
The impact of cultural differences on the basis of rewards -an empirical analysis of Anglo-American and Libyan companies operating in Libyan oil sector

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Keywords

Culture, Individualism, Collectivism, budget, Basis of rewards

Abstract

Individuals carry with them their values, beliefs, attitudes, norms, traditions, prejudices, and cultures when they join institution or an organization. This paper examined the influence of individualism versus collectivism on the basis of rewards, an empirical comparison between Anglo-American and Libyan companies operating in the Libyan oil sector. One aspect of total job performance is budget performance. When a budget is linked to an employee's performance appraisal it becomes motivational and important to employees (Otley 1978). Linking budget to an employee's performance shows if they are going to succeed to meet a budget's target and as a consequence they will receive promotion, remuneration, rewards, and bonus payments (Lau & Moser 2008; Libby 2001). Evaluating and rewarding employees on the basis of their performance have significant influence on individuals' behaviours (Awasthi et al. 2001). This study contributes to the literature by concluding that Anglo-American companies use budgets as part of their rewards systems while Libyan companies never use budgets as a determination of employee rewards in the Libyan oil sector. Also both Libyan and Anglo-American companies do not trace variances to individuals because employees in the oils and gas industry work as a team. Although rewards on achieving budget goals is associated with creating slack (Douglas & Wier 2005).

Introduction

The impact of human behaviour on budget processes in an organization is a well-established research stream in the accounting discipline. This topic is enjoying renewed interest in the contemporary business environment as globalization is causing the rapid integration of economic, political and cultural systems across the globe. The management of external and internal environment differences is imperative for multinational companies operating in the global arena. In particular, the management of individual employees' cultural differences represents a substantial challenge for management at every level of an organization, including the preparation, control and revision of budgets by groups of people from differing cultures (Ramadan 2011). The most influential obstacle that prevents harmonization in organizational budgeting is often related to culture or, more specifically to the impact of cultural differences on employees involved in the process.

The Libyan oil industry is a perfect showcase of the impact of globalization and changes in economic, political and cultural integration on the modern business environment. A member of OPEC and owner of the largest oil reserves in Africa, Libya attracts foreign investment from a diverse range of countries for exploration, production, transportation, and refining of oil (Ramadan Kanan et al. 2013). Rewards and extra bonuses are the best way to improve performance in relation to budget (Garbutt 1992). Budgets affect attitudes of managers in terms

of personal rewards when dealing with allocation of resources to units which facilitate performance of units (Magner et al. 2006). Achieving a unit's budget makes managers more likely to consider themselves as winners since they consider this as 'self-esteem' psychological rewards. Incentive rewards should logically relate to the achievement of performance targets (Garbutt 1992).

1. Culture

Culture is an understandable word; however it is difficult to define clearly. Although the word culture is manifested in everyday usage of language, it is still used loosely to express many different concepts ((Dahl 2004; Spencer-Oatey 2008). Hofstede and Hofstede (emphasis added 2005, p. 4) define culture as "the unwritten rules of the social game. It is the *collective programming of the mind* that distinguishes the members of one group or category of people from others". This study defines culture as the economic systems, attitudes, education systems, laws and legal systems, social rules, associations, enterprises, religious communities, school systems, family structures, habits, art, values, beliefs, morals, ritual practices, ceremonies, and forms are all part of formal culture. Informal culture includes stories, rituals of daily life, gossip and language, customs, habits, resultant behaviour, norms, and artefacts shared by a certain society. These norms govern how people act, how they define themselves, how they differ from other societies' members. They also govern how these shared elements facilitate communication with each other in effective and efficient ways. Moreover, they influence a particular group of people's behaviours and their mental lives (Christie et al. 2003; Dahl 2004; Hofstede & Hofstede 2005; Ramadan 2011; Ramadan Kanan et al. 2013).

This study compares two different cultures Libyan and Anglo-American. The study uses Hofstede's (2001) study which is the most comprehensive study and was the largest cross-cultural business survey ever conducted and achieved major interest from business scholars (Bing 2004; Silvia 2006; Yates & Cutler 1996). Individualism vs. collectivism dimension is used in this study to seek its effect on the basis of rewards

2. Basis of rewards

Career prospects, resources and salaries will be largely based on the abilities of managers to achieve their budgets. Managers receive extra resources that will help them to easily achieve their budget's performance and thus gain material rewards (Magner et al. 2006). Failing to achieve a budget target will lead to interventions by top management. Employees who do not meet their budget might be penalised by reduced bonuses or miss opportunities for promotion. These penalties will drive managers to work on their performance in the short-term to look better but forget their performance in the long-term and this may cause harm to the organization in terms of long term efficiency (Van der Stede 2000). Managers have the tendency to make future performance of their units' results easier to achieve by attempting to secure more resources for their units. This behaviour stems from self-interest which can lead to better performance following by psychological rewards (Magner et al. 2006; Otley 1978).

One aspect of total job performance is budget performance. When a budget is linked to an employee's performance appraisal it becomes motivational and important to employees (Otley 1978). Linking budget to an employee's performance shows if they are going to succeed to meet a budget's target and as a consequence they will receive promotion, remuneration, rewards, and bonus payments (Lau & Moser 2008; Libby 2001). Evaluating and rewarding

employees on the basis of their performance have significant influence on individuals' behaviours (Awasthi et al. 2001). The material rewards of managers in some organizations are likely to be linked to achievement of their budgets (Magner et al. 2006; Van der Stede 2000). (Hofstede 1968, pp. 126-7) also states that "Higher performance by the budgetee is a consequence of higher performance motivation". In this regard, the main deterrent of employees' behaviours is fairness of appraisal systems whereas fairness of these systems leads to favourable employee commitments and performances (Lau & Moser 2008). Sauers et al. (2009) compare performance evaluation practices between USA subsidiaries working in Taiwan and their parent companies and those of large Taiwanese companies in order to gain a better understanding of how multinational companies operate globally adjusting to competing demands for local responsiveness and global integration. They found that societal culture plays a critical function within the adoption of performance appraisal practices.

This study is investigating the extent to which two cultures of Libyan and Anglo American companies operating in the Libya oil sector use budgets as a basis for a rewards system. In this regard, this study is looking at the influence of culture in choosing the basis of rewards.

In individualistic societies individuals work hard in order to improve their performance because of credit they might receive, whereas in collectivistic societies individuals work hard to improve performance because of the achievements of their group. People who work in a group might reduce their performance without loss knowing this short-term outcome in performance will be attributed to lack of coordination in group performance (Earley 1993). Conversely Earley finds individualists feel more efficacious and perform better if they work alone. In contrast, Earley argues that other studies have found that performance of individuals in a group is better than their performance alone. In collectivistic societies people are encouraged to engage in cooperative activities from their childhood so their efficacy from earlier childhood is shaped by group settings. These experiences foster their expectation to perform better in a group setting. Earley also found that collectivists perform better in groups than they do out of groups or alone. Also collectivists see their individual work as satisfaction if they can achieve contribution to the group (Earley 1993). Earley (1989) found that individualist's performance working alone was higher than individualist's performance working in a group setting while collectivists perform better when working in a group setting than working alone.

In Western cultures feedback in the area of performance evaluation is confrontational, which is not appropriate for employees in developing countries where face-saving is regarded as more essential than learning from performance evaluation (Douglas & Wier 2005; Mendonca & Rabindra 1996). In individualist societies, employees' performances improve when they receive direct feedback from their supervisors while in collectivist societies employees do not like direct feedback. Employees who receive negative direct feedback may be damaged by loss of face and this might have a negative impact on their loyalty to an organization so they prefer indirect feedback (Hofstede 1995). In this regard, Radebaugh, Gray and Arpan (1997) found that American managers tend to be more involved in the budgeting process and are evaluated by budgets as well as rewarded or penalized by budgets. Kim and Leung (2007) also found Americans favour a fair distribution of rewards. Yasin and Stahl (1990) also support that Anglo-American culture is achievement and power oriented. On the contrary, Ali (1990) found that in Arabic management obedience and submissiveness are rewarded while creativity and original

thinking are condemned. The rewards for Arabic managers seem to be given to managers who have power orientation and lack affiliation and achievement needs (Yasin & Stahl 1990).

Mendonca and Kanungo (1996) argue that in feministic oriented societies interpersonal relationships are more important than performance and meeting or achieving an organization's goals. They also state that job autonomy is a more valued non-economic reward in Western countries whereas in developing countries satisfying security and social needs is the reward that is valued more. In masculine cultures where people believe they 'live to work' there is a great emphasis on accomplishments, money and competition thus rewards for employees are usually based on their performances (Dwyer et al. 2005). Achievement through ability is also most valued in Western management particularly by Americans while East-Asians consider effort as a significant moderating element that interacts with the ability to achieve (Yee et al. 2008). Feminine societies, where people believe they 'work to live', their emphasis is on interpersonal relationship and environment

In individualistic societies individuals see to their behaviours to recognise their status in relation to other members in society. Therefore, individualists' performances will be improved according to the recognition they receive. In collectivistic societies individuals consider the importance of their behaviours from the recognition of other members in society. Hence individuals' performances will be improved based on the gains of their group (Earley 1994). Usually in the accounting management discipline line managers are rewarded financially when they achieve their budget targets. A budget is a very important tool mostly used for performance measurement and evaluation, rewards, and remuneration (Wu 2005). In fact this study considers whether societal culture affects management in choosing the basis of rewards for individuals. Therefore, expectations of rewards for individualists should be based on an individual's performance in attaining budgetary targets (Earley 1989). In contrast, collectivists are not willing to sacrifice by their group for personal goals (Earley 1993). Therefore, rewards will be based on overall company's profits. Yee et al. (2008) found that rewards based on the overall actual profits not based on individuals' performance the reason why is because the company budget for loss as well. That means when a company makes a loss no employee will be rewarded or penalised. They related this to Japanese collectivism 'group orientation'.

Future studies have been encouraged to investigate the impact of culture on performance and rewards systems on employees' satisfaction. Performance is unlikely to succeed if the culture does not ready to see performance as important.

3. Methodology

Hofstede & Hofstede (2005, p. 76) define individualism-collectivism (IC) as

Individualism pertains to societies in which the ties between individuals are loose: everyone is expected to look after himself or herself and his or her immediate family. Collectivism as its opposite pertains to societies in which throughout people from birth onward are integrated into strong, cohesive in-groups, which throughout people's lifetimes continue to protect them in exchange for unquestioning loyalty.

In individualist societies managers will care about themselves and they will look for personal benefits and try to enhance their performance which leads them to create slack in budgets so they can achieve budgets' goals and obtain rewards based on those achievements (Aycan 2000; Douglas et al. 2007; Douglas & Wier 2005; Hofstede 2001; Staley & Magner 2007).

Individual Protestant work ethic and high achievement in Anglo-American societies are bases of individualism (Ali 1993). Managers in collectivist societies are group-oriented (Miroshnik 2002). Therefore they will not be encouraged to create slack in budgets because managers will not obtain rewards from achieving budget targets. Achieving a budget's goal will be related to the group's achievement not to the individual's (Magner et al. 2006; Tsui 2001; Ueno & Sekaran 1992). The hypotheses for this paper "*Performance rewards are more often based on meeting budgets rather than on a company's actual profit in Anglo-American companies than in Libyan companies*" was tested to identify differences between Libyan and Anglo-American companies operating in the Libyan oil sector in terms of the basis of rewards.

A quantitative approach was applied to determine the differences between local and Anglo-American companies (USA, Canada, UK, and Australia) in one aspect of the budgeting process in terms of the basis of rewards. Questionnaire survey data were collected to answer the research question. Five-hundred survey questionnaires were sent to both Libyan (320) and Anglo-American (180) managers and employees at different levels to solicit information from participants who have direct experience in the budgeting process. The targeted respondents included accountants in budget sections and managers of finance departments. Non-accountants were also surveyed including managers from different departments. The questionnaire was created in English then was translated into the Arabic language. The surveys were conducted in both English and Arabic languages. Some 228 useable questionnaires were returned from Libyan companies and 115 usable questionnaires were returned from Anglo-American companies. Data was checked for missing data, outliers and extreme values, and normality. Internal consistency (Cronbach's alpha) was calculated in order to assess the scales quality (reliability) of all constructs and measures (DeVellis 2003; Hair et al. 2006). Factor analysis was used to decrease the number of variables to a lesser number of factors.

4. Data analysis

Five (5) items were selected to determine the extent of employee rewards as bases for achieving budget goals. The factor analysis confirmed that the underlying latent factor converged as assumed after deletion of one item (Reward1) due to low factor loadings (less than 0.65) (Table 1).

Table 1: Factor analysis-Bases of rewards

Reliability- Cronbach's Alpha	.718	% Variance Explained	70.722%
KMO	.849	Bartlett's test	.000
Items		Standardised Regression Weights	
My reward reflects my contribution to the company. (Rewards1)			deleted
The standards used to evaluate my performance are based on achieving my budget.			.873
My promotion prospects are closely related to how my actual performance compares with expected performance (achieving budget goals).			.792
My pay prospects are closely related to how my actual performance compares with expected performance (achieving budget goals).			.829
Monetary incentives in my company are primarily tied to attaining the budget.			.867

Sampling adequacy exceeded the threshold criterion (KMO=0.849). The percentage variance explained by the latent factor was 70.722%. This is regarded as a good indication that the items explain the underlying factor well. It was thus concluded that four items adequately describe the latent factor bases of rewards and has very good scale reliability (Cronbach's

Alpha= 0.718). A t-test conducted for hypothesis eight “In Anglo-American companies the bases of rewards are more often based on meeting budgets’ goal rather than on a company’s actual profit as in Libyan companies”.

Table 2: Summary of t-test for H1

	Levene's Test for Equality of Variances		t-test for Equality of Means		
	F	Sig.	t	df	Sig. (2-tailed)
Equal variances assumed	12.389	.000	23.390	328	.000
Equal variances not assumed			25.443	292.041	.000
Company group	N		Mean	Std. Deviation	
Anglo American	115		4.02	.512	
Libyan	215		2.32	.680	

The Levene’s test is significant ($p=0.001$). Therefore groups’ variances cannot be equal. T test with equal variances not assumed indicates that there is a statistically significant difference between the two company groups in terms their bases of rewards ($t_{(292.04)}=25.443$, $p=0.001$). Anglo-American companies have a much greater structuring of rewards based on meeting budgets’ goals ($M= 4.02$, $SD=0.51$) than Libyan companies ($M= 2.32$, $SD=0.68$) (Table 2).

A one-way ANOVA was conducted to examine whether there are statistically significant differences between cultural groups in terms the bases of rewards.

Table 3: Homogeneity, Welch and Brown-Forsythe testes-rewards

Test of Homogeneity of Variances				Robust Tests of Equality of Means				
Levene Statistic	df1	df2	Sig.		Statistic ^a	df1	df2	Sig.
19.622	2	327	.000	Welch	464.310	2	137.320	.000
				Brown-Forsythe	552.378	2	240.436	.000

Based on a one-way ANOVA, the test of homogeneity of variances showed that the variances between groups are not equal (Levene’s test =19.622, $p =0.001$). Therefore, Welch and Brown-Forsythe tests show a highly significant difference between cultural groups (3). The analysis indicates a significant difference between the cultural groups ($F_{(2,327)} = 321.120$, $p=0.001$). Anglo-Americans’ perceive that rewards are based on meeting budgets’ goals ($M=4.32$, $SD=0.38$). They show the highest perception relative to Libyans working in Anglo-American companies ($M=3.64$, $SD=0.40$), who in turn are much higher than Libyans in Libyan companies ($M=2.32$, $SD=0.68$) (Table 4) (Figure 1).

Table 4: ANOVA-rewards

ANOVA						Descriptive	N	M	SD
	Sum of Squares	df	Mean Square	F	Sig.				
						Libyans in Libyan-Com	215	2.32	.680
Between Groups	228.149	2	114.074	321.120	.000	Anglo-Americans	65	4.32	.378
Within Groups	116.163	327	.355			Libyans in Anglo-Com	50	3.64	.401
Total	344.312	329				Total	330	2.91	1.023

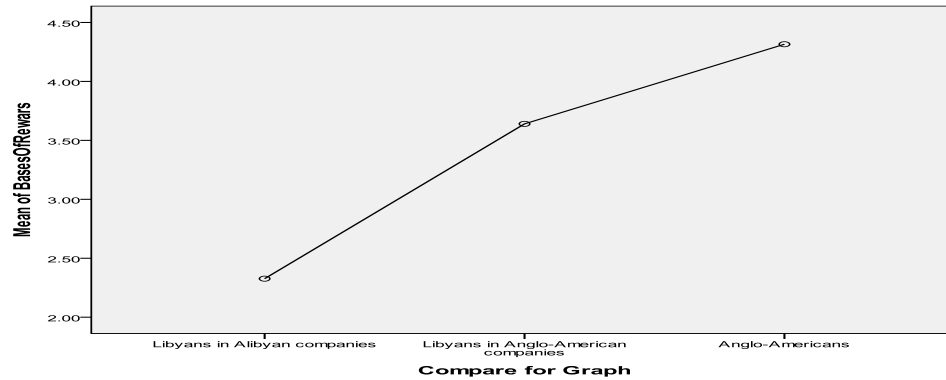


Figure 1: Rewards means by cultural groups

A games-Howell post-hoc test was used because the variances between cultural groups are not equal (Table 5).

Table 5: Games-Howell Post-hoc test-rewards

(I) Comparisons among cultural groups	(J) Comparisons among cultural groups	Mean Difference (I-J)	Std. Error	Sig.
Libyans in Libyan-Com	Anglo-Americans	-1.98864*	.06600	.000
	Libyans in Anglo-Coy	-1.31326*	.07332	.000
Anglo-Americans	Libyans in Anglo-Coy	.67538*	.07365	.000

The results indicate that there are highly significant differences between Libyans in Libyan companies and Anglo-Americans in Anglo-American companies. Results also indicate there is a highly significant difference between Libyans in Libyan companies and Libyans in Anglo-American companies and similarly between Anglo-Americans and Libyans in Anglo-American companies. The Hypothesis of this paper was supported. Anglo-American companies use budgets as a basis to rewards employees while Libyan companies do not use budgets in rewarding their employees.

5. Discussion

In the management accounting discipline, employees are rewarded financially when they achieve their budget targets. This is particularly the case in individualistic societies due to the high importance attributed to budgets as a critical tool used for performance measurement, evaluation and rewards (Wu 2005). The expectations of rewards for individuals in an individualist society are largely based on an individual's performance in attaining budgetary targets (Earley 1989; Yee et al. 2008). In contrast, individuals in collectivist-oriented societies are not willing to sacrifice the interests of their group for personal goals (Earley 1993). In this regard, the hypothesis of this study (rewards) was supported.

Anglo-American companies use budgets as a basis to determine employees' rewards while Libyan companies do not use budgetary outcomes in determining employees' rewards. In the same vein, Gray (1988) find that American managers tend to be more involved in the budgeting process and are evaluated by budgets as well as rewarded or penalized in terms of budgetary outcomes. Kim and Leung (2007) also find Americans favour a fair distribution of rewards with performance against budgets generally being considered as an objective measure of this and thus regarded as fair. Anglo-American managers' loyalties and obedience are driven by perceived acceptance of their professional judgments regarding profitability and in terms of

their expected personal financial rewards. Individualism and the Protestant work ethic are the basis for high achievement in Western societies (Ali 1993; Weber 1965; Yee et al. 2008). Yee et al. (2008) argue that achievement through ability is also most valued in Western management particularly by Americans while East-Asians consider effort as a significant moderating element that interacts with the ability to achieve.

Libyan companies like the Japanese never or very rarely use budgets as a basis for determining rewards. This study suggests that this might be attributed to the predominant Arab style of management that rewards obedience and submissiveness and where creativity and original thinking are not valued (Ali 1990). Arab managerial practises reveal different patterns of managerial motivational effectiveness to those in Anglo-American management culture. In developing countries, satisfying security and social needs are regarded as a more valued reward (Mendonca & Rabindra 1996). Arab management also encounters many difficulties in achieving objectives effectively due to Arabic managers' general tendency to concentrate on nepotism rather than fairness, seniority rather than merit, centralisation rather than decentralisation (Aгнаia 1997). Loyalty is associated with supporting family members and tribal connections rather than enhancing organizations. Promotion, financial support and personal development opportunities abroad are usually considered in terms of family and personal relationships (Aгнаia 1997). Yasin and Stahl (1990) also support conclusions that Anglo-American culture is achievement and power oriented. On the contrary, rewards for Arabic managers seem to be associated with managers who have positions of power and are generally not associated with achievement (Ali 1990; Yasin & Stahl 1990). Similarly, these attributes of management style influence the evaluation of performance. Libyans use budgeting neither as carrot or stick whereas Yee et al. (2008) find that Japanese companies use budgeting as a stick (they investigate unfavourable variances promptly) but not as a carrot (rewards are not tied to budgetary attainment).

6. Contribution

This study contributes to the literature and knowledge base of studies investigating cultural differences. The study tests existing theory within a specific industry and national context not previously researched. It further tests long-held assumption and generalisations related to the impact of cultural differences on budgets and budgeting processes by providing new insights that are country and industry specific. Due to the scarcity of research and studies on the impact of culture on budgets and budgeting processes in the oil sector and within the context of an Arab country generally and Libya in particular, the contribution fills a gap in the literature. This study also contributes to the literature by providing evidence from the oil and gas industry in terms of the impact of societal cultural dimensions on budgets and budgeting processes thus supporting a theory of cultural influence on budgeting processes in oil and gas industry. Studies have not previously addressed certain specific aspects of the budgeting process, such as basis of rewards, in relation to cultural differences.

This study contributes to the literature by concluding that Anglo-American companies use budgets as part of their rewards systems while Libyan companies never use budgets as a determination of employee rewards in the Libyan oil sector. A further contribution to the literature is that Libyan companies operating in the Libyan oil sector do not use budgets as a basis to evaluate the performance of or a basis for rewarding their employees.

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