). This also is consistent with Cameron and his colleagues (2014) who suggest that an important norm in a market culture is meeting short-term performance targets and delivering results.

Additional evidence that aspects of market culture are compatible with PFP is offered by Shaw, Gupta and Delery (2002) who found in their research that organizations featuring independent work were more successful with individual incentive reward systems (e.g. Shaw, Gupta, & Delery, 2001). Individualized work is a hallmark of the market culture (Kerr & Slocum, 1987). These researchers concluded that when work interdependence is low (highly individualistic) pay differences between individuals provide an incentive to perform, but when work interdependence is high use of PFP incentives sends a mixed message to organizational members and undermines workplace performance based on cooperation and cohesiveness (see also Pfeffer, 1995).

Proposition 5: The employee competency of results orientation is optimally supported within a market culture using a pay for performance-based compensation system.

Implications for Practitioners, and Suggestions for Future Research

In synthesizing the extant research, we advocate a configurational fit between organizational culture, employee competencies and compensation schemes. It is our contention that organizations seeking the competencies of adaptability, innovation, or technical expertise should foster a clan culture and support that culture with use of skill-based pay systems. Alternatively, those companies seeking the competencies of customer orientation or performance orientation should encourage a market culture as supported with a pay for performance program.

For researchers, the present paper suggests that the alignment of firm strategy with human resource practices, or strategic Human Resources (e.g., Wright & McMahan, 1992; Wright & Snell, 1991), ought not to exclude organizational culture or employee competencies as a component of analysis. Considering the close relationship between employee assessment and reward systems (Kerr & Slocum, 1987; Lawler, 1990) we suggest that the 'pattern of planned human resource deployments and activities intended to enable an organization to achieve its goals' (Wright & McMahan, 1992, p. 298) has as much to do with the culture of the organization, and what employee competencies the organization desires to build, as with strategy.

For practitioners trying to determine the veracity of PFP compensation programs for their organization we offer a framework relating specific organizational characteristics with the use of either a PFP or SBP program. Certainly, there is tremendous isomorphic pressure to adopt PFP as a 'best practice', as evidenced by the human resource consultancy Aon Hewett which suggests that as many as 90% of U.S. companies use individual PFP practices, up from 50% two decades ago (Gerhart & Fang, 2014). For managers, we suggest that following the crowd might not be the best alternative. Self-diagnosis and self-awareness are advised, knowing precisely what capabilities are important to the strategy of the organization and the nature of organizational culture are important touchstones. We suggest that finding the right fit between competencies, culture and compensation will complement and mutually underpin those areas in alignment. We advocate that SBP practices, while not as predominate as PFP in commerce, should be considered under the circumstances we propose above. However, we also caution that while the potential for performance enhancement exists within this alignment, ultimately firm performance depends upon management's selection of appropriate firm capabilities and an organizational culture that meets the firm's specific environmental situation, goals and strategy.

For instance, circling back to previously mentioned research by Lawler (1990), and Zarifian (1999), the ability of the organization to adapt to its environment is an important consideration for long-term firm performance. Their connection of SBP practices to an organization's ability to adapt to environmental dynamism is also consistent with Cameron and his associates (2014), whose framework suggests clan cultures are better positioned than market cultures to adapt to changing environmental circumstances.

Here again SBP practices seem to supportive of a clan culture, further underscoring the need for firms facing environmental dynamism to consider SBP compensation programs.

We contribute to the literature in Human Resource compensation practices by extending our understanding of the relationship between organizational culture, employee competencies, and compensation practice. To our knowledge no other research has connected these constructs (see M. Lengnick-Hall, C. Lengnick-Hall, Andrade, & Drake, 2009, for a review of contingency fit research in the field of Human Resources). We further contribute to the literature on compensation by shedding light on the application of a widely accepted compensation scheme, PFP, and under what circumstances it might be best to use it. Future research might empirically test these relationships to determine if they might be generalizable to the broad spectrum of organizations or whether there are specific instances in which these relationships might not hold.

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