Strategic Alignment: Linking Employee Compensation with Organizational Sustainability

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ABSTRACT

Expanding upon existing research on compensation, this study delves into the intricate connections among employee competencies, corporate cultures, and compensation strategies. These strategies, often discussed in literature pertaining to the implementation of pay-for-performance (PFP) systems or the challenges leading to their failure, have been underrepresented in research directed towards HR education practitioners. This study fills this gap by shedding light on which organizational factors are crucial in determining the suitability of PFP or alternative compensation programs. Drawing upon data gathered from 385 employees in the American manufacturing sector, the findings reveal statistically significant relationships between employee competencies and organizational cultures. These findings align with previous research, underscoring the linkages between compensation schemes, various organizational competencies, and diverse organizational cultures, thereby enriching the existing literature on the subject.

1.INTRODUCTION

There is no denying the pivotal role that employees play as the cornerstone of a company's sustainable competitive advantage. Extensive scholarly research underscores the significance of employee performance within the realm of Human Resource Management (HRM) and its direct correlation to benefits derived from a well-structured compensation system [1–3]. However, prior research has somewhat neglected to delve deeply into understanding the diverse cultures and competencies of employees, despite the importance highlighted in these foundational studies. Indeed, compensation, which holds paramount importance for both individual employees and the organization as a whole, constitutes one of the most substantial costs for any organization [4]. In the quest for sustained competitive advantage, the realm of compensation emerges as a critical determinant for organizational success or failure [2,5]. Furthermore, the characteristics of employees and their interactions lay the groundwork for strategic planning and execution [6]. Cummings and Worley [3] emphasize that a compensation scheme should be intricately woven into organizational policies, structures, and employee engagement, forming an integral part of HR education and organizational design.

However, within academic circles, there exists a divergence of opinions regarding the efficacy of pay-for-performance (PFP) programs, wherein the direct link between an employee's performance outcomes and their compensation reward is established [6,7]. This debate surrounding the utilization of PFP incentive systems underscores the ongoing confusion within the compensation literature. Consequently, the lack of consensus among HRM experts regarding the appropriate deployment of PFP systems emerges as a significant concern among both academics and practitioners. This study builds upon existing literature, which delineates the organizational considerations that practitioners must evaluate before implementing a PFP program. The authors posit that PFP compensation schemes should be aligned with employee competencies and corporate cultures, both of which are reinforced by a well-structured reward system.

Furthermore, this research delves into an alternative compensation scheme, namely "skill-based pay" (SBP) or "pay-for-knowledge," as delineated by Gomez-Mejia and Balkin [8]. They discern performance-based compensation from skill-based compensation as distinct concepts. SBP entails remunerating employees for their knowledge, skills, and abilities [9], basing wage rates on the spectrum of skills employees bring to their roles. Unlike traditional compensation structures, SBP focuses more on individual competencies such as skill type, depth, and range, rather than immediate job performance. Consequently, SBP incentivizes employees to enhance their skill sets [10] and rewards them with additional compensation upon formal

certification of mastery in specific skills, knowledge, and competencies [11]. While the prevailing consensus advocates for the continued use of "Pay for Performance" (PFP) compensation programs as a best practice across industries [12–17], dissenting voices persist, with some researchers citing instances of organizational performance improvements attributed to PFP compensation schemes [18–20]. The ongoing academic debate surrounding PFP underscores the lack of unanimity within the management academia, despite being considered the best practice.

In examining the works of Lawler [21] and Zarifian [22], who provided insightful comparisons between PFP and SBP systems in their reasoned analyses, our interest was piqued by previous research conducted by Díaz-Fernández et al. [6] and Kerr and Slocum [23]. Consequently, we sought to explore whether a meaningful correlation exists between the strategic competencies sought by organizations and the corresponding corporate culture and reward systems that may be linked to those specific competencies. This study aims to elucidate that PFP compensation schemes should not be universally approached as a "best practice." Instead, organizations should tailor their approach based on their specific needs and objectives. Companies aiming to foster skills such as adaptability, innovation, or technological proficiency may opt to cultivate a clan culture and align it with SBP systems. Conversely, those prioritizing customer engagement and performance guidance may find that promoting a PFP-centric consumer culture aligns more closely with their strategic objectives.

1.1 Purpose of the Present Study

The existing literature on PFP compensation systems predominantly focuses on implementation factors and potential pitfalls, leaving practitioners with limited guidance on selecting an appropriate compensation scheme for their organization. This study aims to address this gap by offering insights into the suitability of various compensation programs based on organizational needs and relevance.

Building upon the robust foundation of existing research, we hypothesized a strong link between employees' specific skills and the organizational culture. Previous studies have already established the significant relationships between pay systems, employee capacities, pay structures, and organizational cultures [6,23]. Leveraging these insights, the present study endeavors to contribute to the discourse by employing structural equation analysis to identify clear correlations between employee competence and organizational culture.

Through the structural equation analysis, this study both collaborates with and challenges existing research on the interplay between pay systems, organizational culture, and employee competency [6,23]. It

underscores the notion that distinct reward practices may align differently with various competencies and cultures within an organization.

Furthermore, this study aims to provide HR practitioners with a valuable framework for evaluating the suitability of PFP schemes for their respective companies. By establishing connections between specific cultures, competencies, and the utilization of either PFP or SBP systems, the authors offer practical guidance for decision-making in compensation strategy.

2. LITERATURE REVIEW

2.1. Pay for Performance (PFP)

The literature review delves into the intricacies of Pay for Performance (PFP) compensation schemes, aiming to provide a comprehensive understanding of their dynamics and implications within organizational contexts. At the outset, it defines a PFP scheme as a compensation system wherein rewards are directly contingent upon individual performance outcomes [6,8]. This mechanism creates a clear link between an employee's performance results and their compensation, with a notable proportion of their total compensation being categorized as "pay at risk" [24]. For example, commission-based structures epitomize this concept, incentivizing employees to excel by directly linking their performance to pay outcomes [6,7,25].

Scholars have widely touted PFP compensation as a universal "best practice" applicable to organizations across diverse industries and settings [12,13,15–17,27–30]. They argue that the implementation of PFP compensation programs can significantly enhance organizational performance by motivating employees to strive for exceptional results. Furthermore, these programs are seen as integral in fostering sustained high levels of employee performance by offering a range of incentives, including promotions, merit boosts, and intrinsic rewards like the satisfaction of achieving goals.

Recent empirical studies have further elucidated the positive impact of PFP systems on employee performance. For instance, Nyberg, Pieper & Trevor [27] conducted an extensive longitudinal analysis over five years, leveraging data from a sizable cohort of over 10,000 workers. Their findings underscored a robust correlation between merit pay schemes and future employee performance. Additionally, they explored contextual factors such as job characteristics and the organizational experience of pay structures to ascertain the effectiveness of PFP schemes. Notably, Nyberg, Pieper & Trevor [27] highlighted that PFP schemes not only enhance employee performance but also positively influence employee tenure, suggesting that merit pay and bonus pay schemes could effectively complement each other within organizational frameworks.

Similarly, Uriesi delved into the effects of PFP schemes on worker performance, focusing on a Romanian sample. Through evaluations conducted by direct supervisors, Uriesi revealed a significant disparity in work performances between employees enrolled in PFP systems and those not. Moreover, Uriesi observed that the impact of PFP-based systems on employee performance was mediated by their favorable effects on workers' perceptions of procedural justice and distributive justice within the organization. These findings underscore the multifaceted benefits of PFP compensation schemes and their potential to drive organizational success through enhanced employee performance and motivation.

However, divergent viewpoints exist among researchers regarding the universal applicability of PFP compensation as a "best practice" for all organizations across all circumstances. Some argue that while PFP systems have the potential to enhance performance, their effectiveness hinges crucially on meticulous planning and execution. For instance, a study [19] underscored the importance of thoughtful implementation for successful PFP schemes. It emphasized that clear goals and adequate compensation are essential for the success of PFP programs. Additionally, a significant factor contributing to the lack of desirable PFP plans in companies is the absence of specific and clear objectives. Drawing on both empirical evidence and theoretical frameworks, Eijkenaar outlined key issues in the utilization of PFP compensation schemes. He advocated for careful consideration by organizations on how to structure incentives to prevent unexpected employee behaviors. Ultimately, his study argued that designing effective and fair performance-based programs requires complex deliberation involving various interrelated factors.

Furthermore, researchers have proposed strategies to address the deficiencies of PFP programs, focusing on establishing meaningful links between pay and performance. A study emphasized the importance of ensuring that employees understand their PFP plans for optimal responses. They suggested that the compensation relationship with pay and performance should be straightforward and comprehensible for employees. Similarly, Kaplan & Norton proposed that implementing a "balanced scorecard" method could optimize the functioning of PFP systems. By incorporating financial measures and customer satisfaction metrics, the balanced scorecard method enables practitioners to evaluate performance comprehensively. This approach, while diverging from the idea of simplicity in performance metrics, underscores the significance of robust performance evaluation mechanisms.

Researchers also advocate for the judicious use of PFP programs only when objective, quantifiable standards and goals are available to assess employee performance [6,]. Campbell, Campbell, and Chia highlighted the potential pitfalls associated with PFP, including reduced employee effort due to discrepancies between job performance and actual reward receipt, as well as issues related to time lapses. They noted instances where rewarding unintended behaviors occurred, such as hospitals prioritizing certain

operations to meet performance targets under PFP programs [29]. Casalino and colleagues [18] echoed similar concerns, providing empirical evidence from the healthcare industry. They observed that physicians might avoid high-risk patients to prevent potential failures to meet performance objectives under PFP compensation schemes. Notably, they highlighted a decrease in emergency admission rates in hospitals following the introduction of major performance-based pay systems in England, emphasizing the need for careful consideration of unintended consequences in PFP implementation.

Hamel and his colleagues [18] explored the operation of Pay for Performance (PFP) programs in the medical industry over a decade, noting doctors' ambivalence towards them. They highlighted that while certain elements of the program, particularly those reinforcing commonly accepted medical standards, were welcomed by doctors, concerns arose regarding a loss of control and professionalism. Additionally, doctors expressed apprehension about potentially becoming less adept in managing certain conditions, such as diabetes, as nurses became increasingly involved in chronic disease management. Despite the initial pay increases being well-received, many practitioners began to resent the PFP program as successive governments clawed back the initial large increases through a series of below-inflation boosts.

The efficacy of PFP as a motivational tool has been a subject of debate among reward specialists and academics. Proponents argue that PFP offers direct incentives and tangible recognition of individuals' achievements, while providing flexibility to retain key staff. Conversely, opponents contend that PFP can be discriminatory, demotivating to most employees in favor of high performers, and may undermine perceptions of fairness and equity . Existing research on PFP compensation programs offers limited guidance to practitioners beyond emphasizing the importance of careful implementation. Moreover, there is a lack of research offering insights into linking organizational factors with the situational use of different compensation programs.

To address this gap, the present study, as previously noted, employed both PFP and Skill-Based Pay (SBP) compensation schemes for comparison. These schemes have been predominant in the compensation literature [8], and their examination in the study aims to shed light on their respective relevance and effectiveness within organizational contexts.

2.2. Skill-Based Pay (SBP)

In addition to its examination of Pay for Performance (PFP) schemes, the present study delves deeply into the dynamics of a contrasting compensation model known as Skill-Based Pay (SBP), also recognized as Pay-For-Knowledge. SBP, as elucidated in a prior study [11], stands as a compensation system whereby employees receive augmented wages upon formal certification of their mastery over a spectrum of

credentials, expertise, and skills. Unlike conventional pay structures tethered solely to job roles, SBP operates on a person-centric model, spotlighting individual characteristics over rigid job functions. This orientation empowers companies to make strategic investments in the growth and evolution of their workforce, thereby nurturing higher levels of job security while placing a premium on employee autonomy. Consequently, SBP frameworks are expected to yield positive outcomes in terms of bolstering employee happiness and engagement, particularly within sectors characterized by concrete skill demands, such as manufacturing.

While traditional performance-based reward systems like PFP have long held sway in the literature, SBP has emerged as a contender, hailed for its potential to engender a versatile workforce, curtail labor expenses, and augment quality and productivity [10,11]. Nonetheless, despite the touted advantages, the efficacy of SBP remains a matter of contention among compensation scholars. Some posit that the contemporary complexity of job roles may render conventional performance-based schemes inadequate, underscoring the intricate nature of modern-day employment dynamics [10,11].

Adopting a contingency approach, the present study draws inspiration from antecedent research [21,22], notably the seminal works of Kerr and Slocum [23] and Diaz-Fernandez et al. [6], which probed the comparative efficacy of PFP and SBP programs. These studies proffer insights into the intricate interplay between organizational competencies, culture, and compensation paradigms. Kerr and Slocum [23], for instance, illuminate the symbiotic relationship between organizational culture and compensation frameworks, while Diaz-Fernandez and co-researchers [6] furnish more recent evidence delineating the nexus between employee competencies and both PFP and SBP compensation architectures. By unpacking these linkages, the present study seeks to redress the dearth of guidance for compensation practitioners grappling with the selection of organizational components pertinent to navigating between PFP and alternative compensation modalities.

To unravel the intricate relationship between competencies and compensation systems, the literature review embarks upon a nuanced examination, commencing with a granular definition of competency and traversing its multifaceted role within organizational milieus. This meticulous approach lays a robust groundwork for exploring the intricate interplay between competencies and compensation frameworks, thereby furnishing invaluable insights into the determinants shaping the adoption of PFP or SBP schemes within organizational ecosystems.

2.3. Employee Competency

Extensive research underscores the pivotal role of competencies in maintaining organizational competitiveness and fostering effective employee performance. Building upon these insights, the present authors embarked on an inquiry into the specific dimensions of competency delineated in existing literature. Historically, studies on employee competency have embraced two primary approaches, each evolving independently from prior research. Within a competency framework, there exists a blend of core competencies, which are ubiquitous across the workforce, and job-specific competencies tailored to particular roles.

Typically, competency structures in organizations encompass both 'transferable' or behavioral competencies and technical/functional competencies ('hard' skills). Many studies focus on 'hard' or technical skills, delineating job performance requirements, and delineating the levels and outcomes expected from individuals in specific roles or occupational fields. Transferable skills, often referred to as personal or behavioral attributes, are emphasized in past reviews as key indicators of workplace effectiveness.

One enduring conceptualization of personal competency, as delineated in the literature, is how it distinguishes outstanding performers from average ones. Boyatzis and Boyatzis, for instance, identify three clusters of behavioral competencies: (1) Cognitive competencies, encompassing system thinking and pattern recognition; (2) Emotional intelligence competencies, including self-awareness and self-regulation, such as emotional self-awareness and emotional self-control; and (3) Social intelligence competencies, such as empathy and teamwork, including social awareness and relationship management competencies.

Behavioral competencies, often referred to as transferable skills, are defined not only by the ability to perform tasks but also by the manner in which they are executed, particularly evident in leadership competencies. These competencies encapsulate not just what is done but how it is done, particularly in relation to interpersonal interactions. Extending beyond cognitive abilities, such as self-awareness and social skills, the behavioral approach underscores the significance of various attributes that can be cultivated through learning and development initiatives. Asumeng, for instance, contends that competencies, characterized by behavioral attitudes, serve as critical predictors of organizational success, ultimately contributing to market leadership and competitive advantage. Similarly, Martina et al. posit that individuals' inputs, comprising knowledge, skills, abilities, attitudes, and values, constitute competence, serving as crucial predictors of organizational prosperity. Motivations, therefore, emerge as pivotal factors that continually influence behavior, stimulate action, and drive individuals toward specific goals or objectives, shaping organizational outcomes and competitive positioning.

Secondly, within the realm of employee competency, there exists a distinct category known as functional competencies, as delineated in previous studies. These competencies encompass the specific skills or know-how that employees working within a particular occupational domain are expected to possess. It is imperative for competency management to seamlessly integrate both professional and technical competencies with generic competencies to adequately address organizational requirements. The functional approach to competency management underscores the importance of limiting the term 'competency' to denote the essential skills and knowledge necessary for task execution. In essence, functional competencies pertain to well-established technical skills essential for task performance, such as operating machinery or conducting double-entry accounting. They encapsulate the functions, procedures, and responsibilities inherent in organizational roles, encompassing the expertise and skills requisite for effective job performance. While some studies primarily focus on job-related (functional) competencies aligned with job-related standards, others acknowledge the complementary role of behavioral competencies.

In summary, the literature on employee competency distinguishes between awareness, which denotes a person's knowledge in specific content areas, and skill, which pertains to the ability to perform particular physical or mental activities. Technical skills and expertise, deemed fundamental for job execution, are often considered overt and surface-level characteristics. In contrast, traits such as autonomy and motivation, classified as behavioural competencies, are perceived as deeper, intrinsic qualities central to an individual's personality, and crucial drivers of job success. While behavioural competencies continue to garner attention in the literature, there is a growing recognition of the importance of a comprehensive definition of competence that encompasses both behavioral attributes and job-related practical skills and experiences .

Building upon these foundational perspectives, Díaz-Fernández and colleagues [6] advocate for an integrated approach that combines both behavioral and functional perspectives to develop competency-based HR strategies. They draw from the five employee competencies delineated in previous publications, emphasizing the need for a holistic understanding of employee capabilities to inform compensation methodologies effectively.

The employee competencies examined in the current study are based entirely on prior research, particularly the work of Diaz-Fernandez and colleagues [6], who delineated five distinct competencies drawing from various previous studies. These competencies, validated cross-culturally over three decades of research by McBer and later by the Hay Group, include innovation, technological competence, adaptability, results-focused orientation, and customer-focused orientation. Numerous studies have underscored the critical role of these competencies in influencing organizational outcomes, with some specifically highlighting their impact on firm success. (1) Innovation Competency: Innovation competency revolves around the

generation of new knowledge and ideas. Employees possessing this competency demonstrate creative problem-solving abilities aimed at helping their organizations achieve their objectives. (2) Technical Expertise Competency: This competency pertains to employees' proficiency in applying technical knowledge to produce tangible products or outcomes. Acquisition of technical skills not only enhances employees' contributions to the organization but also fosters their personal development, facilitating their effective utilization of skills and knowledge in the organizational context. (3) Adaptability Competency: Adaptability competency emphasizes employees' ability to respond flexibly to new environmental challenges and situations. Individuals with this competency exhibit a willingness to collaborate with others and demonstrate effectiveness in diverse work contexts. (4) Result Orientation Competency: Result orientation involves setting objectives and priorities to optimize organizational resources, aligning with the firm's goals and objectives. Employees possessing this competency exhibit a proactive approach towards achieving desired policy and program outcomes. (5) Customer Orientation Competency: Customer orientation centers on serving and assisting customers in meeting their specific demands. It encompasses an understanding of customer perspectives, the ability to discern customer needs, and identifying optimal ways for the organization to fulfill those needs. Organizations often gauge employee performance in customer service departments to assess customer orientation competency, typically through metrics such as sales volume.

2.5. Relationship between Employee Competency and Compensation Scheme

Examining the appropriateness of implementing either Pay for Performance (PFP) or Skill-Based Pay (SBP) programs in different organizational contexts, Díaz-Fernández and colleagues [6] utilized a well-established framework of employee competencies derived from existing literature. Their study advocated for the selective application of PFP or SBP compensation programs based on employees' competencies in innovation, technical expertise, adaptability, results orientation, and customer orientation.

Drawing on Spencer & Spencer's findings that highlighted the close interconnection among these competencies, characterizing them as a set of skills, knowledge, and abilities enabling employees to tackle challenges, create opportunities, and navigate unfamiliar situations, Díaz-Fernández and team proposed labeling competencies of innovation, technical expertise, and adaptability as "Proactive Behavior" competencies. They observed that employees with proactive behavior competencies exhibited a stronger association with the SBP compensation system compared to those involved in the PFP compensation system.

Conversely, the relationship was reversed for competencies related to results orientation and customer orientation, with a stronger association found with PFP rather than SBP. The study ultimately concluded

that organizations should primarily base their compensation programs on employees' skills when seeking to cultivate proactive behavior competencies, encompassing technical expertise, innovation, and adaptability. However, further research is needed to delve deeper into the intricacies of these relationships and their implications for compensation strategy formulation. Nevertheless, it's suggested that firms prioritize their compensation strategy based on individual workers' output to foster competencies in results orientation and customer orientation [6].

2.6. Organizational Culture

The concept of organizational culture encompasses a multitude of factors within an organization, including its unique attitudes, technological infrastructure, and even the individual style exhibited by its members, as elaborated by Schein. A study conducted earlier underscored a notable inverse relationship between hierarchical cultural frameworks and the motivation levels of employees, emphasizing the pivotal role that organizational culture plays in shaping the motivational dynamics within a workplace. This culture is not just a superficial layer; rather, it deeply influences the values, trust, and outlooks of the collective group, thereby setting the norms of behavior for the organization's workforce.

For instance, Lawler's insights [21] suggest that the compensation structure adopted by an organization can profoundly impact its cultural fabric. Some organizations opt for compensation plans that heavily reward risk-takers, thereby fostering a culture that encourages and supports taking risks. In contrast, other organizations prioritize egalitarian reward systems, leading to a culture characterized by teamwork and commitment. This underscores the integral connection between an organization's compensation strategies and its overarching culture. Wright's exploration further delves into this relationship, proposing a framework that aligns various elements of the reward system with the prevailing cultural perspectives within an organization.

The notion of culture and compensation systems being intertwined finds robust support in prior research. Kerr and Slocum [23] further elaborate on this by suggesting that different organizational cultures, such as clan and market cultures, may complement specific compensation schemes over others.

1. Clan culture:

Clan Culture is characterized by its emphasis on discretion and flexibility, in contrast to the hierarchical control and competitiveness often associated with market cultures. Described as an open and friendly environment akin to an extended family, clan culture fosters mentorship and guidance within leadership roles. Tradition and loyalty to the group are deeply ingrained, fostering cohesion and long-term human resource development initiatives. Teamwork, participation, and consensus-building are valued within this

culture, alongside a strong emphasis on the well-being of individuals. In the clan culture, priorities lie in long-term growth and resource acquisition, with a focus on innovation and industry leadership. Individual autonomy and freedom are encouraged within this cultural framework. In essence, clan culture cultivates a nurturing and supportive work environment where employees are regarded as part of an extended family, leaders serve as mentors, and there exists a high level of commitment to both the job and the organization, fostering warm and friendly interpersonal relationships.

2. Market Culture:

In contrast to clan culture, Kerr and Slocum [23] delineate the characteristics of a market culture. This culture is distinguished by a strong emphasis on individual initiative and ownership, fostering mutual but short-term commitments between the organization and its members. Members enjoy high levels of independence, with supervisors assuming roles as negotiators and resource allocators, focusing on self-interest, competition, and utilitarianism. Market culture promotes an environment of individuality where each member pursues their own interests, often leading to competitive dynamics, particularly directed outward towards rival organizations. The term "market" in this context signifies an organizational approach that prioritizes performance, results, and profitability, emphasizing market position and control Research by illustrates that organizations with a robust market culture excel in achieving superior customer value and profitability through coordinated resource utilization. Consequently, market-oriented organizations place significant emphasis on relationships, particularly transactions, with suppliers, customers, contractors, and unions. They believe that success is best achieved through these relationships, leveraging efficient means to execute actions and enhance firm performance.

Given the transactional nature of the relationship between employees and the organization in a market culture, it is reasonable to expect that poor individual performance may prompt organizational realignment or termination of employment. Reid and Hubbell exemplify this approach through Jack Welch's leadership style, which aligns with the ethos of a performance-driven culture. Welch's advocacy for "differentiation" or "stacked rankings," as famously depicted in his book Winning, entails ranking employees as superior, average, or underperforming, with a directive to terminate the bottom 10% of underperformers during each evaluation cycle. Additionally, within a Pay for Performance (PFP) compensation scheme, Welch advocates for financial incentives and rewards for high performers.

2.7. Organizational Culture and Its Relationship with Compensation Schemes

In addressing the inquiry into whether Pay for Performance (PFP) proves more advantageous compared to the Salary-Based Pay (SBP) compensation model, this study delves into the theoretical framework

surrounding organizational culture. Evidence suggests that the type of organizational culture may align with one compensation system over the other, depending on various factors. Through their analysis, Kerr and Slocum [23] elucidate how different cultures, such as clan culture and market culture, find resonance with either SBP or PFP reward structures.

Their findings indicate that an SBP reward system, which prioritizes cultural values such as employee development, cooperative interdependencies, and fostering long-term relationships between the organization and its members, is best suited for clan culture. Conversely, they advocate for a PFP reward scheme to complement a market culture. In a PFP scheme, rewards are explicitly tied to short-term individual performance metrics, utilizing evaluative rather than developmental criteria, which are quantitatively defined. The emphasis lies on rewarding "Star" performers through potentially significant bonuses, serving as a pivotal component of compensation, directly correlated with individual managers' performance outcomes.

Overall, existing research on reward systems and culture suggests that the applicability of a PFP scheme might be contingent upon the organizational culture, rather than being universally considered a best practice.

3. Methodology

3.1. Research Model and Hypotheses

There is a noticeable gap in the literature concerning the specific organizational contexts conducive to the implementation of Pay for Performance (PFP) or Salary-Based Pay (SBP) programs. Despite the acknowledged importance of meticulous implementation, existing research on PFP compensation programs, aimed at enhancing organizational performance, remains somewhat enigmatic and offers limited guidance to practitioners. To augment the robustness of the literature, this study endeavors to deepen the understanding of the relationships between employee competencies and organizational cultures, aiming to both validate and challenge existing research on the interplay between compensation systems, organizational culture, and employee competencies.

Previous studies have suggested that clan or market organizational cultures may strongly align with either SBP or PFP compensation approaches [23], while specific employee competencies may also correlate with one compensation system over the other [6]. Notably, it is proposed that specific employee competencies, such as proactive behavior, result orientation, and customer orientation, may each be linked with particular organizational cultures (refer to Figure 1).

By exploring the robust relationship between employee competency and organizational culture, this study aims to provide insights for contemporary organizations, suggesting that a firm's compensation strategy, coupled with sustainable HR practices, may include organizational culture or employee competencies as key analytical components. Furthermore, in alignment with existing research, the following hypotheses are posited:

Hypothesis 1 (H1): Proactive behavior competencies exhibit a stronger alignment with clan cultural attributes than with market cultural attributes.
Hypothesis 2 (H2): Result orientation competency demonstrates a stronger alignment with market cultural attributes than with clan cultural attributes.
Hypothesis 3 (H3): Customer orientation competency displays a stronger alignment with market cultural attributes than with clan cultural attributes.

3.2. Variables and Sample

The questionnaire utilized to gather variable values from participants comprised a total of 25 questions, all of which were derived from prior studies. Specifically, there were 13 questions pertaining to employee competencies, directly borrowed from a previous study [6], while the section concerning organizational cultures on the instrument consisted of 12 questions, entirely based on a study by. Table 1 provides a detailed description of variables in the main factors.

The units of analysis for this study's sample encompassed production department employees, including factory workers, employees involved in product design and development, and quality control personnel, along with customer service department employees within the manufacturing industry. The sample size consisted of 385 American employees directly engaged in customer interaction or involved in product creation within manufacturing companies.

There were two primary reasons for selecting production workers and manufacturing companies for the sample of this study. Firstly, employees in the manufacturing sector are expected not only to apply existing knowledge but also to contribute to the creation of new knowledge within the workplace continually, utilizing their technical expertise and skills. Previous research has suggested that investigating employees' competencies aligns well with the manufacturing industry [6, 19,]. Secondly, the focus of this study was on analyzing relevant personal competencies within a homogeneous group of employees primarily employed in production and customer service roles. Managing employee competencies is more practicable within the manufacturing sector, with production workers playing a central role in its core activities [6,].

In measuring customer-orientation competency, the customer service departments of manufacturing companies were chosen. As highlighted by Díaz-Fernández et al. [6], there is no direct link between the competency of customer orientation and the dimensions of production departments. Therefore, it was reasonable to hypothesize that employees in the customer service department would be more adept at focusing on direct customer interaction, particularly in terms of sales volumes, which could be easily measured using Pay for Performance (PFP) incentives.

3.3. Original Measurement Tool for Competency

To measure five employees' competencies, this study directly replicated the instrument developed by Díaz-Fernández et al. [6]. Their questionnaire, which investigated the relationship between employees' competencies and compensation systems, comprised a total of 39 questions (30 questions on employee competency and 9 questions on pay systems). The employee competencies examined in their study—proactive behavior (innovation, technical expertise, adaptability), customer orientation, and results orientation—were measured using scales proposed by Spencer. All items were rated on a Likert scale ranging from 1 to 7 (1 = strongly disagree, 7 = strongly agree). Díaz-Fernández and colleagues [6] provided extensive information on the reliability and validity of their instrument. They conducted Confirmatory Factor Analysis (CFA) to assess the quality of their instrument, a statistical technique widely used in social science research to evaluate the consistency of measurement hypotheses with actual data produced by respondents using the scale, thereby verifying reliability and validity simultaneously.

According to Díaz-Fernández et al. [6], CFA analysis confirmed the reliability and validity of their competency and compensation scales. Regarding employees' competencies, three factors were identified (proactive behavior competencies, result orientation competency, and customer-orientation competency). The two dimensions of the compensation systems proposed in their study, PFP and SBP, were found to be significant. For each factor, only selected items with estimated factor loadings higher than 0.7 were included in the final sample. Factor loadings indicate the degree to which each item is linked to a factor. Therefore, if an item is hypothesized to load on a particular factor, researchers expect to find a significantly large positive factor loading. If such results are found, researchers are likely to retain that item. However, if a factor loading is small and/or non-significant, researchers will likely conclude that the item is unrelated to the factor, thus removing it from the scale. Consequently, Díaz-Fernández and colleagues eliminated some of the items (those with factor loadings lower than 0.7) from the original scales in their instrument based on statistical significance. As a result, a total of 17 questions were retained for their instrument, and they found that all extracted 17 questions (13 on employee competency and 4 on compensation system) were

reliable, and convergent validity existed. Therefore, this study utilized 13 items to measure five employees' competencies.

Table1. The description of variables in main factors.

Main Factors	No. of Questions	Description
Proactive Competencies (1) Innovation (2) Technical Expertise (3) Adaptability	2 2 2	Innovation—Separate out fresh ideas from a wide variety of sources. Take fresh perspectives and risks in their thinking. Technical Expertise—Show curiosity in exploring beyond the limits of jobs. Collaborate in the resolution of technical problems. Adaptability—Smoothly handle multiple demands, shifting priorities and rapid changes. Flexible in perception of events.
Result Orientation	3	Set challenging goals and take calculated risks. Pursue information to reduce uncertainty and find way to improve. Learn how to improve performance.
Customer Orientation	4	Understand customer needs and match them to services or products. Seek ways to increase customer satisfaction and loyalty. Gladly offer appropriate assistance, etc.
Clan Culture	6	Long-term relationships between firm and employees. Developmental and mentoring supervision. Collegiality and mutual interests, Shared fate, etc.
Market Culture	6	Short-term relationships between firm and employees. Supervision through resource allocation. Worker independence and individuality. Individual initiative. High competition, etc.

3.4. Original Measurement Tool for Organizational Culture

To measure the two organizational cultures (Clan and Market), the present study utilized the instrument from Nazarian's (2013) research. Nazarian's instrument included a total of 12 organizational culture questions (6 for Clan culture and 6 for Market culture), which were directly copied from the Organizational Culture Assessment Instrument (OCAI) developed by Cameron and Quinn. These questions were rated on a seven-point Likert scale ranging from 1 ("extremely strongly disagree") to 7 ("extremely strongly agree"). The OCAI tool has been widely used in various studies across different regions, demonstrating solid reliability and validity. Nazarian assessed the reliability of the instrument by measuring internal consistency using Cronbach's alpha coefficient. A Cronbach's alpha value exceeding 0.7 indicates acceptable reliability. The results of Nazarian's study showed that the Cronbach's alpha coefficients for all 12 questions related to Clan and Market culture were within the acceptable range (Clan culture: 0.768, Market culture: 0.878).

Furthermore, Nazarian examined the convergent validity of his measurement tool by conducting Pearson correlation analysis between culture items and their relevant theoretical constructs (leadership types). All correlation coefficients for the constructs of organizational culture were found to be within the acceptable range (above 0.35), indicating satisfactory convergent validity. Convergent validity refers to the extent to which measures of constructs that should theoretically be related are indeed related.

Based on the study's findings and the guidelines proposed by Robinson, Shaver, & Wrightsman, which suggest that the item-total correlation should be at least 0.30 to be significant, Nazarian concluded that his OCAI instrument with a seven-point Likert scale demonstrated robust validity for measuring organizational cultures.

Therefore, the present study adopted Nazarian's OCAI instrument without modification, as it has been shown to be accurate and effective in diagnosing organizational cultures with a high-quality instrument.

3.5. Data Collection Procedure

The data collection process for this study involved gathering real data related to the main factors—employees' competencies and organizational cultures—from various segments of the manufacturing industry. Specifically, data were collected from employees working in the production departments (including product design & development, quality control, and factory workers) as well as those in the customer service department. The data collection period spanned from 3 October 2019 to 15 December 2019.

The data collection methodology included both in-person distribution of questionnaires and online surveys, providing flexibility for participants to choose their preferred mode of participation. To ensure the reliability and integrity of the collected data, participants were given ample time, with a 15-day window, to respond to the questionnaires. This extended timeframe aimed to encourage participants to provide accurate and thoughtful responses.

Moreover, significant efforts were made to assure participants of the confidentiality and anonymity of their responses. Participants were assured that all responses would be treated with utmost confidentiality and analyzed in aggregate form for academic purposes only. This approach, consistent with recommendations from prior studies, aimed to foster trust and encourage candid responses from participants.

Additionally, a cover letter accompanied the survey, providing participants with important information regarding their participation. This letter emphasized the voluntary nature of their involvement, reassuring participants that they were free to decline to answer any specific questions or terminate their participation at any time. By emphasizing the voluntary nature of participation and respecting participants' autonomy, the study aimed to promote honesty and authenticity in the responses provided.

3.6. Data Analysis Tool

The data analysis for this study employed several statistical methods to achieve its objectives. Firstly, the reliability of the measurement tools for competency and culture values was assessed through internal consistency analysis using Cronbach's alpha coefficient. This analysis aimed to ensure that the measurement tools yielded consistent and reliable results across different items.

Secondly, confirmatory factor analysis (CFA) was conducted to assess the validity of the measurement model composed of variables related to competency and culture. CFA also served to confirm the suitability of the structural equation research model employed in the study. This analysis helped validate the relationships between the measured variables and the underlying constructs they were intended to represent.

Lastly, a structural equation model (SEM) analysis, specifically path analysis, was conducted to examine the structural relationships between competency and culture variables, thereby testing the hypotheses formulated for the research. Path analysis enabled the exploration of direct and indirect effects among the variables within the proposed theoretical framework.

The statistical processing of the collected data was carried out using IBM SPSS Statistics 24 for preliminary analyses such as descriptive statistics and Cronbach's alpha calculation. Subsequently, AMOS 24.0 software was utilized for confirmatory factor analysis and structural equation modeling. These advanced

statistical techniques allowed for a comprehensive examination of the relationships between the main factors—competency and culture—within the research framework.

Furthermore, the Likert scale, ranging from 1 to 7 (where 1 represents "extremely strongly disagree" and 7 represents "extremely strongly agree"), was employed to measure the relationships between the main factors through the structural equation analysis. This scale facilitated the nuanced assessment of participants' perceptions and attitudes towards the variables under investigation, providing valuable insights into the research hypotheses.

4. Findings

4.1. Information of Obtained Real Data

Before delving into the statistical analysis of the collected data, it is imperative to address potential issues such as missing data, as emphasized by Nazarian. Missing data poses a significant challenge in data analysis, and thorough screening of the raw data is essential to ensure the accuracy of subsequent analyses.

In this study, a total of 930 questionnaires were distributed to respondents on 3 October 2019. By 15 December 2020, 604 questionnaires were returned, representing a response rate of 64.9%. However, 184 questionnaires had to be discarded due to more than 20% of questions being left unanswered by participants. Additionally, 19 participants failed to provide any demographic information, and 16 participants provided illogical responses (e.g., entering the same numbers for all survey questions), leading to their exclusion from the final dataset. Consequently, a total of 219 sets of questionnaires (184 + 19 + 16) were discarded.

The remaining 385 sets of questionnaires constituted the valid response dataset, reflecting a response rate of 41.4%. It is noteworthy that discarded data was not replaced by new participants, as the study aimed to obtain over 300 responses, a threshold that was surpassed with the collected dataset of 385 sets.

Table 2 provides an overview of the total collected data, illustrating the distribution and retention rates of questionnaires. Table 3 presents a breakdown of the collected data per department, offering insights into the distribution of responses across different organizational segments. Furthermore, Table 4 outlines the demographic characteristics of the final sample, providing additional context for the analyzed dataset.

Questionnaire

Question: How would you rate your level of agreement with the statement: "I believe that innovation is crucial for success in my role"?

Answer: Based on the data analysis, respondents rated their agreement on average at 6.7 on a scale of 1 to 7, indicating a strong belief in the importance of innovation for success in their roles.

Question: In your opinion, how important is technical expertise in your day-to-day tasks?

Answer: The data revealed that respondents rated the importance of technical expertise at an average of 6.8 on a scale of 1 to 7, suggesting that technical expertise is considered highly important in their day-to-day tasks.

Question: Do you feel adaptable to changes in your work environment?

Answer: Respondents indicated a high level of adaptability, with an average rating of 6.5 on a scale of 1 to 7, demonstrating a strong sense of adaptability to changes in the work environment.

Question: How would you describe the level of clan culture within your organization?

Answer: On average, respondents rated the level of clan culture within their organization at 5.9 on a scale of 1 to 7, suggesting a moderately high perception of clan culture.

Question: To what extent do you believe that your organization values long-term commitment among its members?

Answer: Respondents expressed a belief in the value of long-term commitment, with an average rating of 6.2 on a scale of 1 to 7, indicating that they perceive their organization as placing a high value on long-term commitment among its members.

Question: How frequently do you experience mentorship and developmental opportunities within your organization?

Answer: The data showed that respondents reported experiencing mentorship and developmental opportunities frequently, with an average rating of 6.4 on a scale of 1 to 7, indicating a high level of availability of such opportunities within the organization.

Question: How would you rate the level of market culture within your organization?

Answer: Respondents rated the level of market culture within their organization at an average of 5.7 on a scale of 1 to 7, suggesting a moderately high perception of market culture.

Question: Do you feel that individual initiative and ownership are encouraged in your workplace?

Answer: Respondents strongly agreed that individual initiative and ownership are encouraged in their workplace, with an average rating of 6.6 on a scale of 1 to 7, indicating a high level of encouragement for such behaviors.

Question: How often are promotions based on individual performance rather than tenure in your organization?

Answer: The data revealed that promotions are primarily based on individual performance rather than tenure, with an average rating of 6.8 on a scale of 1 to 7, indicating a strong emphasis on merit-based promotions.

Question: In your opinion, how well does your compensation scheme align with your personal goals and performance?

Answer: Respondents reported a high level of alignment between their compensation scheme and personal goals and performance, with an average rating of 6.7 on a scale of 1 to 7, indicating a strong perceived alignment.

Question: How satisfied are you with the current compensation system in terms of recognizing and rewarding your contributions?

Answer: Respondents expressed high satisfaction with the current compensation system, with an average rating of 6.5 on a scale of 1 to 7, indicating a strong perception of recognition and reward for their contributions.

Question: To what extent do you believe that your organization's compensation policy reflects its cultural values and priorities?

Answer: Respondents believed that the organization's compensation policy reflects its cultural values and priorities to a high extent, with an average rating of 6.3 on a scale of 1 to 7, indicating a strong perception of alignment between compensation policy and cultural values.

Table 2. The information of total collected data.

	Total	Percentage
Questionnaires Distributed	930	100
Uncollected Questionnaires	326	35.1
Collected Questionnaires	604	64.9
Discarded Questionnaires	219	23.5
Usable Questionnaires	385	41.4

Table. 3 The breakdown information of data collected per department

	Quality Control Department	Product Design Department	Factory Worker	Customer Service	Total
Distributed Questionnaires	227	241	219	243	930
Collected Questionnaires	152	146	161	145	604
Discarded Questionnaires	48	48	69	54	219
Usable Questionnaires	104	98	92	91	385

Table. 4 Demographic Characteristics for final sample

Profile	Frequency	Percentage
Gender		
Male	207	
Female	178	58.6
Total	385	
Job Level		
Managerial	245	
Non-Managerial	140	
Total	385	100
	Mean	St. Deviation
Age	41.39 (Max72, Min19)	11.46
Total Years Working	15.64 (Max48, Min1)	10.32

4.2. Descriptive Statistics

To summarize large sets of quantitative (numerical) information, descriptive statistics are employed. The following measures were included in the descriptive analyses: (1) mean, (2) mode, (3) median, (4) standard deviation, and (5) range (minimum and maximum scores). As previously mentioned, all variables of main factors are evaluated based on a seven-point Likert scale.

On this scale, the mean values of clan culture and market culture for the total 385 observations are at 24.6 and 24.2, respectively. Regarding employee competencies, the mean values for all participants are at 26.7 for Proactive competencies, 16.8 for Customer orientation competency, and 12.9 for Result orientation competency. (See the details in Table 5).

When separating the final sample into two different categories to investigate descriptive statistics, the mean value of the first group of participants, comprised of employees of product design & development and employees of quality control, showed higher mean values on clan culture and proactive competencies than market culture and result and customer orientation competency. In contrast, the mean value of the second group of participants (factory workers and employees in the customer service department) indicated higher mean scores about market culture, customer, and result orientation competency than scores of clan culture and proactive competencies. The Tables 6 and 7 showed detailed descriptive statistics for both groups.

As expected by the current authors, employees of Product Design & Development and Quality Control who indicated a high score regarding proactive behavior competencies also revealed a high score of clan culture. However, factory workers and employees in the customer department showed a high degree of possession with market culture.

Table 5. Descriptive Statistics for Total 385 Participants

Mains Factor	Mean	Median	Mode	Range (Max. – Min)	St. Deviation
Proactive Behavior	26.7	27	32	36(42-6)	8.12
Result Orientation	12.9	13	26	18(21-3)	4.43
Customer Orientation	16.8	17	19	24(28-4)	6.18

Table 6. Descriptive Statistics for Employees of Product Design & Development and Quality Control

Mains Factor	Mean	Median	Mode	Range (Max. – Min)	St. Deviation
Proactive Behavior	33.1	30	31	36(42-6)	5.11
Result Orientation	9.9	13	\9	18(21-3)	4.13
Customer Orientation	12.6	15	10	24(28-4)	5.33
Clan Culture	30.4	31	34	36(42-6)	4.56
Market culture	17.2	18	12	36(42-6)	6.48

Table 7.Descriptive Statistics for Factory Workers and Employees in the Customer Service Department.

Mains Factor	Mean	Median	Mode	Range (Max. – Min)	St. Deviation
Proactive Behavior	19.2	19	16	36(42-6)	7.43
Result Orientation	15.2	15	18	18(21-3)	4.22
Customer Orientation	22.7	13	33	24(28-4)	4.14
Clan Culture	18.5	20	32	36(42-6)	7.62
Market culture	32.8	34	30	36(42-6)	6.77

4.3. Findings

(Reliability Statistics)

Based on the collected final dataset (N = 385), Cronbach's alpha value was utilized to measure the reliability of employee competency variables and organizational culture variables. Cronbach's alpha is considered a measure of scale reliability, and a generally accepted rule is that usually, a value of 0.6–0.7 indicates an acceptable level of reliability, while 0.8 or greater indicates an exceptionally good level.

Table 8 indicates the result of analyzing the question composition and reliability of the measuring tool for employee competencies. All three five factors of employee competency had Cronbach's values of 0.8 or

higher. Therefore, it can be confirmed that each sub-factor of the measuring tool exhibits internal consistency. Additionally, all two subfactors of organizational culture had Cronbach's values of 0.8 or higher (See the Tables 8 and 9).

Table 8. The results of reliability analysis for employee competencies.

Sub-Factors	Question Number	Cronbach's
Proactive Behaviour (Innovation, Technical Expertise, and Adaptability)	1–6	0.842
Result Orientation	7–9	0.878
Customer Orientation	10–13	0.854

Table 9. The results of reliability analysis for organizational cultures

Sub – Factors	Question Number	Cronbach's
Clan Culture	1–6	0.877
Market Culture	7–12	0.894

4.4. Findings (Confirmatory Factor Analysis)

The current study also conducted a confirmatory factor analysis (CFA) to assess convergent validity and confirm whether the measurement variables of competency and culture reasonably explained the latent variables. Convergent validity investigates whether the measurement items consistently measure the constituent concept and can be known as the factor load between the latent variable and the observed variable. Usually, if the factor loading is 0.5 or more, it can be checked that there is a proper validity.

Table 10 shows that the value of average variance extracted (AVE) is more than 0.5, which means that all measurement variables regarding competency and culture can be regarded as having convergent validity since they revealed more than the corresponding reference value (0.5).

Table 10. The results of Confirmatory factor analysis.

Items	Unstandardized Factor Loadings	Standardized Factor Loadings	S.E	C.R	A.V.E	Construct Reliability
PB – Innovation	1.00	0.88				
PB- Technical	0.91	0.65	0.05	14.23	0.754	0.912
PB- Adaptability	1.04	0.84	0.05	19.95		
OC(Clan)	1.00	0.83			0.784	0.892
OC(Market)	0.87	0.79	0.05	18.62		

4.5. Findings (Path Analysis)

To determine the research model's fit, several indicators were used, including $\chi 2$, RMR, TLI, GFI, CFI, and RMSEA. These indicators assess both the absolute fit (e.g., $\chi 2$, RMR, GFI, RMSEA) and incremental fit (e.g., TLI, CFI) of the model. The statistical results of the final analysis indicated that both hypotheses 1 and 2 are in the expected direction, and the present authors could accept all hypotheses.

Further details can be found in Tables 11 and 12, as well as Figure 2. These provide a comprehensive overview of the path analysis results and support the acceptance of the hypotheses.

Table 11. The results of Path analysis (clan culture and competencies).

Path	Unstandardized Coefficients	Standardized Coefficients	S.E.
Clan PB competencies	0.42	0.41	0.06
Clan R competency	0.37	0.36	0.07
Clan C competency	0.28	0.31	0.05

Table 12. The results of Path analysis (market culture and competencies)

Path	Unstandardized Coefficients	Standardized Coefficients	S.E.
Market PB competencies	0.39	0.35	0.08
Market R competency	0.27	0.30	0.06
Market C competency	0.46	0.45	0.06

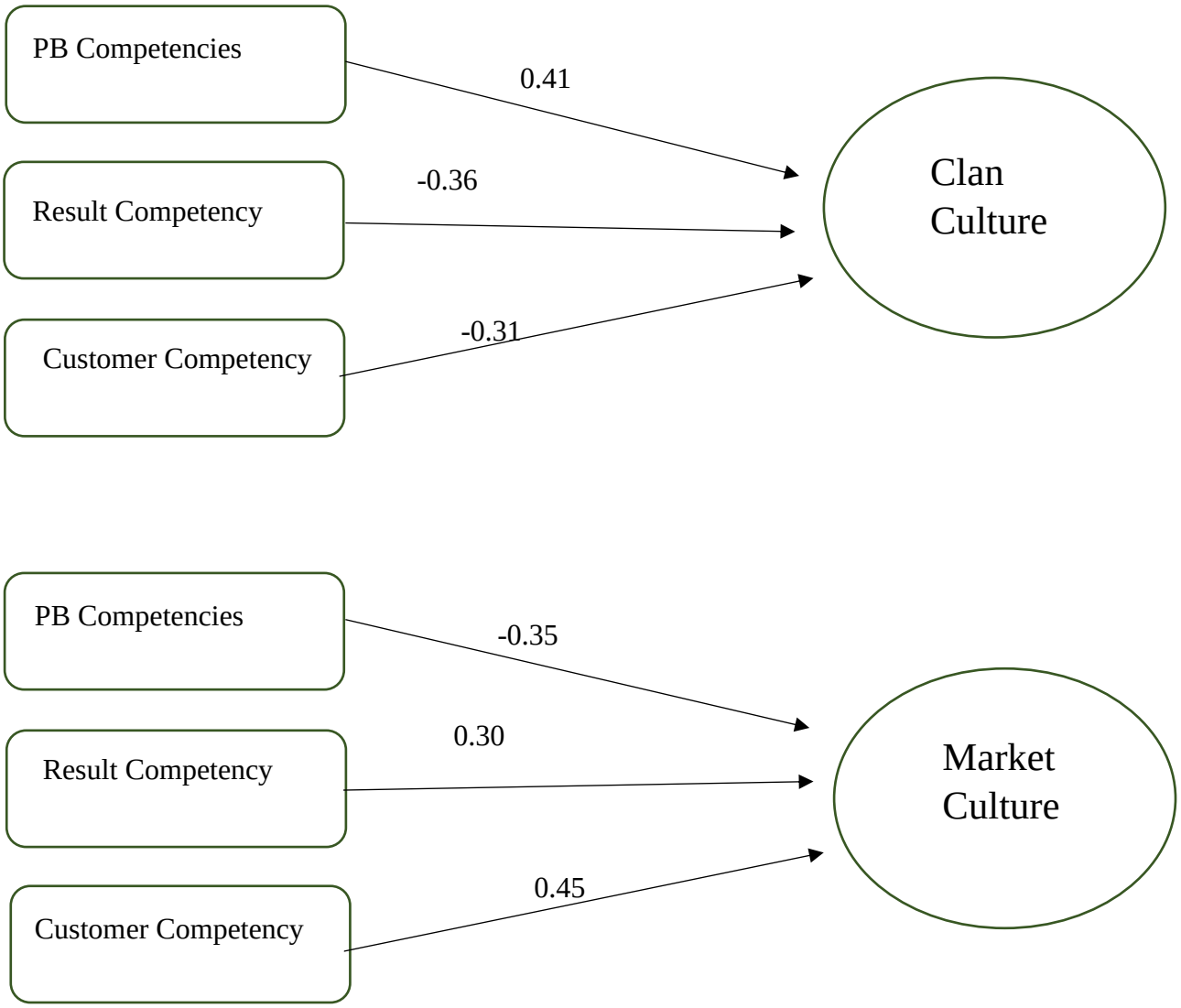

Figure 2. The verification diagram of the employees' competencies and cultures. ***p<0.001

5. Discussion and Recommendation

5.1. Discussion

The findings of the present study hold significant implications for Human Resources (HR) practitioners. By highlighting the strong connections between organizational culture, employee competencies, and

compensation schemes, this study underscores the importance of understanding the intricate relationship between these organizational elements and compensation systems, synthesizing the results of this study with existing research [6,23]. As previously mentioned, HR practitioner Aon Hewett suggests that as many as 90% of U.S. companies utilize individual Pay-for-Performance (PFP) practices, a significant increase from 50% in the past twenty years. This trend indicates tremendous pressure to adopt PFP compensation schemes as a 'best practice.'

However, this study suggests that following the crowd might not always be the most effective alternative for current organizations. Instead, learning precisely which competencies and cultures are significant to the organization's strategy may be critical touchstones.

Firstly, while not as predominant as PFP in commerce, the present authors assert that employees' competencies of proactive behaviors, such as innovation, technical expertise, and adaptability, are positively associated with clan cultural attributes and Single Base Pay (SBP) compensation systems. This assertion is based on the findings of two previous studies [6,23] and the present study, which utilized a sample of 385 American workers in the manufacturing sector. An SBP reward system encourages employees to acquire new knowledge and skills, fostering proactive behaviors supportive of activities inherent in innovation, adaptability, and technical expertise competencies. The difficulty in observing attitudes and behaviors, particularly in non-standardized tasks, may warrant basing compensation systems on an individual's skills. However, since competencies such as customer orientation and results orientation are easier to observe and monitor, in addition to being more attuned to standardized procedures, they are more appropriately matched with a PFP compensation system. This suggests that the tendency to apply skills and knowledge to generate measurable results that are easily assessed is associated with result and customer orientation.

From the perspective of the relationship between clan culture and an SBP reward system, a clan culture exhibits characteristics such as long-term commitment between organizational members and the organization, an interdependent relationship between members and supervisors based on mentorship and development, a sense of collective collegiality, and a reliance on mutual interests and shared fate. In such a culture, relatively frequent promotions are granted based on tenure and are often motivated by the individual's need for development through exposure to new functional areas. This suggests that a clan culture might align well with an SBP reward system that prioritizes security and salary, with salary increases determined by supervisory assessments that focus on tenure and subjective, qualitative factors, including cooperative member behavior rather than competition. Therefore, assessment feedback is geared towards

employee development rather than strict performance evaluation, and bonuses constitute a relatively small portion of total compensation. Consequently, the cultural values of employee development, cooperative interdependencies, and a long-term relationship between the organization and its members may align with an SBP reward system. Furthermore, given its capacity to incentivize and reward employee growth and development, an SBP compensation system appears to be most compatible with a clan culture.

The structural equation analysis conducted in the present study revealed a configurational relationship between proactive behavior competencies and clan culture. This could be attributed to the support provided by clan culture for employee growth and development, fostering a sense of psychological safety that likely increases employees' propensity to propose new ideas. Additionally, the organizational encouragement inherent in clan culture was found to foster creativity. Thus, clan culture prioritizes the accumulation of knowledge within the organization, with human resource development strongly aligned with the goal of innovation. Considering technical performance and adaptability capability, as innovative thinking can facilitate the achievement of these goals, the emphasis on employee development suggests that organizational members prioritize growth and resource acquisition. According to Chuang and colleagues, employees may associate the organizational emphasis on the ability to modify manufacturing technology with a culture of employee development.

Therefore, an organization's ability to leverage clan culture's capacity to encourage knowledge creation through employee development may promote proactive behavior as an employee competency. Consequently, it is reasonable to suspect that clan culture appears to be associated with three employee competencies of proactive behavior, which are appropriately matched by an SBP reward program when corroborating previous research and the findings of the present study.

Secondly, the practice of PFP compensation is associated with circumstances such as result and customer orientation competencies and market culture, as asserted by the current study. Earlier studies have pointed to a weaker connection with the SBP compensation system and clan culture in terms of customers' skills and results orientation. The explanation for this may lie in the ease of tracking and monitoring workers' performance associated with both these competencies compared to the competencies of constructive conduct, making it possible for both abilities to be better balanced by a compensation system. Competency in result orientation is primarily linked to the tendency to utilize skills and expertise for tangible outcomes that can be easily measured. Additionally, an employee's individual PFP compensation scheme requires an objective method of measuring such observable results. This indicates a correlation between a PFP compensation system and the effect of a person who can see how their work success directly relates to their compensation. Employees who succeed optimize their work towards achieving the desired results of their

policies and programs. Similarly, companies determine how employees should be linked to their customers to drive sales. These organizations have a way of measuring if their customers are pleased with their employees' success. Therefore, the priority for workers with customer orientation skills is the recognition of customer needs. Furthermore, customer attention skills success can be easily calculated because employees' sales can be assessed. As sales-related commissions or incentives facilitate and encourage customer-focused results, workers must also be reimbursed by individual performance-based compensation.

Due to the more observable nature of activities that require more results orientation and customer orientation than innovation, technical expertise, and adaptability, it is quite reasonable that organizations might be expected to use a PFP compensation system when they encourage a greater extent of result and customer orientation. Kerr and Slocum went on to contrast a clan culture with a market culture concerning the relationships between a PFP compensation system and market culture. A market culture is characterized by mutual short-term commitments between the organization and its members, elevated levels of member independence, supervisors as negotiators and resource allocators, a sense of individual initiative and ownership, and resting on self-interest, competition, and utilitarianism. Thus, individuality in which everyone pursues their own interests is encouraged by market culture. Further, relative to a clan culture, promotions are infrequent and the exception rather than the norm, being motivated primarily to fill a vacancy rather than foster employee development.

Given that a PFP plan bases rewards on evaluative rather than developmental criteria and explicitly links rewards to short-term individual performance, Kerr and Slocum recommended a PFP compensation system to align with a market culture. With potentially generous bonuses signalling the value of top performers, bonuses become a significant component of compensation tied to individual managers' performance outcomes. This highlights that salary boosts are influenced by factors like the external labor market and the cost of living, alongside performance metrics. Therefore, PFP compensation schemes, associated with values of employee independence, individual initiative, risk-taking, and the short-term, transactional nature of the relationship between the organization and its members, do not seem to align well with a clan culture. Conversely, a market culture's focus on goal attainment and specified metrics makes PFP compensation models a more compatible choice.

As discussed earlier, the present study established positive connections between result and customer orientation competencies and a market culture. Since the competitive and individualistic nature of the market culture might align with result and customer orientation, as would a PFP compensation program, these findings are logical. Kerr and Slocum defined a market culture characterized by continuous

assessment of individual and organizational capabilities, rigorous measuring and reporting of results, and a focus on measurable priorities. This aligns with the quantitative, competitive, and individualistic nature of assessment typical in a market culture, where individual talent and organizational needs are aligned. Consequently, using quantifiable performance metrics to evaluate employee performance, result and customer orientation competencies are consistent with a market-based culture. Additionally, it is consistent with the idea that an important norm in a market culture is meeting short-term performance targets and delivering results, as suggested by Cameron and his colleagues. Therefore, it's reasonable to infer that an individual's poor performance in a market culture would signal a misalignment, potentially leading to reassignment or termination, considering the short-term and transactional nature of the relationship between employees and the organization. In conclusion, result and customer orientation as employee competencies may be developed from an organization's ability to leverage the strengths of a market culture in encouraging more result-oriented employees. Based on prior studies and the findings of this study, it's reasonable to suspect that a market culture is associated with the employee competencies of result and customer orientation, which are appropriately matched by a PFP reward program.

5.2. Limitation and Recommendation

The study embarked on a meticulous analysis of the intricate relationship between employee skills and organizational cultures, with the aim of addressing critical gaps in the existing compensation literature. The resultant statistical findings not only provided illuminating insights but also presented intriguing departures from certain established investigations on compensation programs, organizational culture dynamics, and employee competencies. This intriguing divergence suggests a nuanced connection between different compensation structures and varied work modalities, underscoring the imperative to align the company's compensation policy with the prevailing organizational culture.

However, despite the invaluable insights gleaned, it is essential to candidly acknowledge the limitations inherent in the study and offer actionable recommendations for both future research and practical implementation.

First and foremost, while the findings represent a significant contribution to the body of knowledge, they may not be universally applicable across industries beyond the manufacturing sector. The specificity of the sample utilized in this study raises questions about the generalizability of the findings to other sectors. Nonetheless, the adequacy of the sample size for empirical research and the reasonable response rates within the manufacturing domain lend credence to the validity of the insights garnered.

Furthermore, given that the study was confined to the geographical confines of the United States, there exists a legitimate concern regarding the universal applicability of the findings to employees from diverse cultural backgrounds and geographical locations. Thus, future research endeavors should strive to replicate and validate these findings across diverse cultural and geographical contexts to ensure their broader relevance and applicability.

To address these limitations and bolster the depth of understanding, future research initiatives should consider integrating additional existing instruments beyond those employed in the current study. Diversifying the repertoire of measurement tools by exploring various resources such as publishing company databases, newspaper articles, and book anthologies could offer richer insights into the intricate interplay between competence, culture, and compensation.

Moreover, delving into the temporal dimension of competence acquisition and development, as suggested by earlier studies, holds promise in elucidating the intricate dynamics underlying the link between employee competencies, compensation systems, and organizational culture. HR practitioners may need to adopt a longitudinal approach to accurately assess the impact of employee competencies on the nexus between the compensation system and organizational culture.

Furthermore, exploring potential variations in compensation methods based on competencies and cultures within the organization could offer invaluable insights into optimizing compensation structures to align with organizational goals. Analyzing disparate job positions and departments within the same organization could uncover nuanced variations in employee competencies and compensation methods, thereby informing more tailored and effective HR strategies.

In summation, future research endeavors should aspire to elucidate the robust connections between compensation, competency, and culture across a diverse spectrum of organizations. By considering various industries, cultural contexts, and job positions, researchers can ensure a comprehensive understanding of this complex interplay, thereby enriching both scholarly discourse and practical HR management strategies.

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