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

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

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

1. Introduction

Issues of behaviors of participants and the wider context in which such behaviors occur have resided as the main theme of organizational sociology, and this is especially the case with institutional theory (Scott, 2001). Even though institutionalism does not preclude individual or collective interests in explaining specific organizational and societal phenomena (DiMaggio, 1988), the theory is originally rooted in the predominance of institutional pressures embedded in observed changes in the organization field. Why do companies adopt similar management practices, and why do scattered organizations resemble one another? To these questions, institutionalism responds that it is due to institutional pressures (DiMaggio & Powell, 1991). Compared to the straightforward and well supported answer, however, how individual employees at the micro level respond to the institutional pressure has rarely been examined: how do employees respond to a new practice, especially when the practice conflicts with their existing values?

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

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

II. Management Practices Diffusion and Employees’ Perceptions

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

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