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**NATIONAL DIFFERENCES IN
PERFORMANCE-DEPENDENT
COMPENSATION PRACTICES:
THE UNITED STATES VS. THE
NETHERLANDS**

**CEO PUBLICATION
T 07-13 (523)**

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June 11, 2007

This paper has benefited from comments made by participants of the Finance & Control Program sponsored by the University of Maastricht and research workshops at the University of Tilburg and Manchester Business School and, particularly, Jan Bouwens and Bob Scapens.

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National Differences in Performance-Dependent Compensation Practices: The United States vs. the Netherlands

ABSTRACT: This paper describes the findings of a study aimed at providing an international replication of a U.S.-based study by Gibbs et al. (2004, 2006) focused on the performance-dependent compensation practices of firms in the automobile retailing industry. The purpose was to determine the extent to which these practices and their effects were similar across countries. We collected a set of data comparable to that of Gibbs et al. from Dutch automobile retailers. The findings reveal dramatic differences in practices across the two countries. As compared to the U.S. firms, the Dutch firms are much less likely to provide their managers with performance-dependent compensation in any form. Where Dutch firms do offer performance-dependent compensation, the payouts are smaller and their bonus awards are less likely to be based on profit measures of performance. But where the Dutch firms use performance-dependent compensation, their performance/reward functions are more complex. And, unlike in the U.S. firms, in the Dutch firms the effects of the use of performance-dependent compensation on net profit and pay satisfaction are negative.

1. INTRODUCTION

Coincident with the increasing globalization of business, many studies have focused on understanding the effects of cross-national differences, such as culture, on the use and effectiveness of various management practices (e.g., Adler, 1987; Birnberg & Snodgrass, 1988; Harrison, 1993; Rosenzweig, 1994; Merchant, Chow & Wu, 1995; Kanter & Corn, 1994; Kachelmeier & Shehata, 1997; Clark, Gospel & Montgomery, 1999; Budhwar & Sparrow, 2002; Bruce, Buck & Main, 2005). However, many unknowns still exist, even including the core questions as to when and how national differences do or should affect management practices of various types. This study focuses on one specific piece of this puzzle: providing a better understanding as to whether the differences between two modern, Western countries—the U.S. and Netherlands—affect firms' uses of performance-dependent compensation and/or the effects of such incentives, and if so, how.

On one side of the argument, some authors suggest that cross-national differences are not important in affecting at least some management practices (e.g., Alvesson & Willmott, 1996). The core argument they proffer is that there are some management universalities, often described as “principles of management” or “global best practices,” that are invariant of national differences.

The use of performance-dependent incentives is sometimes specifically included among some of these management principles or statements of best practice. For example, Steven Kerr (2004: 122-123), a

former academic and current chief learning officer at Goldman Sachs, included incentives in his short list of management principles:

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

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

On the other hand, some authors have suggested that national differences, such as culture, are indeed important in influencing the use and effectiveness of at least some management practices. Granovetter (1985) and Newman & Nollen (1996) are among those who have made arguments regarding the importance of the embeddedness of practice and local knowledge. The general belief, as Budhwar & Sparrow (2002: 382) phrase it, is that “something that ‘works’ in one country will not necessarily work in another.” If this line of thinking is correct, then managers should adapt their practices to factors that vary across national or local environments, such as aspects of national culture (e.g., norms, views of the world), institutions (e.g., labor unions, political bodies), laws and regulations, and business conditions (e.g., education levels, labor and capital mobility). Because they involve human feelings and social interactions, the use of performance-dependent incentives are among the (human resource) management practices that might be most strongly affected by cross-national cultural differences (Rowley, 1998).

These conflicting prescriptions and predictions suggest that the issue as to what practices work best in any particular setting is, to a large extent, an empirical question. However, research progress in

this area has been slow in large part because of the inherent difficulty in conducting cross-national studies (Budhwar & Sparrow, 2002). This study attempts to address this void.

We conducted an international replication of a study (Gibbs, Merchant, Van der Stede & Vargus, 2004, 2006) that is notable because of the rich descriptive detail it provides regarding the complex *systems* of incentives used at management levels of U.S. firms in the automobile retail industry. Gibbs et al. (2006) describe how these firms (dealerships) offer individual general and department managers up to three contracts linking bonus payouts to various quantitative performance measures by formula. The largest contract tends to be defined in terms of the “best” performance measure among those available. The other formula bonuses and various forms of discretionary bonuses are often used, in part, to adjust for weaknesses in the primary performance measures. In particular, they rebalance multitask incentives and reduce the managers’ incentives to manipulate performance as defined in the primary bonus formula. Some dealerships also provide discretionary bonuses and/or special awards called “spiffs” that are allocated based on short-term performance contests.

We concluded that, because of this rich descriptive detail, an international replication of the Gibbs et al. (2004, 2006) study would provide for an especially informative investigation of the cross-national factors that possibly affect the use of performance-dependent incentives. The Gibbs et al. database allows for explorations beyond the isolated facts provided in public disclosures, such as the mere existence of a performance-dependent compensation plan or the size of the awards given, and into the detail of how the complex systems of incentives are designed. We were able to collect a set of data equivalent to that of Gibbs et al. from automobile dealerships in the Netherlands.

The automobile retailing industry provides for relatively clean and powerful tests for cross-national effects because the one-industry setting allows us to control for many variables that are not descriptive of cross-national differences. The dealerships in the two countries are quite similar. They sell essentially the same products. With rare exceptions, all the firms are privately owned. And, importantly, virtually all firms in the automobile retail industry have local owners, they employ local nationals, and virtually all of their sales are domestic. Thus, they are less subject to the possible homogenizing effects of

operating multinationally. If cross-national differences are present, this relatively “pure” test is more likely to reveal them.

Our research was guided by the following questions: Are the U.S. and Dutch dealerships’ performance-dependent compensation practices largely the same? If not, how and why do they differ? And do performance-dependent incentives have the same effects in the two countries? Our findings show dramatic differences between the practices of the firms located in the two different countries. As compared to the U.S. firms, the Dutch firms are much less likely to provide their managers with performance-dependent compensation in any form. Where the Dutch firms do offer performance-dependent compensation, their incentive payouts are smaller and their bonus awards are less likely to be based on profit measures of performance. However, the Dutch firms that use performance-dependent compensation tend to use more complex performance/reward functions (i.e., less likely to be in a simple linear form). And, interestingly, unlike in the U.S. firms, in the Dutch firms the effects of the use of performance-dependent compensation—on entity net profit and individuals’ satisfaction with pay—are negative.

Because the Dutch practice was so dramatically different from U.S. practice, we followed up with field studies of one typical U.S. firm and two Dutch firms, one that was “typically Dutch” in that it made essentially no use of performance-dependent compensation, and another that was an “outlier” in the Dutch context because it provided performance-dependent compensation. In both of the Dutch firms we found strong, widely-held beliefs that non-monetary incentives were more effective than monetary incentives in motivating employees.

The paper proceeds as follows. Section 2 reviews the prior literature and relevant evidence. Section 3 details the empirical design, sample characteristics, and measures. Section 4 presents the univariate, descriptive results of the key differences between the U.S. and Dutch incentive compensation packages. Section 5 presents additional multivariate results. Section 6 presents the findings of the Dutch field research follow-up. Section 7 concludes and offers directions for future research.

2. LITERATURE

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

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

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

2.1. Arguments and Evidence Suggesting an International Convergence of Incentive Practices

Some theoretical arguments suggest that we should expect the performance-dependent incentive practices in the U.S. and Dutch automobile dealerships to be quite similar. The industry setting and its economics are nearly identical. The U.S. and Dutch dealerships sell the same products and have the same ownership and organization structures. Thus, the actual jobs the managers perform are virtually identical. The dealerships also have essentially the same performance measurement systems, at least in the areas of financial performance and customer satisfaction, because the automobile manufacturers prescribe standard measurement methods and reporting formats to their dealers. In addition, both the U.S. and Netherlands are modern, Western countries with advanced educational systems and large, multinational corporations are quite common in both countries. If a set of global best practices exists—and some management experts suggest that they do, as indicated by the quotes cited in the introduction to this paper—it is highly likely that they would spread between these two countries. This homogenization of practice could dominate, or at least dampen, any cross-national differences in incentive-compensation practices that otherwise might have existed.

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

Some empirical evidence also leads to predictions of no, or only minimal, cross-national differences in incentives-related management practices. Van der Stede (2003) found that multinational corporations’ management control systems tend to be largely consistent across their business units. This

finding suggests that corporate culture and the desire for system uniformity dominate the effects that local business and operating conditions might have had. And Allinson & Hayes (2000) measured the “cognitive styles” of managers in six countries expecting to find a dichotomy between Eastern and Western cultures. They did not find it. Instead they found that decision makers in Anglo, North-European and European-Latin countries clustered together as being relatively “intuitive” decision makers. They argued that it might be more fruitful to classify nations in terms of their stage of industrial development rather than the hemisphere in which they are located. But the U.S and Netherlands cannot be said to differ materially in terms of stage of economic development.

2.2. Arguments and Evidence Suggesting an International Divergence of Incentive Practices

On the other hand, there are differences between the U.S. and Netherlands that might cause cross-national differences in the use of performance-dependent compensation and other management practices. Researchers have developed many frameworks to categorize the cross-national differences (e.g., Murray, Jain & Adams, 1976; Schuler, Dowling & DeCeri, 1993; Welch, 1994; Budhwar & Sparrow, 2002). We consider the factors discussed in these frameworks and focus our discussion on what we believe to be two differences between the U.S. and Netherlands that might cause differences in uses of performance-dependent incentives. The first factor is *national culture*. National culture has multiple dimensions, each of which could have some direct effects on the use of incentives. Some aspects of national culture could also have indirect effects on the use of incentives, such as through their effects on shaping tax and labor laws. The second factor is the firms’ *relative levels of experience with incentive systems*. Both factors are not independent, but they are differentiable.

2.2.1. National Culture

Some researchers argue that national culture differences have significant effects on human resource management practices, in general, and the use of performance-dependent compensation, in particular. The term “culture” refers to patterns of shared values and norms.

A. Masculinity

In probably the most frequently-cited study of the effects of national culture on management practices, Hofstede (1980a) found that employees in the U.S. and Netherlands are quite similar in three of the four cultural dimensions measured (see Table 1.1). But U.S. scores were significantly higher than Dutch scores on the cultural dimension labeled “masculinity.” Masculinity refers to preferences for competitiveness, achievement, and material success (traits labeled as masculine), as opposed to an emphasis on relationships and quality of life (traits labeled as feminine).

— Table 1.1 —

Predictions regarding the effects of masculinity on the use of performance-dependent incentives follow directly from the definition of the term. Hofstede (1980a, 1980b, 1991) argued that people high in masculinity tend to prefer basing rewards on performance, while those low in masculinity (high in femininity) prefer allocations based on need.

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

Hofstede (1984) also suggested that masculinity has effects on other variables that, in turn, could affect the use of performance-dependent incentives. In particular, people in feminine cultures, such as in the Netherlands, are more prepared to pay for an expensive social security system and to accept a high tax burden to fund it. Thus, it is not surprising that marginal tax rates on income earned in the Netherlands are much higher than in the U.S. (see Table 1.2). At their compensation levels, most department managers in Dutch car dealerships pay a marginal income tax rate of 42% or even 52%, while most of their

counterparts in U.S. dealerships pay a marginal rate of 33%. In addition, unlike in the U.S., the Dutch government provides subsidies to families, for example for day care, and these subsidies vary with the level of income. An increase in income may lead to a decrease in subsidies. As a consequence, as compared to the U.S., the after-tax value of monetary incentives is significantly smaller in the Netherlands. Thus, it can be said that the incentive effects of monetary rewards are diluted in the Netherlands. Or, alternatively, it can be said that monetary incentives are more expensive to use in the Netherlands, so we might expect less use of them.

— Table 1.2 —

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

The limitations of Hofstede’s original empirical study should be acknowledged, however. Hofstede’s data were collected from employees of a single corporation: IBM. The cross-national patterns that Hofstede observed might not be descriptive of the subgroups being studied here: managers of automobile dealerships. Further, Hofstede’s data were collected nearly 30 years ago. National cultural tendencies may have changed; there is no reason to believe that they are static.

B. Long-term vs. Short-term Orientation

In later work, Hofstede & Soeters (2002) suggested a relevant fifth dimension to the four-dimensional national culture classification scheme that Hofstede originally described. They labeled this new dimension “long-term vs. short-term orientation.” High scores on this dimension reflects the presence of values oriented toward the future, such as thrift (saving), perseverance, respect for tradition,

and fulfilling social obligations. The U.S., and most other Western countries, scored relatively low on this cultural dimension. The scores for the Netherlands, however, were significantly higher, so much so that the Netherlands was said to be the Western country with the most “Eastern” values. Benedict (1944) noted that this tendency of the Dutch to save has been observed for centuries. She described the Dutch as prudent, economical, and never reckless.¹

This cultural trait has possible direct implications for the use of incentive systems. People high in long-term orientation have a preference for more stable fixed income rather than bonuses (Hofstede & Soeters, 2002).

C. Beliefs about the Role of Corporations

Other researchers have identified culture-related differences between people in Anglo-Saxon countries and those in Continental-European countries with regard to their beliefs about the role of corporations (Looise and Paauwe, 2001; Boselie, Paauwe & Jansen, 2001; Bruce, Buck & Main, 2005). Boselie et al. (2001) described U.S. managers as having a “shareholder perspective.” In this perspective, the focus is on productivity and financial performance indicators, such as return on investment or equity. Employees are viewed primarily as “resources.” In the Netherlands, a “stakeholder perspective” is more common, and this perspective shapes Dutch human resource management practices. In this perspective, customers, suppliers, employees, and trade unions, among others, are seen as important stakeholders. Thus, typical in the European or “Rhineland” model, particularly as it is implemented lower in the

¹ Hofstede & Soeters (2002) argue that the generally high levels of cooperation between Dutch employers, unions, and governmental agencies are a reflection of this cultural trait. This spirit of consensus is often referred to as the Dutch *poldermodel*. Strong social pacts among business, labor, and government have existed in the Netherlands for decades. Conflicts are expected to be resolved harmoniously. Until the late 1960s, the Dutch society used to be a society of three large minority groups: protestants, catholics, and non-religious Dutchmen. Because the support of a majority was essential in governing the country, the groups were forced to cooperate. This resulted in a tradition of cooperation, consultation, conflict avoidance, and consensus-seeking (also see Lijphart, 1967). Hofstede & Soeters (2002) describe the so-called Agreement of Wassenaar as an illustration. In 1982, the Dutch economy was in crisis. Unemployment was high, the government had a large budget deficit, and the profits of most Dutch companies were low. The heads of the most important unions of employers, labor unions, and key government officials met in Wassenaar (a town near The Hague) to address this problem. They agreed that salaries of Dutch workers would increase only very slowly and that the workers would get more vacation in return. At the beginning of the 1980s, the government also started to cut its spending and its tax rates. (The highest marginal income tax rate at that time was 72%.) Everybody would suffer in the short-term, but for the long-term good of the country.

organization, are collective bargaining arrangements, social security, and industrial democracy at the company level through work councils. Both the employees and the employers in a specific industry are represented by their respective unions. The labor unions and the employer unions negotiate so-called Collective Labor Agreements (CLA). A CLA is a written agreement that sets obligatory conditions of employment in a certain industry. These conditions are detailed and concern, for example, an employee's compensation, holidays, and pension plan. The CLA also contains salary scales, a table that determines the salaries for a specific job in relation to the qualifications that are needed for that job. The payment of bonuses on top of the fixed base salary is allowed, but such bonuses have traditionally been relatively small.

2.2.2. Experience with Incentive Systems

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

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

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

There is other evidence that U.S.-like incentive compensation systems are spreading to other countries (e.g., Frocham, 2005; Nusbaum, 1999). Bekker, Fouarge, Kerkhofs, Román, de Voogd-Hamelink, Wilthagen & de Wolff (2002) observed that Dutch companies are increasingly implementing pay-for-performance systems, primarily as a reaction to increased international competition. While Bekker et al. (2002) found that still only a minority of Dutch companies applied some form of pay-for-performance, the percentage of companies basing bonuses on either individual performance or group performance was increasing (1997: 33% | 1999: 36% | 2001: 40%). In addition, bonuses were increasingly being introduced in smaller companies and at lower hierarchical levels.

However, even if U.S. incentive compensation practices are spreading to the Netherlands, most of the Dutch managers’ experiences with those practices will be relatively recent. Research in corporate development suggests that systems become more complex and sophisticated over time. As managers acquire more experience with the systems, they add more features (e.g., Sandino, 2007; Greiner, 1998).

2.3. Research Questions

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

1. Does the use (incidence) of performance-dependent compensation vary significantly between firms in the U.S. and Netherlands?

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

3. METHOD

3.1. Data Collection

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

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

The consulting firm administered the survey to the dealers involved in their quarterly dealership performance surveys. Following the method used by Gibbs et al., we sent four surveys to each dealership: one each for the general manager and the sales, service, and parts department managers.² The general manager survey included questions about the dealership's economic and competitive environment,

² In the U.S., the four surveys consisted of one each for the general manager and the new sales, used sales, and service department managers. In the Netherlands, however, the new and used sales departments are usually

dealership strategy and management practices, general manager delegation of decision rights, and various dealership and general manager demographics (e.g., dealership number of employees, general manager span of control and experience). The sales, service, and parts department manager surveys were largely identical. They asked about the elements of the manager's compensation package, departmental management practices, as well as various demographics (e.g., department manager experience).

The consulting firm did two follow-ups (one reminder letter and one follow-up with replacement) to non-respondents. Of the targeted respondents in the 293 dealerships that were sent a survey, we received 61 (21%) usable surveys from the general managers and 55 (19%), 44 (15%), and 46 (16%) usable surveys from the sales, service, and parts department managers, respectively. Overall, we received at least one survey from 80 of the 293 dealerships (27%). These response rates were almost exactly what Gibbs et al. obtained in their U.S. study. While relatively low, they were to be expected because of the length and complexity of the questionnaires. Analyzing dealership characteristics on the archival data (profit, sales, and employment) across respondents vs. non-respondents did not reveal any systematic non-response biases.

3.2. Main Measures of Incentive Compensation

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

1. **BASE SALARY**, which typically increases each year for most employees;
2. **FORMULA BONUSES**, which are based on quantitative performance measures (e.g., department profit) and where some dealerships define complex contracts for some managers that include up to three formula bonuses;
3. **DISCRETIONARY BONUSES**, which are based on an evaluator's subjective judgment of the manager's performance; and,

combined, whereas the service department is usually split into service and parts. Therefore, in the Netherlands, the four surveys were sent one each to the general manager and the sales, service, and parts department managers.

4. SPIFFS, which are miscellaneous rewards, such as the use of promotional vehicles and certain incentives typically provided by the car manufacturers (e.g., vacation trips).

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

4. UNIVARIATE ANALYSES

4.1. Incidence and Size of Incentives

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

— Tables 2.1 and 2.2 —

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

If bonuses are not a major incentive component of pay in the Netherlands, then what is, if anything? Table 3.1 shows that “merit” raises (i.e., raises above and beyond the collectively-agreed raises in

the industry) are more common in the Dutch firms than are bonuses. But still, about 74% of the Dutch general managers and 56% of the department managers do not get a merit raise.³

— Table 3.1 —

Table 3.2 shows the size of the average award when a Dutch manager received “something” beyond salary. That “something” could be in the form of a merit raise, formula bonus, discretionary bonus, and/or spiff. These figures show that about one third (half) of the Dutch general (department) managers get some form of compensation in addition to their historical base salary; the other managers get no increases beyond the collectively-agreed cost of living raises in the industry. But even for the Dutch general (department) managers who received some performance-dependent compensation, the augmentation of compensation, approximately 23% (8%) on average, is modest by U.S. standards (as shown in Table 2.1).

— Table 3.2 —

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

4.2. Shape of the Reward-Performance Function

Table 4.1 shows data describing many of the key features of the formula bonus plans—the bases for assigning the formula bonuses and the shape(s) of the performance/reward function(s)—where those

³ For the U.S. sample, only 41 (16%) of the 250 general managers report a positive raise; 152 (61%) indicate a zero raise; and 57 (23%) left the field blank. For the U.S. department managers, only 91 (17%) of the 526 department managers report a positive raise; 117 (23%) indicate a zero raise; and 316 (60%) left the field blank. Hence, in the U.S. sample, the evidence suggests that 83-84% of the managers do not receive “merit” raises as reflected by the high incidence of zeros and missing values. For those receiving (reporting) a raise, the average amount for general (department) managers is \$7,153 (\$2,714) or 9.3% (6.2%) of salary. These numbers indicate that those managers who report a raise in the survey possibly only did so when their raises were above and beyond the usual cost-of-living adjustments, which are typically in the 3-5% range. Regardless of this interpretation, the incidence of raises is low in the U.S. sample.

plans are used. Panel A (B) presents the U.S. (Dutch) data. Table 4.2 shows the results of statistical tests of some of the key differences, virtually all of which are statistically significant.

— Tables 4.1 and 4.2 —

These findings show that where formula bonuses are used, the U.S. firms are significantly more likely to base those bonus awards on profit measures, particularly net profit. The Dutch firms are significantly more likely to base their bonus awards on “other” measures, the most common of which is sales measured in units, with customer satisfaction a distant second. But, interestingly, the Dutch firms’ performance/reward functions are more complex. The Dutch firms are much more likely than the U.S. firms to identify a threshold (a performance level below which no bonuses are given) and a cap (a performance level above which no additional bonuses are given). Including performance bounds in incentive contracts is often evidence of lack of confidence in the design of the incentive plan (Merchant, 1989). This is perhaps not a surprising result given the Dutch managers’ relative lack of experience with such plans. Moreover, the use of performance bounds, particularly upper bounds or caps, is also consistent with the relative preference of the Dutch for greater compensation equality or “leveling” (Pennings, 1993).

5. MULTIVARIATE ANALYSES

5.1. Control Variables

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

- (1) DEALERSHIP SIZE (log of dealership revenues);
- (2) GENERAL MANAGER SPAN OF CONTROL (number of employees who report directly to the general manager);

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

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

— Table 5 —

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

5.2. Multivariate Results

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

— Table 6 —

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

— Tables 7.1, 7.2, 7.3, and 7.4 —

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

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

Interestingly, however, the results reported in Table 7 are generally stronger for the Dutch subsample than the U.S. subsample, both in terms of overall model strength (Wald χ^2 and R^2) as well as in terms of the number and magnitude of significant regressors. We conjecture that this indicates that although performance-dependent incentives are much less prevalent in the Dutch sample, when incentives are used in the Dutch firms, they appear to be chosen in ways that theory predicts. In the U.S. sample, on the other hand, where the use of incentives is nearly universal, these contextual factors seem to have less effect on the design of the systems. In other words, this finding seems to suggest that where incentives have become “general practice,” the effects of these contextual variables become muted.

5.3. Analysis of the Effects of Performance-Dependent Incentives

To test the effects of the use of performance-dependent incentives, we perform OLS regressions with NET PROFIT PER EMPLOYEE and PAY SATISFACTION as the chosen outcome measures, as is shown in Table 8. We expected that if the incentive awards had an effect on performance and pay satisfaction, it would be in the subsequent performance period. The U.S. (Dutch) managers learned about the outcome of their incentive compensation for 1998 (2001) in early 1999 (2002), which is coincident with when the surveys were conducted.⁴ Thus, for this analysis we used the net profit per employee in 1999 (2002) for the U.S. (Dutch) sample.

— Table 8 —

As additional control variables we include “matched” entity size (that is, matched to the respondent’s level, either dealership or department, for each record in the dataset) in both regressions, plus sales growth and changes in employment in the net profit regressions. We include entity size to control, among other things, for the possibility that larger entities may be able to attract and retain more talented managers which could affect the observed net profit per employee as well as their pay satisfaction. Moreover, size also captures potential economies of scale which also may affect net profit per employee. We include sales growth and changes in employment to control for trends in performance that might affect net profit per employee. Refer to the footnotes in Table 8 for further details on the measurement of the variables in the model.

The results in Table 8, Model [1], show no significant profit effects of performance-dependent incentives for the U.S. sample (as shown by the insignificant coefficient on variable [B]). However, a significantly negative effect is indicated in the Dutch sample (as shown by the significantly negative effect (an *F*-test) of the summed coefficients on [B] + ([A] x [B]); $p < 0.01$). This finding appears when

⁴ If we examined the effect of 1998 (2001) *performance-dependent* incentives on 1998 (2001) performance, we would find—tautologically—that they are positively related because 1998 (2001) *performance-dependent* incentives are (at least to a large extent) a function of 1998 (2001) performance; e.g., 2% of net profit. In other words, within the same time period, incentives are—by definition—determined by performance, which leads to tautological relationships affected by endogeneity and simultaneity. This illustrates the importance of specifying an

we do the analysis for each of the incentive elements separately; that is, for formula bonuses, discretionary bonuses, and spiffs, and thus, we do not tabulate these permutations of the overall model. These results control for entity size and entity sales and employee growth. Only sales growth is a significant predictor in this model and the untabulated models for each of the incentive components separately.⁵

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

The negative effect of the use of incentives on pay satisfaction in the Netherlands suggests some “aversion” towards incentive pay in the Netherlands (which the field results in the next section of the paper also reveal). Not only does this aversion seem to affect pay satisfaction (a “soft” outcome), it also seems to have an adverse effect on “hard” performance (net profit). Regarding this latter inference, however, we must caution that we cannot rule out the possibility that this result is driven by “reverse causality.” That is, we cannot rule out the argument that dealerships with performance or employee productivity problems (such as those with a low net profit per employee) are more likely to use incentives to try and remedy their performance problems.

6. FIELD RESEARCH FOLLOW-UP

Because the Dutch data are so dramatically different from the U.S. data, we decided to add a field research phase to our study to try to understand better how the Dutch managers manage their dealerships.

appropriate temporal model to investigate the effects of 1998 (2001) performance-dependent incentives on *subsequent* 1999 (2002) outcomes.

We conducted detailed interviews with general and department managers in one U.S. firm and two Dutch firms. All of these firms were relatively large and privately owned. The U.S. firm was typical in that it offered lucrative performance-dependent compensation to managers (and some other employees). We selected one Dutch firm for study because it appeared to be “typically Dutch” in the sense that it made little or no use of performance-dependent compensation. We selected the other Dutch dealership because it appeared to be different; its use of performance-dependent compensation made it an “outlier” in the Dutch setting.

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

6.1. The U.S. Firm

The U.S. firm, located in Southern California, runs seven dealerships, three Toyota dealerships and one each for BMW, Ford, Hyundai, and Volkswagen. Most of the bonuses for dealership managers were based on a percentage of profit before tax for the relevant organizational entity (i.e., dealership or department), but other measures, including customer satisfaction and sales in units, were also considered. The bonuses were quite lucrative, averaging well over 100% of base salary.

The managers in this firm could not imagine running their business without the types of incentive compensation plans they offered. They noted that the incentives served valuable goals, most particularly including individual motivation, shaping of attitudes and teamwork, and attraction and retention of good employees. These beliefs were not surprising. In many ways, this firm’s incentive practices seem to be “typically American.”

⁵ We do not interpret the coefficient for DUTCH LOCATION as that variable is measured in 2002 for the Dutch sample as compared to 1999 for the U.S. sample (which is captured by the intercept), which makes a direct comparison of absolute profit numbers inappropriate.

6.2. A “Typically-Dutch” Firm?

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

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

In a U.S. firm implementing such an “empowerment” program, one would expect to see a greater use of performance-dependent incentives. But this Dutch firm does not provide monetary incentives to any of its employees, not even its sales people.

Even though the firm did not use them, the company’s CEO expressed some interest in incentive payments based on group performance, but certainly not individual performance:

I want to motivate my team as a whole. I want them to cooperate with each other. If we applied bonuses, I would want to give a bonus to each member of the team, not to individuals. In such a system, people will correct each other.

The company’s CFO elaborated on this idea:

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

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

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

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

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

Salaries are not performance-dependent. With rare exceptions, all employees in the same job category earn the same salary. The CFO explained:

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

A dealership manager elaborated on this idea:

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

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

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

And the CFO added that employee motivation is not a problem:

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

6.3. A Dutch “Outlier”?

The second Dutch firm appears to be an outlier in the Dutch context because it does use formal performance-dependent incentive plans. This firm operates 10 dealerships: four Opel, one Toyota, one Suzuki, one Chevrolet/Daewoo, and three that offer brands with small market shares in the Netherlands, including Alfa Romeo, Cadillac, Corvette, Honda, Hummer, and Saab. The firm is family owned. The

current CEO succeeded his father in 2001. Much of the company's growth over the years has come from acquiring other dealerships or by acquiring new dealerships directly from the manufacturer.

After he took over from his father, the current CEO made some significant changes. One change was to decentralize the company. He delegated much decision-making authority to dealership and department managers and started providing the managers with much more detailed performance information, including one weekly report called a "balanced scorecard."⁶ The managers were instantly interested in their performance reports. They compared their scores with their histories and with those of other departments, and they tried to implement improvements.

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

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

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

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

⁶ Despite the labeling of these reports as "Balanced Scorecards" in this company, these reports do not resemble the types of reports recommended by the Balanced Scorecard Collaborative.

While this firm used performance-dependent compensation, there was widespread disbelief throughout the organization that monetary incentives provided much motivation. Here are some representative quotes:

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

...

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

...

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

...

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

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

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

The field studies sharpened our understanding of the differences in management philosophies across the two countries. In particular, the Dutch managers emphasized the importance of non-monetary motivators, such as recognition. The Dutch management styles appear typically “feminine.” The Dutch managers are inclined to give their employees a degree of independence, but they also take care of them

and emphasize cooperation and equality. And the long-term orientation aspect of culture is also observable. Some Dutch managers argue that money only has a short-term effect, and most people prefer the security of a fixed income, even if the variable income has the potential to be significantly higher.

7. DISCUSSION AND CONCLUSIONS

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

Our results show dramatic differences in performance-dependent compensation practices between the U.S. and Dutch firms. As compared to the U.S. firms, the Dutch firms are much less likely to provide their managers with performance-dependent compensation in any form. Where performance-dependent compensation is used, significant cross-country differences exist. U.S. firms provide larger incentives, and they are significantly more likely to base formula bonus awards on a summary financial measure, particularly net profit. The Dutch firms are significantly more likely to base their bonus awards on other performance measures such as, most commonly, sales measured in units. And as compared to the U.S. firms, the Dutch firms are much more likely to use complex performance/reward functions that define both performance thresholds and caps.

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

Finally, we found evidence supporting a “contextual fit” hypothesis. While we could not detect a positive effect on profits from the use of performance-dependent compensation in the U.S. firms, we did find a positive effect on pay satisfaction in those firms. In the Dutch firms, though, the effects of the use

of performance-dependent compensation on net profit and pay satisfaction were both negative. This finding suggests that provision of performance-dependent incentives should not be considered part of a set of “global best practices.” Instead, incentive practices should be adapted to the national setting.

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

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

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Table 1.1
National Culture Scores for the U.S. and Netherlands (Hofstede, 1980)

	<u>Individualism</u>	<u>Power Distance</u>	<u>Uncertainty Avoidance</u>	<u>Masculinity</u>
U.S.	91	40	46	62
Netherlands	80	38	53	14

Table 1.2
Federal Marginal Personal Income Tax Rates in the U.S. and Netherlands

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

Table 2.1
Elements of Compensation Package for General and Department Managers in the U.S. and Netherlands: Descriptive Statistics

	U.S.				Netherlands			
	<u>Base Salary</u>	<u>Formula Bonus</u>	<u>Discretionary Bonus</u>	<u>Spiffs</u>	<u>Base Salary</u>	<u>Formula Bonus</u>	<u>Discretionary Bonus</u>	<u>Spiffs</u>
General Managers	[N= 250] Avg. Tot. Comp. = \$190,658 (n = 240)				[N= 61] Avg. Tot. Comp. = €58,303 (n = 61)			
Comp. Package Breakdown	56.78%	36.45%	3.86%	2.91%	96.94%	2.58%	0.40%	0.08%
Number Receiving	n = 238	n = 170	n = 49	n = 110	n = 61	n = 9	n = 3	n = 1
Percent Receiving	95.20%	68.00%	19.60%	44.00%	100%	14.75%	4.92%	1.64%
Average Amount	\$82,262	\$136,724	\$36,449	\$10,458	€56,029	€13,079	€6,000	€3,000
Avg. Pct. of Total Comp. ^a	58.24%	51.46%	18.90%	6.34%	96.94%	17.47%	8.12%	5.08%
Department Managers	[N= 526] Avg. Tot. Comp. = \$72,390 (n = 510)				[N= 145] Avg. Tot. Comp. = €36,318 (n = 145)			
Comp. Package Breakdown	49.80%	36.17%	4.17%	9.86%	98.67%	0.89%	0.19%	0.25%
Number Receiving	n = 433	n = 338	n = 118	n = 323	n = 145	n = 15	n = 10	n = 30
Percent Receiving	82.32%	64.26%	22.43%	61.41%	100%	10.34%	6.90%	20.69%
Average Amount	\$35,757	\$53,751	\$15,149	\$4,585	€35,745	€3,992	€940	€457
Avg. Pct. of Total Comp. ^a	58.66%	54.58%	18.01%	15.57%	98.68%	8.59%	2.73%	1.19%
Sales Dept. Managers	[N= 321] Avg. Tot. Comp. = \$78,476 (n = 310)				[N= 55] Avg. Tot. Comp. = €42,874 (n = 55)			
Comp. Package Breakdown	45.80%	37.40%	4.58%	12.22%	97.53%	1.92%	0.23%	0.32%
Number Receiving	n = 253	n = 202	n = 78	n = 228	n = 55	n = 11	n = 4	n = 11
Percent Receiving	78.82%	62.93%	24.30%	71.03%	100%	20.00%	7.27%	20.00%
Average Amount	\$36,684	\$62,036	\$17,417	\$5,074	€41,742	€4,555	€1,150	€684
Avg. Pct. of Total Comp. ^a	56.12%	57.40%	18.19%	16.61%	97.53%	9.57%	3.20%	1.60%
Service Dept. Managers	[N= 205] Avg. Tot. Comp. = \$62,958 (n = 200)				[N= 44] Avg. Tot. Comp. = €34,984 (n = 44)			
Comp. Package Breakdown	56.00%	34.26%	3.53%	6.21%	99.06%	0.52%	0.16%	0.26%
Number Receiving	n = 180	n = 136	n = 40	n = 95	n = 44	n = 3	n = 4	n = 10
Percent Receiving	87.80%	66.34%	19.51%	46.34%	100%	6.82%	9.09%	22.73%
Average Amount	\$34,455	\$41,444	\$10,728	\$3,411	€34,621	€3,092	€619	€422
Avg. Pct. of Total Comp. ^a	62.22%	50.38%	17.65%	13.07%	99.06%	7.59%	1.77%	1.15%
Parts Dept. Managers					[N= 46] Avg. Tot. Comp. = €29,755 (n = 46)			
Comp. Package Breakdown					99.67%	0.03%	0.16%	0.14%
Number Receiving					n = 46	n = 1	n = 2	n = 9
Percent Receiving					100%	2.17%	4.35%	19.57%
Average Amount					€29,651	€500	€1,161	€217
Avg. Pct. of Total Comp. ^a					99.67%	1.45%	3.71%	0.73%

Table 2.1 (cont.)

^a For those who receive it.

Definitions:

This table reports summary statistics (for 1998 for the U.S. sample and 2001 for the Netherlands sample) of the compensation package of managers who *receive* any or all of the respective compensation elements. Capital “N” indicates total number of managers in each sample; small “n” indicates those managers in each sample receiving the particular compensation element. The various compensation elements are defined as follows:

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

Table 2.2
Elements of Compensation Package for General and Department Managers
in the U.S. and Netherlands: Statistical Test of Differences of Key Elements

Panel A. General Managers

	U.S.	Netherlands	<i>t</i> -statistic (two-tailed <i>p</i> -value)
<u>1. Base salary</u>			
- Incidence (% receiving)	95.20%	100.00%	1.75 (<i>p</i> = 0.08)*
- Avg. size (% of total compensation) ^a	58.24%	96.94%	9.73 (<i>p</i> < 0.01)***
<u>2. Formula bonus(es)</u>			
- Incidence (% receiving)	68.00%	14.75%	8.32 (<i>p</i> < 0.01)***
- Avg. size (% of total compensation) ^a	51.46%	17.47%	4.03 (<i>p</i> < 0.01)***
- Avg. number of formula bonuses	1.29	1.58	1.63 (<i>p</i> = 0.10)*
<u>3. Discretionary bonus(es)</u>			
- Incidence (% receiving)	19.60%	4.92%	2.78 (<i>p</i> < 0.01)***
- Avg. size (% of total compensation) ^a	18.90%	8.12%	1.14 (<i>p</i> = 0.26)
<u>4. Spiffs</u>			
- Incidence (% receiving)	44.00%	1.64%	6.59 (<i>p</i> < 0.01)***
- Avg. size (% of total compensation) ^a	6.34%	5.08%	Insufficient d.f.

Panel B. Department Managers

	U.S.	Netherlands	<i>t</i> -statistic (two-tailed <i>p</i> -value)
<u>1. Base salary</u>			
- Incidence (% receiving)	82.32%	100.00%	5.57 (<i>p</i> < 0.01)***
- Avg. size (% of total compensation) ^a	58.66%	98.68%	18.38 (<i>p</i> < 0.01)***
<u>2. Formula bonus(es)</u>			
- Incidence (% receiving)	64.26%	10.34%	12.83 (<i>p</i> < 0.01)***
- Avg. size (% of total compensation) ^a	54.58%	8.59%	8.66 (<i>p</i> < 0.01)***
- Avg. number of formula bonuses	1.74	1.38	1.92 (<i>p</i> = 0.06)*
<u>3. Discretionary bonus(es)</u>			
- Incidence (% receiving)	22.43%	6.90%	4.27 (<i>p</i> < 0.01)***
- Avg. size (% of total compensation) ^a	18.01%	2.73%	2.71 (<i>p</i> < 0.01)***
<u>4. Spiffs</u>			
- Incidence (% receiving)	61.41%	20.69%	9.22 (<i>p</i> < 0.01)***
- Avg. size (% of total compensation) ^a	15.57%	1.19%	3.15 (<i>p</i> < 0.01)***

^a For those who receive it.

Table 3.1
Average “Merit” Raise for Managers in the Netherlands
(Euros and Pct. of Salary) when Raise > 0

	<u>Percent receiving</u>	Size when given:	
		<u>Euros</u>	<u>Pct. of Salary</u>
General managers (n = 61)	26.23% (n = 16)	6,517	12.31%
Department managers (n = 145)	44.14% (n = 64)	2,142	6.05%

Table 3.2
Average “Award” for Managers in the Netherlands (Euros and Pct. of Salary)
when Manager Receives “Something” Beyond Salary

	<u>Percent receiving</u>	<u>Euros</u>	<u>Pct. of Salary</u>
General managers			
Manager received raise, formula bonus, and/or discretionary bonus	31.15% (n = 19)	€12,631	22.76%
Manager received raise, formula bonus, discretionary bonus and/or spiffs	32.79% (n = 20)	€12,149	22.71%
Department managers			
Manager received raise, formula bonus, and/or discretionary bonus	48.28% (n = 70)	€2,948	7.99%
Manager received raise, formula bonus, discretionary bonus and/or spiffs	55.86% (n = 81)	€2,716	7.52%

Table 4.1
Bases for Assigning Formula Bonuses and Shape of the Performance/Reward
Functions Where Formula Bonuses are Used: Descriptive Statistics

Panel A. U.S.

	Formula Bonus 1		Formula Bonus 2		Formula Bonus 3		All	
	\$	Pct.	\$	Pct.	\$	Pct.	\$	Pct.
General Managers								
· Formula Bonus Amount	132,618	93.71	48,633	3.92	31,629	2.37	136,724	100
· Performance Measures	<u>No.</u>	<u>Pct.</u>	<u>No.</u>	<u>Pct.</u>	<u>No.</u>	<u>Pct.</u>	<u>No.</u>	<u>Pct.</u>
Dealership Net Profit	164	91.11	9	45.00	0	0.00	173	85.64
Dealership Gross Profit	10	5.56	2	10.00	0	0.00	12	5.94
Department Net Profit	3	1.67	2	10.00	0	0.00	5	2.48
Department Gross Profit	3	1.67	2	10.00	0	0.00	5	2.48
Department Other	0	0.00	5	25.00	2	100.00	7	3.47
General Manager Total	180	100	20	100	2	100	202	100
	<u>No.</u>	<u>Pct.</u>	<u>No.</u>	<u>Pct.</u>	<u>No.</u>	<u>Pct.</u>	<u>No.</u>	<u>Pct.</u>
· Formula Bonus Floor >0	10	5.56	3	15.00	1	50.00	14	6.93
· Formula Bonus Cap	3	1.67	3	15.00	0	0.00	6	2.97
· Floor and Cap	1	0.56	3	15.00	0	0.00	4	1.98
· Neither Floor nor Cap	168	93.33	17	85.00	1	50.00	186	92.08
· Kinks (Beyond Zero or Floor)	29	16.11	2	10.00	0	0.00	31	15.35
· When Kink, Convex	28		2		0		30	
· When Kink, Concave	1		0		0		1	
Department Managers	\$	Pct.	\$	Pct.	\$	Pct.	\$	Pct.
· Formula Bonus Amount	47,808	85.25	16,704	11.76	8,746	2.99	53,751	100
· Performance Measures	<u>No.</u>	<u>Pct.</u>	<u>No.</u>	<u>Pct.</u>	<u>No.</u>	<u>Pct.</u>	<u>No.</u>	<u>Pct.</u>
Dealership Net Profit	5	1.10	11	6.63	7	17.50	23	3.49
Dealership Gross Profit	1	0.22	1	0.60	0	0.00	2	0.30
Own Department Net Profit	170	37.53	47	28.31	10	25.00	227	34.45
Own Department Gross Profit	256	56.51	41	24.70	6	15.00	303	45.98
Own Department Revenues	6	1.32	0	0.00	1	2.50	7	1.06
Own Department Other	6	1.32	51	30.72	12	30.00	69	10.47
Other Department Net Profit	1	0.22	6	3.61	1	2.50	8	1.21
Other Department Gross Profit	1	0.22	8	4.82	3	7.50	12	1.82
Other Department Revenues	0	0.00	0	0.00	0	0.00	0	0.00
Other Department Other	7	1.55	1	0.60	0	0.00	8	1.21
Department Manager Total	453	100	166	100	40	100	659	100
	<u>No.</u>	<u>Pct.</u>	<u>No.</u>	<u>Pct.</u>	<u>No.</u>	<u>Pct.</u>	<u>No.</u>	<u>Pct.</u>
· Formula Bonus Floor >0	24	5.30	48	28.92	15	37.50	87	13.20
· Formula Bonus Cap	7	1.55	32	19.28	5	12.50	44	6.68
· Floor and Cap	7	1.55	31	18.67	5	12.50	43	6.53
· Neither Floor nor Cap	429	94.70	117	70.47	25	62.50	571	86.65
· Kinks (Beyond Zero or Floor)	50	11.04	36	21.69	2	5.00	88	13.35
· When Kink, Convex	50		36		2		88	
· When Kink, Concave	0		0		0		0	

Table 4.1 (cont.)

Panel B. Netherlands

	Formula Bonus 1		Formula Bonus 2		Formula Bonus 3		All	
	€	Pct.	€	Pct.	€	Pct.	€	Pct.
General Managers								
· For. Bon. Amount and Weight	12,746	95.24	1,500	2.38	1,500	2.38	13,079	100
· Performance Measures	<u>No.</u>	<u>Pct.</u>	<u>No.</u>	<u>Pct.</u>	<u>No.</u>	<u>Pct.</u>	<u>No.</u>	<u>Pct.</u>
Dealership Net Profit	10	83.33	0	0.00	0	0.00	10	58.82
Dealership Gross Profit	0	0.00	0	0.00	0	0.00	0	0.00
Dealership Revenues	1	8.33	0	0.00	0	0.00	1	5.88
Dealership Other	1	8.33	3	100	1	50.00	5	29.41
Department Net Profit	0	0.00	0	0.00	1	50.00	1	5.88
General Manager Total	12	100	3	100	2	100	17	100
	<u>No.</u>	<u>Pct.</u>	<u>No.</u>	<u>Pct.</u>	<u>No.</u>	<u>Pct.</u>	<u>No.</u>	<u>Pct.</u>
· Formula Bonus Floor >0	7	58.33	3	100	2	100	12	70.58
· Formula Bonus Cap	2	16.67	1	33.33	0	0.00	3	17.65
· Floor and Cap	1	8.33	1	33.33	0	0.00	2	11.76
· Neither Floor nor Cap	4	33.33	0	0.00	0	0.00	4	23.53
· Kinks (Beyond Zero or Floor)	0	0.00	0	0.00	0	0.00	0	0.00
Department Managers	€	Pct.	€	Pct.	€	Pct.	€	Pct.
· For. Bon. Amount and Weight	3,390	92.38	750	7.62	0	0.00	3,992	100
· Performance Measures	<u>No.</u>	<u>Pct.</u>	<u>No.</u>	<u>Pct.</u>	<u>No.</u>	<u>Pct.</u>	<u>No.</u>	<u>Pct.</u>
Dealership Net Profit	3	23.08	0	0.00	0	0.00	3	11.54
Dealership Gross Profit	0	0.00	0	0.00	0	0.00	0	0.00
Own Department Net Profit	2	15.38	1	12.50	0	0.00	3	11.54
Own Department Gross Profit	0	0.00	2	25.00	0	0.00	2	7.69
Own Department Revenues	1	7.69	0	0.00	0	0.00	1	3.85
Own Department Other	7	53.85	5	62.50	5	100	17	65.38
Department Manager Total	13	100	8	100	5	100	26	100
	<u>No.</u>	<u>Pct.</u>	<u>No.</u>	<u>Pct.</u>	<u>No.</u>	<u>Pct.</u>	<u>No.</u>	<u>Pct.</u>
· Formula Bonus Floor >0	7	53.85	6	75.00	4	80.00	17	65.38
· Formula Bonus Cap	2	23.08	1	12.50	0	0.00	3	11.54
· Floor and Cap	2	23.08	1	12.50	0	0.00	3	11.54
· Neither Floor nor Cap	6	46.15	2	25.00	1	20.00	9	34.62
· Kinks (Beyond Zero or Floor)	1	7.69	1	12.50	0	0.00	2	7.69
· When Kink, Convex	1		1				2	
· When Kink, Concave	0		0				0	

Table 4.2
Bases for Assigning Formula Bonuses and Shape of the Performance/Reward Functions Where
Formula Bonuses are Used: Statistical Test of Differences of Key Elements

Panel A. General Managers

	U.S. (202 contracts)	Netherlands (17 contracts)	<i>t</i> -statistic (two-tailed <i>p</i> -value)
Bases for assigning formula bonuses:			
- Profits	195 (96.53%)	11 (64.71%)	5.69 ($p < 0.01$)***
- Revenues	0 (0.00%)	1 (5.88%)	3.54 ($p < 0.01$)***
- Other	7 (3.47%)	5 (29.41%)	4.72 ($p < 0.01$)***
Shape of reward/performance function:			
- Threshold	14 (6.93%)	12 (70.58%)	9.13 ($p < 0.01$)***
- Cap	6 (2.97%)	3 (17.65%)	2.97 ($p < 0.01$)***
- Linear in relevant range	171 (84.65%)	17 (100.00%)	1.75 ($p = 0.08$ *)

Panel B. Department Managers

	U.S. (659 contracts)	Netherlands (26 contracts)	<i>t</i> -statistic (two-tailed <i>p</i> -value)
Bases for assigning formula bonuses:			
- Profits	575 (87.26%)	8 (30.77%)	8.32 ($p < 0.01$)***
- Revenues	7 (1.06%)	1 (3.85%)	1.29 ($p = 0.19$)
- Other	77 (11.68%)	17 (65.38%)	8.17 ($p < 0.01$)***
Shape of reward/performance function:			
- Threshold	87 (13.20%)	17 (65.38%)	7.56 ($p < 0.01$)***
- Cap	44 (6.68%)	3 (11.54%)	0.96 ($p = 0.34$)
- Linear in relevant range	571 (86.65%)	24 (92.31%)	0.84 ($p = 0.40$)

Table 5
Variable Definitions and Descriptive Statistics

	U.S.		Netherlands		<i>t</i> -statistic (two-tailed <i>p</i> -value)
	Mean	St. Dev.	Mean	St. Dev.	
Dealership Size ^a	50,779,829	38,816,419	9,268,499	7,580,789	26.81 (<i>p</i> < 0.01)***
General Manager Span of Control ^b	23.34	32.81	11.40	13.54	7.03 (<i>p</i> < 0.01)***
General Manager Experience ^c	7.26	5.34	11.56	9.38	5.63 (<i>p</i> < 0.01)***
General Manager Delegation ^d	4.14	0.53	3.90	0.65	4.36 (<i>p</i> < 0.01)***
Dealership Competition ^e	4.35	0.59	3.67	0.55	13.79 (<i>p</i> < 0.01)***
Dealership Environmental Uncertainty ^f	3.44	0.47	3.15	0.43	7.52 (<i>p</i> < 0.01)***
Dealership Customer Service Orientation ^g	4.12	0.56	4.04	0.45	1.85 (<i>p</i> = 0.06)*
Dealership Differentiation Strategy ^h	3.55	0.98	3.37	0.69	2.67 (<i>p</i> < 0.01)***
Bonus Recipient Experience ⁱ	9.82	8.06	13.49	10.51	4.35 (<i>p</i> < 0.01)***

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

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

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

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

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

Table 5 (cont.)

- ^f DEALERSHIP ENVIRONMENTAL UNCERTAINTY: measured by the following five survey items: (1) *How predictable are the market actions of car dealerships with which you compete?*; (2) *How accurately can you predict your future new car sales over the next year?*; (3) *How stable are the customer preferences and tastes for new car purchases?*; (4) *How stable are the legal constraints facing your car dealership?*; and (5) *How stable is the economic environment facing your car dealership?*, fully-anchored on a 5-point Likert scale from *Very Low* to *Very High* (reverse coded). Factor analysis (principal components) retains one factor (*eigenvalue* = 1.89) that explains 37.72% of the variance. The composite scale's *Cronbach Alpha* is 0.58.
- ^g DEALERSHIP CUSTOMER SERVICE ORIENTATION: measured by the following six survey items: (1) *To what extent do you evaluate department managers on customer service performance?*; (2) *To what extent do you review customer service issues in meetings with department managers?*; (3) *To what extent do you consider customer service to be a way to increase profits?*; (4) *To what extent do you find customer service important relative to financial performance?*; (5) *To what extent do you provide feedback to department managers about their customer service performance?*; and (6) *To what extent do you provide training to employees to increase customer service awareness in the car dealership?*, fully-anchored on a 5-point Likert scale from *Not At All* to *Very High Extent*. Factor analysis (principal components) retains one factor (*eigenvalue* = 3.24) that explains 54.02% of the variance. The composite scale's *Cronbach Alpha* is 0.82.
- ^h DEALERSHIP DIFFERENTIATION STRATEGY: measured by the following survey item: *Generally speaking, a car dealership can pursue one of two strategies. A cost leader emphasizes offering the lowest price to customers and pursues a low cost position relative to competitors; such dealerships often pursue a high volume of sales as well. A differentiator, on the other hand, focuses on creating something that is perceived by customers as unique through superior customer service, unique marketing approaches, etc. Please indicate the strategy of your car dealership (check one)*, fully-anchored on a 5-point Likert scale from *Predominantly Cost Leader* to *Predominantly Differentiator*.
- ⁱ BONUS RECIPIENT EXPERIENCE: measured by survey item *How many years have you been working at this dealership?*

Table 6
Correlations^a

	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.
1. Formula Bonus (1/0) ^b	1.00										
2. Discr. Bonus (1/0) ^b	0.24***	1.00									
3. Spiff (1/0) ^b	0.26***	0.16***	1.00								
4. Deal. Size	0.29***	0.08**	0.27***	1.00							
5. Gen. Mgr. Span of Ctrl.	0.12***	-0.01	0.13***	0.22***	1.00						
6. Gen. Mgr. Exp.	0.09***	0.04	0.10***	0.10**	0.01	1.00					
7. Gen. Mgr. Del.	0.12***	-0.01	0.06*	0.18***	0.07*	-0.01	1.00				
8. Deal. Comp.	0.21***	0.09**	0.22***	0.46***	0.20***	0.08**	0.24***	1.00			
9. Deal. Env. Unc.	0.13***	0.02	0.07*	0.27***	0.11***	0.07**	0.05	0.05	1.00		
10. Deal. Cust. Serv. Orient.	0.08**	-0.01	-0.02	0.13***	0.16***	0.04	0.33***	0.21***	0.17***	1.00	
11. Deal. Diff. Strat.	0.09***	0.13***	-0.01	-0.08**	0.01	0.06*	0.10***	-0.09**	0.06*	0.22***	1.00
12. Bonus Recipient Exp.	-0.02	0.02	-0.06*	-0.04	0.02	0.41***	-0.02	-0.06	-0.03	0.02	0.08**

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

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

Table 7.1
Logit Analysis of the Determinants of the Use of Performance-Dependent Compensation^a

	<u>Overall</u>	<u>U.S.</u>	<u>Netherlands</u>
Intercept	-2.11*** ^b (3.27)	3.59 (5.32)	-5.08 (4.10)
Dutch Location ^c	-2.48*** (0.41)		
Dealership Size	0.25* (0.17)	-0.07 (0.29)	0.19 (0.26)
General Manager Span of Control	0.01 (0.01)	0.01 (0.01)	0.03* (0.02)
General Manager Experience	0.03* (0.02)	-0.04 (0.04)	0.06** (0.03)
General Manager Delegation	0.09 (0.17)	0.07 (0.20)	-0.05 (0.25)
Dealership Competition	-0.02 (0.18)	0.08 (0.24)	-0.04 (0.30)
Dealership Environmental Uncertainty	0.35** (0.22)	0.34* (0.25)	0.72** (0.38)
Dealership Customer Service Orientation	0.41** (0.19)	0.29 (0.24)	1.07*** (0.36)
Dealership Differentiation Strategy	-0.04 (0.17)	-0.24 (0.21)	0.40* (0.31)
Bonus Recipient Experience	0.04*** (0.01)	0.08** (0.03)	0.04** (0.02)
<i>N</i>	606	474	132
Wald χ^2	124.96***	15.84*	19.44**
Pseudo <i>R</i> ²	27.00%	5.99%	11.84%

^a Logit regression with USE OF PERFORMANCE-DEPENDENT COMPENSATION as the dependent variable set to one if the manager received a formula bonus, discretionary bonus, and/or spiff (zero otherwise).

Refer to Table 5 for the definitions and descriptive statistics of the independent variables.

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

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

Table 7.2
Logit Analysis of the Determinants of the Use of Formula Bonuses^a

	<u>Overall</u>	<u>U.S.</u>	<u>Netherlands</u>
Intercept	-12.09*** ^b (3.32)	-5.76* (4.00)	-28.93*** (9.53)
Dutch Location ^c	-1.89*** (0.39)		
Dealership Size	0.69*** (0.18)	0.33* (0.22)	1.63*** (0.60)
General Manager Span of Control	0.01** (0.00)	0.01* (0.00)	0.02 (0.03)
General Manager Experience	0.02 (0.02)	0.07*** (0.03)	-0.02 (0.03)
General Manager Delegation	0.11 (0.14)	0.02 (0.16)	0.65* (0.47)
Dealership Competition	0.29** (0.17)	0.20 (0.19)	0.53* (0.43)
Dealership Environmental Uncertainty	-0.03 (0.19)	0.01 (0.21)	0.23 (0.61)
Dealership Customer Service Orientation	0.05 (0.14)	0.06 (0.15)	0.18 (0.48)
Dealership Differentiation Strategy	0.26** (0.12)	0.15 (0.13)	0.33 (0.51)
Bonus Recipient Experience	0.01 (0.01)	0.02 (0.02)	-0.00 (0.02)
<i>N</i>	606	474	132
Wald χ^2	131.76***	20.12**	24.93***
Pseudo <i>R</i> ²	23.78%	5.25%	22.97%

^a Logit regression with USE OF FORMULA BONUSES as the dependent variable set to one if the manager received a formula bonus (zero otherwise).

Refer to Table 5 for the definitions and descriptive statistics of the independent variables.

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

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

Table 7.3
Logit Analysis of the Determinants of the Use of Discretionary Bonuses^a

	<u>Overall</u>	<u>U.S.</u>	<u>Netherlands</u>
Intercept	-1.36 (2.71)	-1.46 (3.19)	1.31 (4.95)
Dutch Location ^c	-0.93*** ^b (0.39)		
Dealership Size	-0.01 (0.15)	-0.01 (0.18)	-0.31 (0.34)
General Manager Span of Control	-0.01 (0.01)	-0.01 (0.01)	0.01 (0.02)
General Manager Experience	0.01 (0.02)	-0.01 (0.02)	0.03* (0.02)
General Manager Delegation	0.19* (0.13)	0.21* (0.14)	0.11 (0.34)
Dealership Competition	0.10 (0.13)	0.15 (0.14)	-0.40 (0.54)
Dealership Environmental Uncertainty	-0.06 (0.18)	-0.06 (0.19)	0.14 (0.54)
Dealership Customer Service Orientation	-0.01 (0.16)	-0.02 (0.16)	0.31 (0.51)
Dealership Differentiation Strategy	0.26*** (0.10)	0.24** (0.11)	0.51* (0.41)
Bonus Recipient Experience	0.01 (0.01)	0.01 (0.01)	-0.01 (0.03)
<i>N</i>	606	474	132
Wald χ^2	24.85***	9.86 (n.s.)	14.28*
Pseudo <i>R</i> ²	4.69%	1.57%	4.55%

^a Logit regression with USE OF DISCRETIONARY BONUSES as the dependent variable set to one if the manager received a discretionary bonus (zero otherwise).

Refer to Table 5 for the definitions and descriptive statistics of the independent variables.

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

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

Table 7.4
Logit Analysis of the Determinants of the Use of Spiffs^a

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

^a Logit regression with USE OF SPIFFS as the dependent variable set to one if the manager received a spiff (zero otherwise).

Refer to Table 5 for the definitions and descriptive statistics of the independent variables.

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

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

Table 8
OLS Analysis of the Effects of the Use of Performance-Dependent Compensation^a

	[1] Net Profit per Employee	[2] Pay Satisfaction
Intercept	22,433.21 (30,109.96)	-0.78* (0.52)
[A] Dutch Location ^c	36,001.44*** ^b (10,212.76)	-0.18 (0.19)
[B] Use of Performance-Dependent Incentives ^d	-928.39 (8,251.75)	0.17* (0.13)
[A] x [B] ^e	-27,425.85** (11,976.04)	-0.37** (0.21)
Size ^f	-103.20 (1,758.68)	0.04* (0.03)
Sales Growth ^g	20,918.01** (9,181.62)	
Change in Employment ^h	2,697.33 (10,095.84)	
<i>N</i>	615	653
<i>F</i>	7.16***	9.31***
<i>R</i> ²	6.60%	5.44%

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

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

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

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

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

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

^g SALES GROWTH of matched entity expressed as $(Sales_{t+1} - Sales_t) / Sales_t$, with $t_{Netherlands} = 2001$ and $t_{U.S.} = 1998$.

^h CHANGE IN EMPLOYMENT of matched entity expressed as $(Employment_{t+1} - Employment_t) / Employment_t$, with $t_{Netherlands} = 2001$ and $t_{U.S.} = 1998$.