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Person-based reward systems: A theory of organizational reward practices in reform-communist organizations[1]

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Summary A type of organizational reward system based on personal power is described and partially tested. The theory, developed from observations of Hungarian organizations, is grounded in theories of procedural justice and learned helplessness. Person-based organizational reward systems are characterized by highly valued rewards combined with personalistic criteria for reward distribution. Such organizational reward systems were hypothesized to lead to employee perceptions of organizational unfairness; negative evaluations of others; anxiety; and perceptions of self, collegial and organizational inefficacy. These hypotheses were supported in tests in a sample of three Hungarian state-owned organizations classified as having person-based systems and five non-person-based organizations (two Hungarian privately-owned companies, one American state-owned and two American privately-owned organizations). In addition, several behavioral effects of person-based reward systems were proposed: they foster bargaining behavior, withholding of information, avoidance of collaborative tasks, ingratiation and noncompliance with rules.

Introduction

This paper presents and partially tests a theory of the affective and behavioral effects of the organizational reward systems in Hungarian state-owned organizations in the early period of economic transformation. While there are excellent sociological and economic studies of state-socialist enterprises, there has been less attention to the development of theoretically grounded analyses of these organizations' incentive systems. Below, we develop and test several hypotheses regarding what we term 'person-based organizational reward systems'. Although personal influence is present in all organizations (Pfeffer, 1981), we will argue that these organizations were dominated by a particularly powerful form of personal power. Furthermore, these person-

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based reward systems were part of a conscious strategy designed to obtain specific employee behaviors. We prefer the term 'person-based' because similar terms, such as 'unfair' or 'arbitrary', emphasize evaluative judgements about such systems or imply that they are inadvertent.

Research and theory on the psychology of organizational reward systems has been dominated by cognitive utilitarian approaches pioneered by Vroom (1964). This early work has been enriched by attention to equity (Adams, 1965) and to justice (Folger and Greenberg, 1985) in employee responses to incentives, as well as to the placement of incentive systems in social (Whyte, 1955; Pearce, 1987), political (Staw, 1977), and institutional contexts (Eisenhardt, 1988). We hope to contribute to the development of this literature through this analysis of Hungarian organizational incentives during the period of 'reform communism' (late 1980s until the Spring 1990 election of a non-communist government). This form of person-based reward system is less familiar to organizational psychologists and, therefore, provides a fruitful basis for the development of general theories.

Eisenhardt (1989) suggested that empirically grounded theory creation, which arises from the juxtaposition of data and theory, leads to divergent thinking and to truly novel theories. We believe that the theory of person-based reward systems presented here is an example of the new ways of thinking that can arise in an inductive theory-building process. Our understanding of employee reward systems under reform-communism provides insights into a type of reward system that can appear in organizations throughout the world. Although sometimes more muted in other economies, these systems are not unique. Rather, their stark character in these organizations helps to illuminate psychological features of reward systems that have been difficult to study.

The theoretical arguments are based on a systematic contrast of observational and interview data collected in the late 1980s in Hungary (the American author taught in the International Management Center in Budapest in 1989) with paradigmatic theoretical work in procedural justice and learned helplessness. This grounded theory is then partially tested using questionnaire self-reports collected in a *different* sample of Hungarian organizations in early 1990 and a comparable American sample.

The paper is organized as follows. First, person-based reward systems as they existed in Hungarian state-owned organizations are described. Second, we contrast our person-based reward concept with the extant literature on employee rewards, especially with the well-known performance-based theory of organizational rewards. Next, hypotheses about the affective and behavioral effects of person-based reward systems are developed from related literatures on procedural justice and learned helplessness. Following this, the methods and results of the hypothesis testing are reported. The paper concludes with comments on both the possible generalizability of these ideas to other settings and their functional autonomy from their political origins.

Before beginning, it is important to note that state-socialist enterprises have had substantially different task environments than either private or publicly-owned enterprises in capitalist countries. These differing environmental pressures set the contexts within which enterprise managers used the person-based reward systems to obtain the organizational behavior they needed to meet organizational objectives. Although we will briefly refer to this context throughout, space does not permit a political or an economic analysis of these systems. For a more detailed analysis of Hungary after the 1968 economic reforms, the interested reader is directed to Kornai (1986), Lauter (1972), and Stark (1990); additional material on enterprises in the Soviet Union is available from Gregory (1989), Grancelli (1987), and Lawrence and Vlachoutsicos (1990); and, on the recent economic reforms in the People's Republic of China, from Boisot and Child (1988) and Nee (1989).

Person-based organizational reward systems

A person-based reward system contains two components: (1) highly valued rewards and (2) personal criteria for reward distribution. Each of these two components will be described in detail.

Highly valued organizational rewards

Because it had been virtually impossible to fire employees, many Westerners have mistakenly extrapolated that under state-socialism managers controlled few powerful rewards and punishments for employees. In fact, government planners in these economies quickly recognized the unworkability of organizations without material incentives: 'When workers recognised in Cuba that their labour was ineffective because of disorganization--spare parts were unavailable, inputs did not arrive on schedule, finished goods awaited transportation—whatever commitment they had was substantially undermined. ... Also, some workers were less motivated than others and either stayed away from work or did not exert themselves, and with low morale there is less commitment and consequently less work accomplished: a classic vicious circle. Since 1970 in Cuba more and more stress has been given to the use of traditional material incentives' (Wood, 1987).

By the 1970s, the use of powerful material incentives was adopted in state-socialist societies except in the People's Republic of China where it was delayed until 1978 because of Mao's ideologically-based Cultural Revolution. That is, in practice, managers in state-socialist economies controlled powerful material incentives which they have not hesitated to administer to obtain desired actions. The three most important organizational rewards distributed to employees at all organizational levels in Hungary were (1) promotions and perquisites, (2) bonuses, and (3) access to resources.

(1) Promotions in all organizations are one of the most valuable rewards that can be bestowed, since they are accompanied by higher salaries, more autonomous work, perquisites, enhanced status, and feelings of power (Locke, 1976). However, promotions may be even more important in state-socialist societies than in the capitalist ones. This is because, for ideological reasons, opportunities for independent wealth creation have been limited. This has meant that most of the attractive forms of consumption (comfortable housing, foreign travel, cars, vacations in the countryside) were controlled by employers, and virtually all of these attractions became more accessible as one rose in hierarchical rank.

Foreign travel is particularly attractive in a small country such as Hungary, yet even under post-communism, foreign travel has been extremely difficult. For example, in 1990, Hungarian citizens were allowed only the equivalent of US$280 in foreign exchange every three years (which bought a very short stay in western Europe). Even after the new market freedoms brought foreign currency earnings, private persons were allowed to buy only one plane ticket per year (as a policy to build foreign currency balances). Yet, one could have unlimited travel through employers. Of course, the situation in fully state-socialist societies is even more severe: for example, private car ownership was forbidden in People's Republic of China, but cars-and-drivers come with ranking managerial positions. Now, there is widespread knowledge of the special stores, apartments, hospitals, and other privileges reserved for the elite (see Simis, 1982; Voslensky, 1984). In these economies, promotions retained all of the capitalist advantages of increased power and income with the additional attractions of providing desirable goods and services for oneself and one's family.

(2) The use of material organizational rewards in state-socialist societies is most visible in

the use of financial bonuses. Yearly bonuses play a much larger role in employee compensation in state-socialist societies than they do in capitalist ones, since a substantially larger proportion of the pay of *all* employees at all levels is 'at risk' in these enterprises than in capitalist ones. In Hungary, as in other state-socialist countries, it has been normal compensation practice to provide yearly bonuses ranging from 0 per cent to 200 per cent of base pay. In contrast, highly variable pay is confined to only a relatively narrow range of jobs in the West. Western 'merit pay' increases typically have ranged between 5 per cent and 7 per cent (Greeley and Ochsner, 1986). As is the practice in all variable pay systems, relatively few employees in Hungary received no bonus at all. Nevertheless, the variation in actual take-home pay has been substantially wider for Hungarian employees than for employees in developed countries holding comparable positions.

The amount of pay at risk is even more important in these enterprises because base pay was set at bare subsistence levels. The following statistics give a flavor of how little purchasing power base wages provide: in Hungary, it took 927 hours of work to purchase a color television (versus 88 hours in the Federal Republic of Germany) or 404 hours of labor to buy an automatic washing machines (versus 83 hours in Germany) (*Heti Vilaggazdasag*, 431, September 5, 1987). In the study period, the base pay of a Hungarian employee of a state-owned enterprise usually did not cover his or her rent or mortgage payment. Although it is true that food and other necessities were subsidized, the perennial shortages often meant that, in practice, extra payments (bribes) were necessary to secure many services, such as health care. Thus, Hungarians depended on supplemental income: large bonuses and second (and even third) jobs. Such supplemental income was a vital necessity to virtually all families.

(3) The other valuable reward that organizations could administer was illicit access to organizational resources, including time off. As is common in the organizations of the West, many managers find they can expand their available incentives by allowing favored employees to 'break the rules'. For example, Sayles (1989, p. 45) suggested that successful supervisors learn to protect their subordinates, sometimes even 'covering up for them'. Although these practices are common in capitalist organizations (particularly in certain occupations—see Mars, 1982), such practices in Hungary were quite open and widespread. Common examples of illicit rewards in Hungary included letting certain employees leave early or allowing them to take company supplies for their own use. While most of these practices were not officially sanctioned (or formally acknowledged) by managers, neither were they aggressively prosecuted.

While these kinds of rewards may be minor to more affluent Western employees, the supply shortages can make them very valuable in state-socialist countries. An example from an interview conducted by the American researcher in November 1989:

> 'W': There's a rule in the company, if you build a house you can go to the main plant and buy things.
> Interviewer: If you're an employee? You can buy it at a cheap price?
> 'W': It's not much cheaper. The thing is it's not always available in Hungary. As a company everything is available, whatever you want. If you want [-], it's available there. Their task is to have everything. It doesn't matter how much.
> Interviewer: These inventories must be quite . . .
> 'W': Fantastic! Hundreds of meters . . .
> Interviewer: This is horrible. It costs a lot of money . . .
> 'W': In the shops you can't get anything . . . OK, so I went there and asked the person [warehouse foreman]. I've never seen that man before. I gave him my name. Why is he so friendly? He said, 'You could get a much better type of pipe, a [-] pipe'. What he

offered me is much better quality. 'When do I get it?' Then he says, 'Tomorrow morning when you wake up go outside, you'll have it next to your house'. The next morning I went out and I found this huge heap of pipe. A huge heap. A coach load of eight meters long . . . I was able to sell to five other [building cooperatives][2].
Interviewer: These are hard pipes to get that you couldn't get in the store?
'W': You can't get them anywhere.
Interviewer: The other cooperative people must have loved you when you walked up with these pipes.
'W': In the afternoon I had no pipe left . . .Everybody just rushed, took it and paid and went away. I didn't want the [extra] pipe.

In summary, state-socialist organizations wield rewards that are highly valued by many employees. Managers found that they needed material rewards to prevent a vicious circle of demoralization and performance shirking. These rewards were all the more attractive because the endemic shortages and restrictive economic and public policies meant that organizations retained virtual monopolies over access to certain attractive goods and services.

Personal criteria for reward distribution

Before discussing the criteria, the processes by which these organizational rewards were distributed need to be described. For promotions, the process was much like that in capitalist countries: executives decided behind closed doors. The only difference (until late 1989 in Hungary) was a legally mandated role for the communist party. However, by 1990, by all reports, the communist party as an institution no longer wielded significant decision influence.

Bonuses were determined by a formal 'quadrangle' committee composed of supervisors (or higher ranking managers, if they preferred not to delegate these decisions) at one corner, the [communist] party representative at the second, the labor union representatives at the third, and the communist youth organization at the fourth. The deliberations (and relative influence of the parties) were kept in strict secrecy, and no formal measures of employee performance or productivity were used in these decisions. With the waning influence of the party, supervisors have assumed control of bonus decisions.

Access to resources was informal and could be given by supervisors, higher ranking managers, peers, and even lower-ranking employees. Certainly, the higher an individual's hierarchical rank, the more resources that person was likely to control, but even individuals of formally low rank (such as the warehouseman in the above quotation) might hold positions allowing valued access.

With such powerful rewards at a management's command, who was rewarded and why? Persistent questioning of middle managers and employees yielded two distinct views: (1) there is no reason at all; and (2) those who have good personal relationships with distributors received the rewards. The prevalence of the belief in no criteria at all is reflected in the following passage describing a discussion during training for executives (heads or deputy heads of the regional offices) in a large state-owned company in September 1989:

[2] In Hungary at the time of data collection, the waiting list for subsidized state apartments was many years long, and in 1989 the price of a modest apartment was 20 to 30 times annual earnings. Therefore, an individual seeking an apartment often joined with others in a cooperative that collectively would build an apartment building in which individual members would then own their own apartments. Prices were so high that most cooperatives just built the outer shells and individuals had to finish their own apartments using their own supplies and labor. This process often lasted several years because of high supply costs and the difficulty of finding additional free time after working at the necessary second and third jobs.

> In their organization, the central office collects all of the revenue and then makes decisions about the allocation of funds to the regional offices. They said that one of the problems was that 'central' did not make its decisions based on 'the best economic sense'. They offered anecdotes about the recent allocation of a 'big machine' to illustrate... I aggressively tried to push them to use the [resource dependence] model to analyze central's criteria. If not economic criteria, then it must be something else ... what? 'M' said that it is the 'big mouths' who get the machines. So I said, does that mean that central is trying to obtain a peaceful existence? No response. Another said that at meetings managers try to sit next to the general manager, because if they can get his ear they may get a bigger allocation. Many repeatedly mentioned the importance of keeping 'good relations' with central. I kept trying to push them to explain what they meant by 'good relations.' They seem to mean simple friendliness, having coffee with someone. An older manager, who had been drinking heavily during he day, said, 'Central depends on itself'. There was only one person there from central and he was not providing any concrete answers to my pressing for central's criteria for resource allocation. Later, over dinner, I asked one of the other managers about the central manager's nonresponse and he said that he thought that this manager from central was too junior and so really did not know central's criteria.

There is substantial evidence that these top executives do, indeed, 'depend on themselves' more than executives do in market-driven organizations and that they are comparatively less dependent on the performance of their employees. With virtually all resources coming from governmental allocation, power was much more centralized than in market-driven organizations (Bihari, 1980; Markóczy, 1990). Managers in market-driven organizations depend on their employees for new product ideas, for service quality, and to take the initiative, in numerous small ways, in solving problems and improving customer and client responsiveness (Galbraith, 1978; Thompson, 1967). They also need to maintain the flexibility to respond rapidly to changing markets. In state-socialist economies, virtually all revenue, as well as permissions and regulations, came from centralized governmental decisions, so executives learned to focus their attention up, rather than down or laterally.

This uncertainty in the criteria used by top management in its allocation decisions was exacerbated by the practice of many top executives (or top party officials) to receive complaints and problems of all sorts and then magnanimously help some supplicants. In this process, all appeals are personal and all assistance is given personally, as favors. Although middle managers are bypassed for these favors, they might be more important in some allocations, such as for bonuses. Therefore, everyone believed that 'the top' had power, but who else had what other powers was unclear. This illustration is from an interview in October 1989 with a politician involved in writing the government's new democratic constitution:

> Last week the parliament passed a bill removing the [communist] party from the workplace. I again asked my question: what difference does it make if the party no longer runs the government and the enterprises are privatized? He said that for the past two years it [the formal involvement of party officials in personnel decisions] hasn't made much difference to the general manager, since the party no longer instils fear or monopolizes resource distribution ... However, for those at the very bottom the party is still seen as significant in decision making. Non-managerial employees do not have detailed information about the party's power loss, since decisions are made behind closed doors. He said that party officials would certainly try to hide their loss of power with the general manager, since then they would lose the influence they have over employees.

This conspiracy of silence about reward allocation processes is pervasive, as illustrated by this excerpt from Haraszti's participant observer's study of factory millers (1977, pp. 98–102): 'Supplementary wages are our most frequent topic of conversation with the foremen. They have at their disposal a relatively large sum for the adjustment of individual wages. No one knows exactly how much, nor whether all or part of it is used up. The foremen's accounts never mention 'deficits' or 'outgoings' or in the 'official bulletin of results' ... The foremen, setters and inspectors never once mentioned the existence of supplements, and it was only some time after my arrival that I heard about it from old M. ... Only one thing is certain: the foremen resist paying supplementary wages. Each worker therefore concludes that if there are two many demands less will be left for him. ... So each worker treats what he gets as a supplemental wage as a secret ... Information I got from other millers slipped out unawares in a moment of anger'.

Of course, as Langer (1975) has demonstrated, people have a difficult time accepting that the rationale for the way important rewards are allocated is unknown and, therefore, genuinely uncontrollable. Furthermore, allocators ultimately had to use some method, however arbitrary, to distribute limited resources. As is indicated by the above passages, the most common view was that 'personal relationships' were the basis of reward distribution decisions. That is, distributors will reward their friends and punish their enemies. Of course, friendships can be based on productivity or the performance of useful services; still, the belief in the importance of proximity and 'friendliness' among interviewees remained strong and unshaken. This reward system is much like traditional systems of personal patronage (Weber, 1947).

Although the criterion of personal relations for reward distribution may seem less ambiguous than 'no reason at all', in practice, it too could be highly uncertain. In these centralized and complex industrial societies, one's 'good connections' may or may not deliver, and the supplicant often does not know why. Further, the opportunities to develop personal relationships with the truly powerful top executives were limited for most employees. While social scientists can trace the dependencies that actually may account for the flow of rewards (for example, see Kornai and Matits, 1987), participants in organizations act on what they believe to be the criteria for reward distribution (Vroom, 1964). In Hungary during this period, everyone believed in the value of personal relationships; unfortunately, for most people they were difficult to obtain.

This description can be summarized by comparing person-based reward systems to one type of reward system that has received substantial research attention, 'performance-based systems'. The ideal performance-based system provides valued rewards for clear, controllable job behaviors (Lawler, 1981). Employees should be clear about what behaviors are to be rewarded, and much of the motivation literature in (Western) organizational behavior emphasizes the importance of clarity. For example, Kerr (1975) chided managers for a lack of clarity in the behaviors that would be rewarded, and Lawler (1971) emphasized the importance of unambiguously attaching truly valued rewards to desired workplace behaviors. From this perspective, person-based reward systems could be seen as a familiar kind of 'failure to reward performance'.

However, we suggest that person-based reward systems should not be seen as inadvertent incompetence but rather as systems designed to obtain the behaviors desired—specifically, tractability. Allocators making personal judgements centralize power in their own hands. If subordinates 'caused trouble', even if the trouble was unrelated to job performance, they might jeopardize their bonuses (and their travel and their apartments, as well). We suggest that arbitrary personal criteria, rather than being 'mistakes', were the result of a strategy to foster compliance and dependence by a government/employer not interested in testing its mandate in contested elections. While disingenuousness about what is rewarded really is well known in nominally performance-based reward systems (e.g. Kerr, 1975), person-based systems have two distinctive characteristics: (1) the high value of the rewards to employees, and (2) the absence of formal criteria and rules. Further, isolating these two distinguishing features helps to illuminate several important affective and behavioral reactions of person-based system participants.

Affective effects of person-based rewards

Although these person-based organizational reward systems were largely successful in producing relatively tractable employees, they entailed substantial costs. These workplaces were characterized by several affective and behavioral 'dysfunctions' that we propose were a direct consequence of the use of person-based reward systems. Drawing on the research on procedural justice and learned helplessness, as well as the field interviews and observations, hypotheses regarding the effects of this type of organizational reward system have been developed.

Unfair organizations

Procedural justice theory focuses on the reactions of individuals to just or unjust procedures (Thibaut and Walker, 1975; Folger and Greenberg, 1985). Leventhal (1980) argued that just procedures serve to suppress bias, create consistent allocations, rely on accurate information, are correctable, and consider the concerns of all participants. Focusing specifically on procedural justice in organizational allocations, Folger and Greenberg (1985) emphasized the importance of openness or publicness of criteria in the perceptions that pay systems will be perceived as fair. With their characteristic secrecy and use of personalistic criteria, we believe that person-based systems can be characterized as procedurally unjust.

The substantial experimental evidence on reactions to procedural (in)justice suggests possible reactions to person-based reward systems that we found mirrored in our observations. In a comprehensive review of research on procedural justice, Lind and Tyler (1988) drew conclusions about the affective effects of injustice: it results in a perception of system unfairness and in a lowered evaluation of authorities and institutions. Therefore,

> *H1: Employees will perceive their person-based organizational reward systems as more unfair than will employees with other types of reward systems.*

Negative evaluations of others

Consistent with Lind and Tyler, there is also evidence that those in authority often were negatively evaluated under person-based systems. However, in these highly centralized and secretive organizations, the responsibility of those below the very top was unclear. Hostility was not focused invariably on managers (who could represent expertise and efficiency) but more often on party representatives. In an extension of procedural justice research, managers in these organizations sometimes held negative evaluations of those below them. The American investigator's notes from a managerial training seminar in April 1989 provide an illustration of these 'downward', negative evaluations:

> One manager said he withheld information from his subordinates 'because they couldn't handle it', and several other managers chimed in their agreement ... I don't yet fully understand these managers' discussion of their 'paid enemies', 'spies', and 'blackmailers' among their subordinates. [Detailed description of how managers must cheat to meet their

> production targets in a shortage economy.] Once a manager has cheated, he or she is subject to blackmail. ... How can managers exercise 'authority' over someone willing and able to expose him or her? It increases the general level of secrecy and restricted communication. As one manager said, 'Because of these paid enemies among my subordinates, I need to distrust even the good ones'.

In Lind and Tyler's experiments, authority figures were negatively evaluated because they were seen as responsible for procedural injustices. These observational and interview data reflect additional lateral and downward negative evaluations, because it was difficult in these organizations to identify clearly who caused an injustice. Authority was split between management and the party, and accountability was avoided by those who felt they had no possible control. The combination of a desire to blame and uncertainty about who was clearly responsible leads to the choice of different targets in different settings, depending on the actions or personal characteristics of the particular individuals involved. However, we expect that, on average,

> *H2: Person-based organizational reward systems will be associated with relatively more negative employee evaluations of supervisors and coworkers than will other types of organizational reward systems.*

Further, person-based organizational reward systems provided conditions much like those in the learned helplessness experiments. The literature on learned helplessness focuses on reactions to negative sanctions over which the recipients believe they have no control (Hiroto and Seligman, 1975; Wortman and Brehm, 1976). While research on the effects of learned helplessness appears in a wide range of subdisciplines, the work focusing on task performance evaluation provides several insights applicable to person-based organizational rewards. Carver, Blaney and Scheier (1979), Coyne, Metalsky and Lavelle (1980), and Kuhl (1981) concluded that task-based learned helplessness provoked anxiety and self-inefficacy.

Anxiety

Employees in these person-based systems lacked the security imparted by clear rules and procedures. They had difficulty knowing whether they had done enough or if additional efforts might be worthwhile. One might have had a good connection but could never be sure whether that connection would (or could) deliver when needed. Such uncertainty is palpable in the above quotation from Haraszti describing the behavior of machinists who were dubious about whether or not they had received their 'due' supplemental wages. Therefore,

> *H3: Under person-based reward systems, employees report relatively more anxiety than is reported by employees working under other organizational reward systems.*

Inefficacy

A sense of self-inefficacy was also observed in these person-based systems. Employees often were unsure which actions would be effective and which would not, and even high-ranking managers would complain that 'they could do nothing'. With the distribution of valuable rewards based on secretive personal criteria in these complex systems, all of the participants felt powerless. When employees did receive rewards, they did not know exactly why, and when they did not achieve a desired reward, they could never be sure whether it was the result of some ineffective action on their part or of some unknowable series of events. This response seemed to generalize to their assumptions about their colleagues and their organizations. Employees not only doubted that they would be able to succeed, they also believed their colleagues, supervisors and organizations to be ineffective. Research on learned helplessness suggest that these person-based reward systems may be a major reason for the pervasive Hungarian self-denigration described by Lövey (1986),

> *H4: Employees in person-based systems will report less efficacy for themselves, their colleagues, and their organizations than will be reported by employees in other systems.*

Thus, it is hypothesized that person-based reward systems lead to the affective reactions of system distrust, negative evaluations of others, anxiety, and low perceptions of efficacy. The tests of these hypotheses are reported in the next section.

Behavioral effects of person-based systems

Several of the behavioral reactions observed in these state-owned enterprises are consistent with what would be predicted from research on procedural justice and learned helplessness. In addition, these interview and observational data suggest other effects consistent with their theoretical perspectives but not tested by these psychologists. Unfortunately, our existing comparative data do not allow us to test these ideas systematically. However, their discussion here in propositional form provides a more complete theory grounded in the qualitative data and literatures on procedural justice and learned helplessness. Lind and Tyler (1988) concluded their literature review of procedural justice research by noting that perceived injustice leads to more dispute and protest behavior, greater interpersonal conflict, and lowered compliance with laws.

Disputatious

Dispute and protest behaviors were common in face-to-face encounters and in collective settings, such as trade union meetings. However, one of the most distinctive forms in which these behaviors were manifest was pervasive bargaining. To illustrate, it was widely assumed that employees viewed their 'base pay' as pay for 'just showing up' and their bonus money as potential payment for any work they might perform. This led supervisors and subordinates to haggle continually over job assignments and payments. Subordinates believed that aggressive bargaining was the only way to get their 'fair shares' of the bonus money that they suspected the supervisor was retaining. For example, one personnel director of a large state-owned industrial organization described how he wanted to establish a performance appraisal system. He asked one of his professional staff members to head the cross-functional task force to design the system. She would not agree until he told her 'how much she would be paid'. She knew that the director retained some bonus money 'in his desk drawer', and she expected to be paid for this extra task. This sort of task-based financial negotiation is relatively rare among professionals in western organizations, yet it is all too familiar to state enterprise managers in Hungary,

> *P1: Under person-based reward systems, employees initiate more bargaining for rewards than do employees working under other reward systems.*

Withhold information

The protest behavior predicted from learned helplessness research often took an indirect form in many Hungarian state-owned organizations. With powerful rewards and punishments at the command of bosses, often, overt disputes were risky. Rather, employees would sometimes withhold information from coworkers and supervisors. Partly, this was an aid in bargaining (as for Haraszti's foremen described above). But it also became a form of protest behavior: the plans and directives could be 'shown' to be wrong if employees let others go ahead using faulty data and assumptions,

> *P2: Under person-based reward systems, employees withhold more information from one another than do employees working under other systems.*

Avoid complex collaborative tasks

Additional behavioral effects more particular to the managerial job were observed. In an environment in which most interchanges became bargaining sessions, managers learned to avoid asking for assistance. Each time managers must begin unexpected projects or solve new problems, they must 'use' their bargaining resources. Since managers must hoard their scarce resources, it is easy to understand that they may be unwilling to 'spend' their precious resources to help one another unless the exchange is part of some larger bargain between them.

The implications of this practice for organizational coordination and flexibility in response to changing environments are clear. In rapidly changing environments, managers would soon deplete their resources, and the complexity of the deals would overwhelm their bargaining and resource capacity. Thus, organizational work that was complex and required collaboration across units was avoided,

> *P3: Those working under person-based reward systems tend to avoid complex, collaborative tasks to a greater extent than do those working under other reward systems.*

Ingratiation

Those working under person-based reward systems believed that good relations with the high ranking would be rewarded. Thus, it is not surprising that many would try to develop good connections with people at the top. Yet, because power was so centralized, access to the truly powerful for many employees usually was limited. The following passage describes the American investigator's reaction to one manager's seizing a rare opportunity:

> At the training for 'T' managers, I was surprised to see one of the regional managers toadying to the human resources director who visited on the last day. This regional manager hung around the director whenever he could, his heretofore aggressive demeanor turned sweet and mild. I had admired him as an aggressive fighter (even if he did step on a few toes). Yet now he followed the director around like a fawning puppy, literally waiting to be the last to see him at the end of the training.

Of course, all reward systems are designed to encourage certain employee behaviors and to discourage others, and toadying hardly is unknown in the West. However, in systems with clearer allocation criteria, employees can 'ingratiate' themselves through performance on those criteria. In person-based systems, the only reliable method to obtain the desired rewards is through personal ingratiation tactics, such as charm, wit or toadying. If employees believe that good connections with the high ranking, based on nothing more substantial than friendship, are the routes to rewards, they will invest their energy in such personal ingratiation,

> *P4: Those working under person-based reward systems tend to engage in relatively more*

personal ingratiation with potential reward allocators than will those in other types of reward systems.

Rule compliance

Lind and Tyler (1988) reported that there was more rule breaking and less law compliance among those who felt that their systems were not procedurally just. Law breaking in state-socialist societies has been well-documented (e.g. Simis, 1982). Gregory (1989) analyzed why Soviet managers needed to violate rules in order to solve the problems created by supply breakdowns and incompatible directives. The quotations provided throughout this paper reflect insubordination, theft and blackmail. Although anger at an unjust system was not the only reason for rule breaking, nevertheless, research in procedural justice suggests person-based reward systems may make a significant contribution to the problem,

P5: Person-based organizational reward systems foster relatively more rule noncompliance than do other types of organizational reward systems.

Method

Sample and procedures

The sample used to test the hypotheses about the affective effects of person-based reward systems consists of the employees and managers in eight organizations: three state-owned Hungarian enterprises, two private Hungarian companies, a state-owned American university, and two large American corporations. The Hungarian organizations were different from the ones used to develop the theory, and no managers or employees had undergone 'Western-style training' prior to data collection. An attempt was made to survey the entire population of Hungarian employees; however, poor records and a low response rate limited the samples.

Hungarian state-owned enterprises

The porcelain factory was founded in 1777 by a count on his estate in remote wooded mountains in what is today just inside the border with Slovakia. It produces china goods, figurines and porcelain fancy goods, with about 80 per cent of its products sold in Hungary through the state retail distribution network and a small number of their own shops. At the time of data collection in early 1990, it had 1045 employees, many of whom were grandchildren and great grandchildren of former porcelain factory employees. One-hundred and eighty-four questionnaires were received from a sample of 780 managers and employees who received them through company internal mail (19 per cent response rate).

The sheet glass manufacturer, located in a northern industrial city, was established in 1893 and was controlled by non-Hungarian owners until its nationalization in 1949. Its primary customers were domestic construction companies, with about 15 per cent of sales from Western exports. At the time of data collection the company produced four major types of glass (drawn sheet glass, safety glass, security glass, and insulating glass) and had over 2000 employees. Company psychologists distributed surveys to 1760 employees, and 271 usable surveys were returned to the researchers (14 per cent response rate).

The advertising agency was one of the two advertising agencies in Hungary until the reforms of the 1980s permitted the formation of small partnerships. It was founded in 1968 as part of the New Economic Mechanism reforms and focused on developing advertising for state-owned organizations conducting foreign trade. In early 1990 the agency had 118 employees, and surveys were received from 30 of the 94 agency employees and managers surveyed (32 per cent response rate).

Hungarian privately-owned companies
The business machines manufacturer was founded in the early 1980s as a 'cooperative' by four engineers who left their jobs in the national postal service because they felt their employer was not adequately developing their ideas for coin- and bill-counting machines. (In Hungary the postal service is also the major institution for small savers). The Hungarian postal service soon became the first customer for this cooperative's lines of coin- and bill-counting and other small business machines. Their reliable machines were sold in the CMEA countries where the business machine manufacturer had become adept in the complex arrangements necessary to receive payments for their products. At the time of data collection, the cooperative had become a 'share-holding company' and had two primary manufacturing facilities in two small towns. At the time questionnaires were distributed, it had 72 employees, with 32 usable surveys returned to the researchers from a sample of 60 (53 per cent response rate).

The speciality lamps manufacturer, which also began as a 'cooperative', was started in 1983 by a man who had owned and operated his own company until he was forced out of business during the communist nationalizations of the late 1940s. It produced specialty lamps and chandeliers, primarily for hotels and other large corporate customers. In addition, at the time of data collection, it was serving as a subcontracting manufacturer for robotic parts for a (then) West German company. It had 40 employees in early 1990 when 14 usable surveys were mailed to the researchers from 36 distributed to employees (39 per cent response rate).

American organizations
Questionnaires containing some of the same scales as those distributed in the Hungarian organizations were distributed in three American organizations, one state-owned and two privately-owned corporations. The first is a large state-owned research university. Questionnaires were distributed in early 1989, in group settings, to a random sample of the non-academic professional and managerial employees. One hundred and eighty-five employees returned completed questionnaires (a 60 per cent response rate). The second is a regional office of one of the largest international public accounting firms. All of the non-partner professional accountants received questionnaires in late 1985. The questionnaires were distributed and returned by mail, with 62 usable responses (a 67 per cent response rate). The third American organization was an aerospace division of one of the largest American manufacturing corporations. All of the 284 engineers and engineering technicians in three 'groups' in the aerospace division received questionnaires late in 1988. Two hundred and twenty-three usable questionnaires were obtained (a 79 per cent response rate). In all Hungarian and American organizations, the respondents were promised anonymity, and they and their managers received summary feedback of the results.

Measures

All of the measures reported here appeared in the Hungarian surveys; however, three of these measures were not available from the earlier American instruments. The scale construction, reliabilities, construct and discriminant validity of the scales used in both the American and Hungarian organizations is reported in Pearce, Sommer, Morris and Frideger (1993). Two scales used only in the Hungarian sample, Non-Merit Criteria and Nepotism, were developed in a Saudi Arabian sample with the scale development reported in Al-Aiban and Pearce (1993). Only the Organizational Innovation scale was developed for the Hungarian data collection.

All of the questions were originally developed in English. For the Hungarian data collection, these questions were translated into Hungarian and then back-translated into English to check translation accuracy (Brislin, 1986). Because Adler, Campbell and Laurent (1989) reported that the factor structure of their scales was not replicated in their sample of managers from the People's Republic of China, all of these scales were factor analyzed again on this Hungarian sample. Using a rotated varimax procedure, items were retained for a factor if they loaded at least 0.40 on the target factor and at least 0.10 greater on any other factors. Using this conservative procedure, none of the items on scales developed in the American and Saudi samples cross-loaded onto any other scale in the Hungarian sample (although a few original items were dropped from the scales). Thus our confidence in the comparability of the scales was strengthened when this factor analysis in the Hungarian sample reproduced the same scales as had the analyses on the American and Saudi samples. We believe the surprisingly strong correspondence between the factor structures in these different countries can be accounted for by the following: (1) these scales had originally been developed in large multi-organizational public and private sector samples; (2) questionnaires were administered in contexts where respondents did not feel intimidated; and (3) and the careful correspondence of the translations. The Appendix contains the items for all of the scales used in hypothesis testing. The means, standard deviations, internal consistency reliabilities and intercorrelations among these scales appear in Table 1.

Table 1. Means, standard deviations, internal consistency reliabilities, and intercorrelations among self-report scales

Variable*	$\bar{X}$	S.D.	1	2	3	4	5	6	7	8	9	10
1. Non-merit criteria	3.75†	0.76	(79)									
2. Nepotism practiced	3.29†	1.00	54	(61)								
3. Job performance rewarded	2.89	0.93	−60	−33	(86)							
4. Organizational trust-worthiness	3.11	0.67	−60	−50	47	(86)						
5. Supervisory favoritism	2.86	0.89	32	25	−19	−34	(63)					
6. Exploitive coworkers	2.73	0.77	18	22	−14	−39	51	(73)				
7. Job security anxiety	3.15	0.94	−44	−26	46	52	−24	−18	(57)			
8. Coworker effort	3.25	0.76	−45	−22	32	39	−26	−27	41	(77)		
9. Organizational innovation	2.81†	0.78	−43	−18	29	17	−14	−00‡	38	35	(72)	
10. Own quality standards	3.94	0.68	16	10	−08	−17	10	08	−04‡	−04‡	−07‡	(63)

*All scales five-point Likert-type with 1 = strongly disagree to 5 = strongly agree.
†$n = 351$; rest $n = 851$.
‡*not* statistically significant ($p \leq 0.05$).

System classification

While it was expected that the Hungarian state-owned organizations would have person-based systems and that the private Hungarian and American organizations would use more performance-based systems, it was necessary to test the validity of this classification. While both person-based and performance-based reward systems can have highly valued rewards, the criteria for administration should differ.

In Table 2, the employees report that the Hungarian state-owned organizations were significantly more likely to use non-merit criteria and nepotism than were the Hungarian privately-owned companies. In addition, employees in the Hungarian state-owned organizations reported significantly less likelihood that job performance would be rewarded than was reported in Hungarian privately-owned or in either type of American organization. Therefore, although the Hungarian private organizations also controlled powerful rewards (and the economic reforms had weakened the monopoly position of all Hungarian employers in 1990), the employees' perceptions of the criteria for reward allocation led us to classify the three Hungarian state-owned enterprises as 'person-based systems' and the two Hungarian private companies and the American state-owned university and two businesses as 'performance-based systems'.

Table 2. Employee perceptions of reward system criteria in state-owned and private companies

	Hungarian		American					
	State-owned*	Privately-owned	State-owned	Privately-owned	*df*	*SS*	*F*	Eta
Non-merit criteria	3.89	2.80	—	—	1	43.23	97.25†	0.48
Error					319	141.79		
Nepotism practiced	3.41	2.48	—	—	1	31.74	35.47†	0.32
Error					319	285.40		
Job performance rewarded	2.38‡	2.96	2.92	3.37	3	136.40	64.66†	0.30
Error					838	587.13		
n	293	43	234	281				

*All scales five-point Likert-type, with 1 = strongly disagree and 5 = strongly agree.
†$p < 0.01$
‡Hungarian state-owned significantly lower than all others; American privately-owned significantly higher than all others.

Results

Hypothesis 1

Employees working under person-based systems were expected to perceive their systems as more unfair than would employees working under non-person-based systems. Table 3 reports the employees' perceptions of the fairness of their organizational reward systems ('Organizational trustworthiness'). Consistent with the hypothesis, the employees of the Hungarian state-owned organization were significantly more likely to report that their organization's personnel system was unfair than were the employees in the non-person-based Hungarian private organizations and the American organizations. Thus, the employees in person-based reward systems perceive their systems as less fair than the Hungarians and Americans working under performance-based organizational reward systems.

Hypothesis 2

Employees in organizations with person-based organizational reward systems were expected to report more negative evaluations of their supervisors and coworkers than would be reported

Table 3. Employee evaluations of organizational trustworthiness, their supervisors, coworkers, job security and efficacy

	Hungarian		American					
	State-owned*	Privately-owned	State-owned	Privately-owned	*df*	*SS*	*F*	Eta
Organizational trust-worthiness	2.78†	3.46	3.00	3.29	3	22.96	18.83‡	0.30
Error					560	227.58		
Supervisory favoritism	2.98§	2.49	2.74	2.86	3	12.45	5.29‡	0.14
Error					793	622.24		
Exploitive coworkers	2.80‖	2.40	2.70	2.74	3	6.22	3.53‡	0.11
Error					822	483.11		
Job security anxiety	2.49[1]	3.63	3.48	3.49	3	196.15	100.22‡	0.51
Error					847	552.59		
Coworker effort	2.93[1]	3.52	3.41	3.45	3	46.66	30.12‡	0.32
Error					769	397.06		
Organizational innovation	2.72	3.40	—	—	1	16.56	30.04‡	0.30
Error					298	164.33		
Own quality standards	3.82[2]	3.74	4.05	4.02	3	9.52	6.94‡	0.16
Error					783	358.36		
n	293	43	234	281				

*All scales five-point Likert-type, with 1 = strongly disagree and 5 = strongly agree.
‡$p < 0.01$.
†Hungarian state-owned significantly lower than all others; American state-owned significantly lower than American privately-owned.
§Hungarian state-owned significantly higher than Hungarian privately-owned and American state-owned; American privately- owned higher than Hungarian privately-owned and American state-owned.
‖Hungarian state-owned and American privately-owned significantly higher than Hungarian privately-owned.
[1] Hungarian state-owned significantly lower than all others.
[2] Both Hungarian types significantly lower than both American types.

by employees in organizations with other kinds of reward systems. Negative evaluations are assessed with the scales 'Supervisory favoritism' and 'Exploitive coworkers'. As can be seen in Table 3, this hypothesis was largely supported. The employees in the person-based Hungarian state-owned organizations were significantly more likely to report that their supervisors engaged in favortism than were their counterparts in the other organizations. However, the employees in both the Hungarian state-owned organizations and the two American privately-owned organizations were significantly more likely to perceive their coworkers as exploitive than were the employees in the private Hungarian organization or in the American state-owned university. Although this pattern of results is largely consistent with the expectations for more negative evaluations in person-based systems, the results do suggest that factors other than reward systems can also contribute to negative evaluations.

Hypothesis 3

Person-based system employees were expected to report greater workplace anxiety than would employees working under other organizational reward systems. The closest measure to workplace anxiety is employees' reported anxiety about their job security. Of course, the Hungarian state-owned sector was expected to have to reorganize at the time of questionnaire administration in early 1990 (although no layoffs had been conducted in these organizations). However, this needs to be compared to the very real job insecurity of the employees in the American privately-owned organizations who were public accountants facing stringent 'up-or-out' promotion policies and aerospace engineers in a highly cyclical industry, as well as the uncertain future of the Hungarian entrepreneurial companies. In Table 3, it can be seen that the person-based system employees reported significantly more anxiety about their job security than did the employees in any of the other organizations. Thus, for this one measure, person-based system employees did report greater workplace anxiety than was reported by non-person-based system employees.

Hypothesis 4.

Finally, employees working under person-based reward systems were expected to perceive themselves, their coworkers and their organizations as less efficacious than would employees under non-person-based reward systems. This hypothesis was tested using reports of employees' 'Own quality standards', 'coworker effort', and 'Organizational innovation'. In Table 3, it can be seen that the Hungarian employees in both sectors reported themselves as having significantly lower quality standards than the American employees in both sectors reported for themselves. However, reports of coworker effort and organizational innovation are consistent with the hypothesis that employees working under person-based organizational reward systems will perceive their colleagues and organizations as less efficacious than will employees in non-person-based systems.

To summarize, the results of the hypothesis testing are consistent with the hypothesized affective effects of person-based reward systems. Thus, the generalization of the paradigmatic theories of procedural justice and learned helplessness to predict the affective reactions of employees in person-based reward systems has been supported. Each of these tests is imperfect, for they lack the inability to control all of the possible unmeasured variables (for examples, the occupations and skills across organizational types) and are cross-sectional rather than causal, which limits our confidence that type, and only type, caused the difference. Nevertheless, they do, when taken as a whole, provide an independent confirmation of the hypotheses developed from the observations grounded in theories of procedural justice and learned helplessness.

Conclusions

This study provides a theory derived from the paradigmatic work on procedural justice and learned helplessness, which has been grounded in observations of Hungarian state-owned organizational reward practices during the period of 'reform communism'. It was argued that person-based systems lead to employee perceptions that their organizations were unfair, to negative evaluations of others at work, to anxiety, and to feelings that they, their colleagues and their organizations were inefficacious. Self-report perceptions of employees in the three Hungarian state-owned organizations categorized as having person-based systems and in the five more performance-based organizations in Hungary and the United states were consistent with these hypotheses. In addition, several behavioral effects of person-based reward systems were suggested which could not be tested with these data, such as, person-based systems lead employees to more frequent bargaining with one another, to withhold information, to avoid collaborative tasks, to engage in more personal ingratiation behaviors, and to avoid rule compliance. Although this research is preliminary and incomplete, nevertheless, the movement between field observation linked to paradigmatic theories and hypothesis testing in a separate sample, when possible, provides the basis for a comprehensive theory of a very complex (and timely) phenomenon.

The affective and behavioral dysfunctions resulting from the person-based organizational reward systems documented here are not trivial ones for organizational performance. Employee distrust has been shown to lead to individual performance shirking, lying and cheating (Rotter, 1980), and serious systemic malfunction (Gambetta, 1988). Negative evaluations of coworkers and supervisors have been shown to lead to turnover (Steers and Mowday, 1981) and absenteeism (Steers and Rhodes, 1978). Although there has not been comparable research documenting the effects of bargaining, behaviors such as withholding information, avoidance of collaboration, and rule-breaking would seem to be cause for serious concern.

In state-socialist societies, it is traditional for authorities to respond to criticism with a declaration that the proper measures have been taken and the problem no longer exists. For example, in the transcript of Haraszti's trial (for the participant observer's account which we have quoted), the judge sought to dismiss his portrayal of factory life as no longer accurate because the factory he described had been absorbed into a conglomerate (Haraszti, 1977, p. 164). While this work is not intended as a criticism, clearly it is not a flattering portrait of reward systems in the earliest period of economic transition. It is particularly tempting, since there has been an epochal change with a freely elected non-communist government assuming power in Hungary in 1990, to conclude that this is a description of a system that was unique to a particular set of historical circumstances that now have passed. Yet, we are cautious about unilateral declarations that these dysfunctions no longer exist. A valuable area for future research would be the tracking of changes in affect and behavior as the transformation unfolds.

For the formerly communist countries seeking to transform their economies, this question is compelling. While the political conditions in Hungary that created these organizational reward systems have changed, many of the structural features have not (for example, state ownership still dominates the economy). The feelings of unfairness and distrust that pervaded these workplaces have not disappeared overnight. There is every reason to believe that these affective and behavioral effects will have considerable functional autonomy from their originating conditions. Individuals who feel that others are getting unfair advantages are not going to respond to the calls by newly non-communist managers for commitment to productivity and self-sacrifice.

Certainly, we expect there to be important boundary conditions to the phenomenon, but we cannot be certain what they might be. For example, an important research question is whether partially person-based systems may have similar effects. Is there a certain 'threshold' beyond which these affective and behavioral effects would be found? Or, do some of the affective and behavioral effects appear in partial or weaker forms? Future research is needed to test hypotheses about person-based systems, as well as what the boundary conditions are to establish these affective and behavioral effects.

We expect that versions of person-based organizational reward systems are probably more common in the capitalist countries than is generally acknowledged. For example, Ouchi's (1980) 'clans' and Boisot and Child's (1988) 'fiefs' may have person-based reward systems for their individual participants. The Hungarian organizations studied here did have many of the characteristics of such clans and fiefs, and, therefore, some of these dysfunctional affective and behavioral effects may also appear in clans, fiefdoms, and similar types of organizations. Attention to such non-bureaucratic organizational forms in the Western organization behavior literature is in its infancy, and we hope this unflattering account may serve as a counterbalance to the somewhat romanticized portraits of clans offered by Ouchi (1980). While it may have been unintended, Ouchi's use of terms that emphasize the warm, familial aspects of such organizations may not accurately portray the actual affective and behavioral reactions of all employees, particularly those at the lowest levels. After all, employees traditionally have attempted to protect themselves by fostering greater 'bureaucratization' through clearer procedures and due-process protections from arbitrary treatment (Jacoby, 1985). This work suggests that research on employee reactions in these and other 'nonbureaucratic' organizations may provide a broader perspective on the role of alternative organizational forms.

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Appendix. Items for self-report scales*

1. Non-merit criteria

In general, it is the best performers who rise to the top in this organization (n).
'Connection' or 'who you know' is more important than job performance in getting ahead here.
Some departments in this organization seem to care more about their image than they do about clients or customers.
Pay increases are based strictly on job performance in this organization (n).
Promotion is based solely on job performance in this organization (n).

2. Nepotism practiced

It really is standard practice in this organization to use one's position to help friends or family.
Nepotism reduces this organization's performance.

3. Job performance rewarded

By and large, the best performers get promoted in this company.
Performance appraisal ratings are an important influence on chances for promotion in this organization.
Generally, speaking in this company the best performers make the most money.
Good performance does not seem to result in rewards here (n).
In practice, performance appraisal ratings are not used for promotions and pay raises (n).

4. Organizational trustworthiness

The personnel policies suggest that this organization has confidence in its employees.
In general, this organization's personnel practices seem to reflect a distrust of employees (n).
This organization's personnel policies encourage favoritism (n).
In general, the personnel policies seem to encourage cooperation among employees.
The personnel policies here seem to work against the creation of a 'team spirit' (n).
The performance appraisal system shows that this organization trusts its employees.
The personnel system seem to make it more difficult for me to achieve my goals (n).
Performance measurement practices here seem to create mistrust and resentment among employees (n).
This organization's pay policies encourage cooperation.

* All items rated on a Likert-type scale with 1 = stongly disagree to 5 = strongly agree.
(n) = negatively worded item.

5. *Supervisory in favoritism.*

My supervisor engages in favoritism.
I feel that my supervisor's treatment of employees has been biased.
Sometimes my supervisor seems to lack confidence in employees.

6. *Exploitive coworkers*

Members of this work group tend to 'use' other people.
Some members of this work group cannot be relied upon to do what they say they will do.
Others in my work group seem rather distant and unapproachable.
Certain individuals in my work group have a tendency to 'play favorites'.

7. *Job security anxiety*

I am not satisfied with how things look for me in the future in this organization (n).
Generally speaking, I am very satisfied with the amount of job security I have.

8. *Coworker effort*

People here can be counted on to lend a hand if I need it.
People here do whatever is necessary to meet deadlines and finish a job.
People here are eager to exceed industry work standards.
Most employees work hard, whether or not they will get any direct individual benefit or recognition.

9. *Organizational innovation*

I think our organization is among the first to introduce new products to the market.
We often introduce new products to the market.
Our company must take account of strong market competition.

10. *Own quality standards*

My own standards of work quality are higher than the formal standards for this job.
In general, I strive for higher quality work than what is required.