

International Compensation: An Examination of the Relationship Between Societal Culture and
Preferred Compensation Policies

by

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Abstract

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In my thesis, I review the research literature on the influence of national culture on reward preferences and compensation practices. I first review the major models of culture used to examine reward practices and then detail the convergence and divergence debate in international management by highlighting constraining forces in the host and home business environment that lead to standardization or localization. Finally, I review the research on cultural dimensions and preferred compensation practices and propose an integrative model. I conclude that culture is one of the many macro-variables that influence international compensation decisions and argue that the adaption of compensation practices can be viewed as pragmatic experimentation and adaptive space can be used to make a decision on standardization and localization in international reward management. I classify standardization as an “ordered response” and localization as an “entrepreneurial response”.

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CHAPTER 1- INTRODUCTION

Global organizations strive to find the balance between global and local design and implementation of HRM (human resource management) practices (Aycan 2005). Since HRM as a function deals with people, it is considered the least likely to converge across countries as multinational corporations are more likely to localize their practices than to export country-of-origin practices (Pudelko et. al 2007). Simply exporting host country compensation practices is challenging due to country and workforce differences (Chiang 2005).

Within HRM functions, compensation practices are perhaps the best example of global vs local differences because of the important role that money plays in business and society. The “collective mental programming” definition of culture given by Hofstede (1980), highlights culture as a shared orientation or perspective. Culture influences how employees are paid and prefer to be compensated. Thus, it is important to understand the role of culture in compensation practices because how employees are paid affect their quality of work, their attitude towards customers, teamwork, and willingness to be flexible, learn new skills and suggest innovation (Milkovich et. al 2014). It is essential for global managers to understand employees “perspective” on compensation practices as the perceived value of reward varies across cultures and affect the motivational potential and ultimately the effectiveness of reward (Chiang 2005).

In my thesis, I review the research literature on the influence of national culture on reward preferences and compensation practices. I first review the major models of culture used to examine reward practices and then detail the convergence and divergence debate in international management by highlighting constraining forces in the host and home business

environment that lead to standardization or localization. Finally, I review the research on cultural dimensions and preferred compensation practices and propose an integrative model.

Chapter 1 begins by defining multinational corporations, culture and compensation and provides an overview on various concepts like model of cultural fit, pay model and the application of motivation theories in cross-cultural management. This overview would be helpful to understand the ideas highlighted in the later chapters of the thesis.

1.1 Multinational Corporations

Dunning and Lundan (2008) define multinational corporations as enterprises that engages in foreign direct investments (FDI) and which owns or control value added activities in several countries. The activities can include wholly-owned subsidiaries (an independent company from the parent corporation in which the parent owns the full share capital), joint ventures (companies where the MNC shares its capital with another company) and minority-owned equity (companies where MNCs holds a minority equity share) (Ulrike et. al 2015).

Firms face a variety of pressures when operating in multiple countries. One set of pressures compels organizations to create a more consistent and integrated global organization that aligns the management practices and global strategy. This can be done by either implementing home country (country-of-origin) management practices in the subsidiary firm or implementing the global best practices. This is defined as a “dominance effect” (Pudelko et. al 2007). A second set of pressure pushes multinational organization to vary management practices according to the local host context due to cultural and institutional constraints. This is defined as the ‘localization effect’ in Pudelko et. al (2007).

Bloom et. al (2003) define multinational enterprises that use an adapter or localizer strategy to create compensation practices for each local host contexts as “adapters/localizers”. They call the multinational enterprise focusing on strong alignment and unification of compensation practices across locations by transferring the home country compensation practices (following the country-of-origin effect) as “exporters”. Dominance effect in compensation practices is discussed by Bloom et. al (2003) as “globalizers” since globalizers (integrators) try to gather the best compensation practices from all locations and then incorporate them into a set of practices that can be used consistently across subsidiaries and local host context. Dominance effect organizations, on the other hand, adopt best practices from a single dominant model. Figure 1 provides clarification of the terms that will be used in the review. This is an extension of Figure 1 in (Pudelko et. al 2007, pg. 541) provided for clarification of the terms used in the thesis and to include Bloom et. al (2003)’s work in the convergence-divergence model.

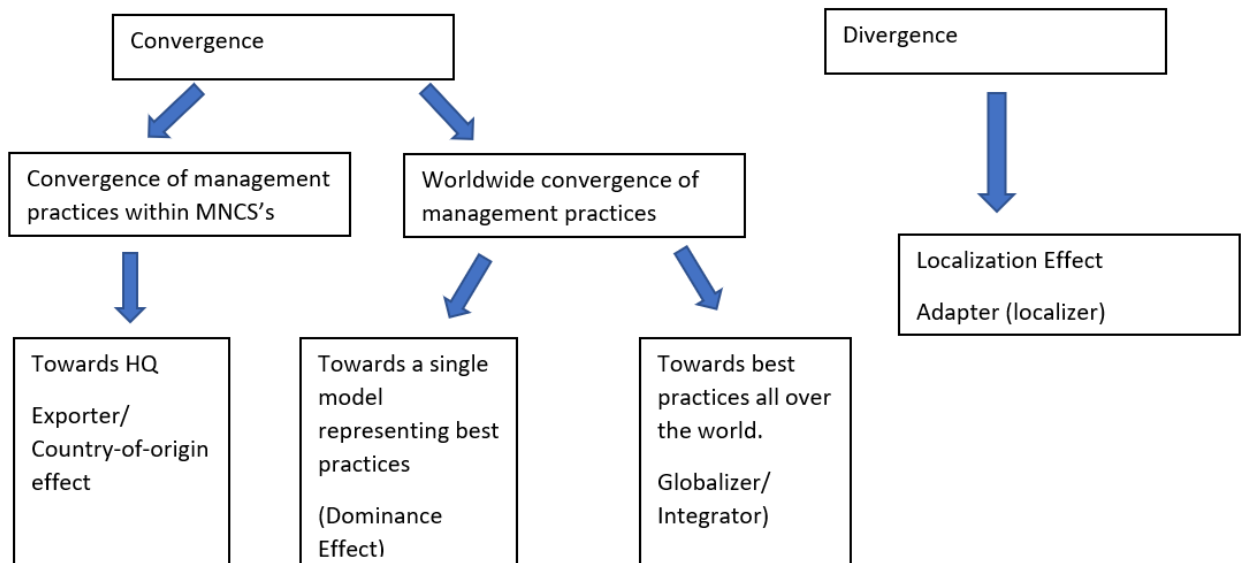


FIGURE 1: Clarification of terms used in the thesis

1.2 Culture

Culture has been defined as a collective programming of the mind which distinguishes members of one group category from another (Hofstede 1980). Culture reflects an individual's most basic, consciously, and unconsciously held assumptions, beliefs, norms and values (Schein 1985).

The concept of national culture developed from the field of anthropology where anthropologists have been fascinated with the study of primitive civilization, ways of life and customs- cultures for centuries (Krober and Kluckhohn 1952).

Based on theories from anthropology and social psychology several well-known taxonomies of national culture have been developed. Perhaps the most widely used in organizational research is Hofstede (1980). Hofstede uses a standardized survey to collect data from 116,000 respondents from sixty-six countries between 1967 and 1973 with IBM.

While this taxonomy is widely used in organizational research, it has also been widely criticized. Some criticism of his work includes the generalizability argument- coming from a single large multinational corporation (Smirchich 1983), having mostly male respondents (Merker 1982), sexism in the masculinity and femininity dimension suggesting it to be changed to career success/quality of life to avoid confusion (Adler 1997). However, it is generally accepted that Hofstede's framework provides a coherent theory for explaining national variations in culture Chiang (2005).

Culture is broad, fuzzy and multidimensional Yeganeh et. al(2008). For the purpose of this thesis, in addition to Hofstede's framework, dimensions from Kluckhohn and Strodtbeck's (1961), House et. al (1999)'s framework and Aycan et. al (2000)'s dimensions are also used to get a

broad overview on culture. Using the value dimensions in the operationalization of culture is not without criticisms, but this approach is common and convenient because cultural dimensions show validity (Aycan 2005).

<p>Power Distance (Hofstede 1980)</p>	<p>The extent to which members in a society accept unequal distribution of authority</p> <p>Inequality can occur in areas such as prestige, wealth and power and different societies have different perspective on status-consistency (Hofstede, 1980a: 92)</p>
<p>Masculinity/Femininity (Hofstede 1980)</p>	<p>Emphasize on assertiveness and material success versus the degree to which an organization or society values interpersonal harmony more than money and achievement; gender roles are more fluid.</p>
<p>Uncertainty Avoidance (Hofstede 1980)</p>	<p>Individuals in low uncertainty avoidance are more tolerant towards uncertainty than individuals in high uncertainty avoidance</p>

<p>Individualism/ Collectivism (Hofstede 1980)</p>	<p>Individualism implies loose social interaction in which individuals primarily focus on their personal interests (self-serving motives) (Chiang 2005)</p> <p>In a collectivist culture, individuals attach more importance to harmony, belongingness and social relationships</p>
<p>Relationship to nature (Kluckhohn and Strodtbeck 1961)</p>	<p>Mastery: High degree of internal locus of control</p> <p>Subjugation/Harmony: Inclination towards external locus</p> <p>(This is further explained in the Model of Cultural Fit section in the thesis).</p>
<p>Time Orientation (Kluckhohn and Strodtbeck 1961)</p>	<p>Present/Future: They are not inclined to hold the status quo</p> <p>Past: They attach importance to maintaining traditions.</p>
<p>Human Nature (Kluckhohn and Strodtbeck 1961)</p>	<p>Good: People in the society are trustworthy (Yeganeh et. al 2005)</p>

	<p>Evil: People cannot be trusted to do the right thing (Yeganeh et. al 2005)</p> <p>It could also be a mixture of good and evil (Kluckhohn and Strodtbeck 1961)</p>
Fatalism (Aycan et. al, 2000)	The extent to which people in an organization believe that it is not possible to fully control one's actions.
Paternalism (Aycan et. al, 2000)	The extent to which people in an organization or society encourage and accept that people in authority provide care, guidance and protection to their subordinates, just as they would provide to their own children. In return, subordinates are expected to show loyalty to their superiors.
Performance Orientation (House et. al 1999)	The extent to which an organization or society encourages and rewards group members for excellence.

Table 1: Definition of the cultural dimensions referred in the thesis

1.3 Compensation

“Compensation” can be defined as anything that an employee values and desires that an employer is able or willing to offer in exchange for employees contribution. Milkovich et al. (2014) describe compensation as all forms of financial returns, tangible services and benefits that employees receive as part of an employment relationship. The total returns/rewards model given by Milkovich et al. (2014) consists of the total compensation which includes cash compensation and benefits and relational returns from work like recognition & status, employment security, and challenging work and learning opportunities.

Chiang et al. (2005) summarize these types of compensation using a taxonomy of reward preferences which contrast reward into- reward type, reward system, and reward criterion. ‘Reward type’ includes whether the reward is financial (which can be quantified or measured in monetary terms) or non-financial (which are relational returns from work). ‘Reward systems’ could be either performance-based or non-performance based. When the rewards are performance-oriented the employees are compensated on the basis of how well they perform their job. Performance-based pay includes merit pay which gets tied to the base pay and it also includes incentives that are not tied with the base pay and must be re-earned each pay period.

Finally, reward criteria describe compensation differences based on individual vs group-based reward. The taxonomy explained by Chiang (2005) is presented in Figure 2.



Fig 2: Taxonomy of Reward Preferences (Chiang et. al 2005)
(compensation framework used in the thesis)

Compensation impacts multiple organizational outcomes including its ability to attract, motivate and retain employees (Milkovich et. al 2014). Rewards affect motivation intensity, direction, and persistence of different employees (Milkovich et. al 2014). It is therefore essential to understand the different perspectives on compensation. Societies quite often views pay as a “measure of justice” (Milkovich et. al 2014). The introduction of laws like the Equal Pay Act of 1963 which prohibits sex-based wage discrimination between men and women performing jobs that require the same skill, effort, responsibility and working conditions could be seen as the response of the society to unequal pay structure and ensure “justice”. The stockholders quite often relate pay with how well the company is performing. This viewpoint of pay is different for managers who see pay as an expense but also as a way of motivating their employees and changing their behavior (Milkovich et al.). Employees, on the other hand, view pay as an entitlement or a return on investment for investing in education and training and for coming to work every day (Milkovich et al). Thus, the perspective of different stakeholders (society, managers, stockholders, employees etc.) within the same national culture could be different.

1.3.1 The Pay Model

Figure 3 shows the pay model given by Milkovich et. al (2014). The pay model consists of pay policies, pay techniques and pay objectives that provide the framework for examining the current pay system.

Compensation systems must balance multiple objectives simultaneously. The first objective is perceived fairness from employees. The concept of “fairness” is important in cross-cultural HRM studies because how employees perceive fairness varies across cultures. The fairness objective of the pay model includes both procedural and distributive justice related to pay. The procedural justice objective includes the fairness of the ‘procedure’ used to make the pay decisions. For example, are the pay decisions made on an authoritarian basis or do employees participate in making pay decisions? Procedural fairness also includes if the firm has a secret pay structure (where firms keep pay information secret from employees) or open pay structure (firms have to disclose pay information). Low participation of employees in the administrative framework of pay could be perceived as “fair” in a paternalistic and a high-power distance culture where superiors are trusted and considered to “know the best” for their employees (Ayman et. al 1999).

Perceived fairness is also based on distributive fairness where employees compare their input-output ratio. If they do not perceive an equilibrium between the two, they are likely to reduce effort. The concept of procedural and distributive fairness is also included in the “external competitiveness” of the pay model where employees compare their pay with the market pay. This leads to the incentive and sorting effect of pay explored in the ‘motivation theories and culture’ section of this thesis.

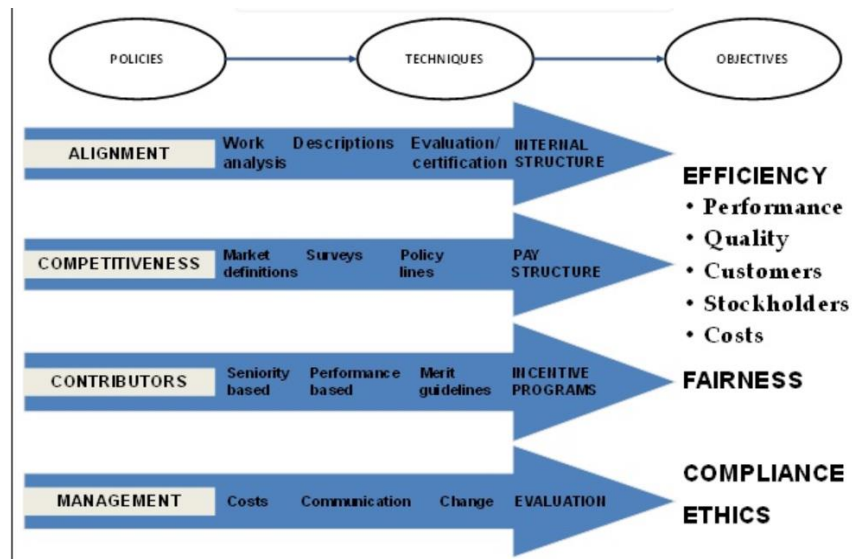


Figure 3: The Pay Model

(Milkovich et. al 2014, p.18.)

This perceived value of “fairness” varies across culture and impacts how the employees view the overall reward structure as a whole thereby affecting the motivational capacity of the reward.

2.2 Model of Culture Fit

The Model of Culture Fit was given by Ayman et. al (for their research see Ayman et. al 1999) and classifies culture into two categories- external and internal culture. They argue that the internal work culture consists of managers belief about task and employees. Managerial assumptions pertaining to task deal with the nature of task and how it can be best accomplished and those pertaining with employees deal with employee nature and behavior. MCF states that the enterprise characteristics like ownership status (private vs public sector), nature of industry (manufacturing vs service), market competitiveness, resource availability determine how a task can be accomplished and assumptions about employees behavior is influenced by sociocultural environment i.e. cultural dimensions. Thus, they argue that human resource management practices related to job design, supervision and control, and reward management are influenced

by societal values through the mediation of work culture. This relationship is explained in Figure 4.

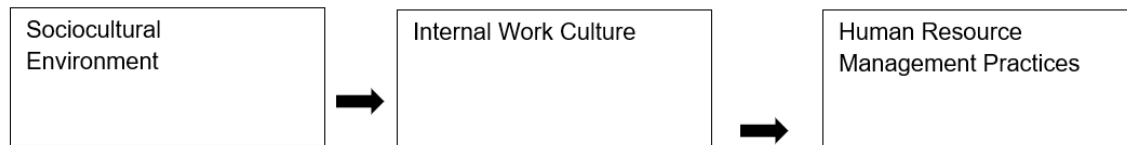


Figure 4: Model of Cultural Fit; Aycan et. al (1999)

The MCF was tested in India and China, and Aycan et. al (1999) found evidence of mediation of the internal work culture. For example, they found that paternalism reinforced assumptions about employee reactivity which in turn encouraged joint goal setting. They also found that performance-reward contingency as human resource management practices are found to be the functions of managerial assumptions about employees being individuals who can change and control the outcomes of their actions.

1.5 Motivation Theories, Compensation and Culture

Reinforcement theory states that behavior can be controlled by associating a “positive” or a “negative” consequence with it. Thus, it is important to link rewards with performance in performance-oriented culture (due to high degree of importance of it), as the behaviors that are not rewarded are discontinued. For example, this could be applied in international projects when expatriates (from a low power distance, low uncertainty avoidance culture) goes for an overseas project in an organization with a culture where everyone gets rewarded the same irrespective of the performance or receives group bonus based on the overall team performance. Team bonus could also reinforce external locus, where though some employees feel a sense of collectiveness others feel a loss of internal locus- where their success depends upon how other members perform making them not fully an in-charge of their environment.

This view is also supported by equity theory which states that employees are motivated when the perceived input is related to perceived output and a disequilibrium in the input-output ratio causes discomfort (Milkovich et. al 2014). Thus, when an employee feels that their effort is not rewarded or when others are being paid more for the same effort, they are most likely to shrink their input to balance the output they have received. This could also lead to turnover resulting in employees moving to other organizations where they think that they could get more returns with increasing their input (efforts, results).

This is explained in figure 5

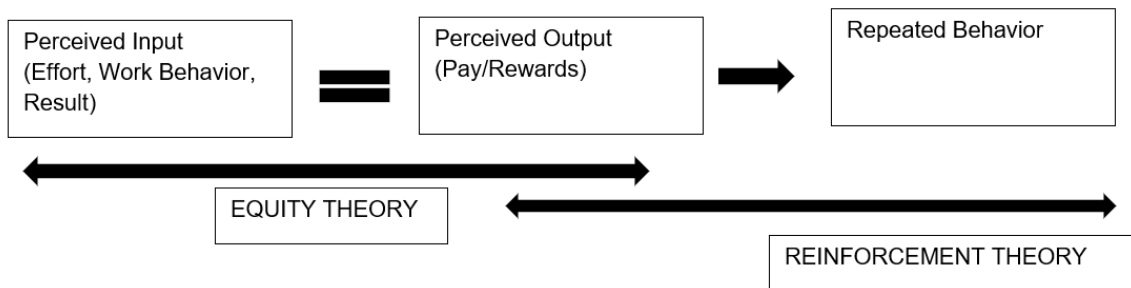


Figure 5: Motivation Theories, Societal Culture and Compensation

The idea is consistent with the incentive and the sorting effect of pay explained by Milkovich et al (2014). They argue that pay can influence motivation, which combines with employee's ability and organization design (which could promote or hinder performance) to determine employee behaviors such as performance. A highly skilled employee with an interest to earn a lot of money would be less interested to stay in an organization providing the same compensation to everyone irrespective of their performance. High performers have more alternatives for jobs and

this effect as explained by Milkovich et. al (2014) is called the sorting effect of pay. This sorting effect of pay is observed by Edward Lazear (1985) in his experiment in a glass installation company. In his experiment, he changed the compensation plan for the employees where they would be paid for individual performance over salary-only (no pay-for-performance). An overall 44% increase was observed in the glass installation factory. Roughly one half of the result was due to employees being more motivated by the potential to earn more (incentive effect of pay) and the other half of the increase was observed due to low performing employees leaving the organization and being replaced by high performing workers (sorting effect of pay).

The exporters (Bloom et. al 2003) who attempt to transfer the human resource practices of the home country could be said to be relying on the incentive and sorting effect of pay i.e. to obtain similar results achieved by the glass installation company. Using the avoidance response (Bloom et al. 2003) they believe even if pay-for-performance in a collectivist culture and uncertainty avoidance culture is going to lead to turnover, the organization would be able to attract employees motivated by pay for performance.

Uncertainty avoidance cultures are not very accepting to uncertainty and ambiguity (Hofstede 1980) and could be assumed to prefer non-performance-based reward. This hypothesis is tested by reviewing past papers that study the effect of national culture on reward management (in Chapter 2). However, if this assumption holds true and a “collective mental programming” of “non-performance” rewards is shared by few members of the society, the subsidiary firm would have to incur a significant replacement cost to fill the employees lost due to the sorting effect of pay with their only option being sending people from the home country to the host country. The growing concern of expatriate turnover could also add to the overall cost. In addition, many firms compete on the basis of low costs- expansion of the international workforce brings low cost but only if local employees can be properly motivated. Furthermore, the traditional factors of

production (capital, technology, raw materials and information) are increasingly fungible with employee quality the only source of competitive advantage (Lowe et. al 2002). Thus, it essential for multinational firms to understand the perspective of both expatriate and host country nationals on reward to increase the motivational capacity of the reward and reduce cost and turnover.

Tournament theory argues that greater differentials in the pay structure increases performance. This primarily due to both incentive and sorting effect of pay. A study of hockey players (Milkovich et. al 2014) found that teams that differentiated salaries more greatly as a function of individual performance did better than teams with egalitarian structures (where everyone was paid equally), as such teams were more successful in attracting the highly skilled players which resulted in increasing overall performance. This is further explored in the isomorphism section of the thesis. However, pay for performance could induce jealousy and resentment in a few cultures that could affect the team coordination and could also make employees focus on only those tasks that are tied with monetary rewards (Milkovich et. al 2014). It could also lead to employees considering their self-interest over the interest of the organization.

Chapter 2

LITERATURE REVIEW

Despite the need to attract, motivate and retain an effective workforce in a variety of foreign locations, the international compensation literature has focused primarily on a small percentage of the international workforce: the expatriate manager (Lowe et. al 2002). The issue of international compensation is in debate and has overshadowed issues of the larger workforce. Thus, the literature on examining the relationship between national culture and preferred compensation policies is still in its infancy. “Ethnocentrism” has also led to the exportation of compensation programs (Hyer, 1993). There are many other reasons as to why academic literature is largely silent on local culture and compensation, some of them as summarized by Lowe et. al (2002) are:- the skills, efforts and resources required to translate and back-translate surveys, multinational firms finding it convenient to assume that local practices will maximally motivate workers, difficult data collection resulting in the inability to publish in top journals etc.

2.1 Methodology

For the articles reviewed in the thesis, I searched for articles with the keywords of “convergence vs divergence”, “compensation and international human resource management”, “culture and compensation” in International Journal of Human Resource Management, Strategic Management Journal, American Sociological Review (to study isomorphism), Journal of Cross-Cultural Psychology, Journal of International Business Studies. Most of the papers reviewed are taken from the International Journal of Human Resource Management. The research question remains to explore the utility of cultural dimensions in predicting employee preferred compensation policies.

2.2 Institutional Theory and Isomorphism

The thesis addresses a question which is a subset of the broad question- are organizations and managerial practices worldwide becoming similar or are they maintaining their nationally based dissimilarities? (Mcgaughey et. al 1999). Child (1981) found that macro-variables components were finding few differences across countries whereas micro-variables were found to be significantly different. The micro-level analysis of organizational behavior is associated with the psychological phenomena of individual attitudes, behavior, and performance whereas the macro-level analysis is associated with the socio-economic aspects of organizations affecting its outcomes (Rousseau and House, 1994). Studying global compensation practices is therefore a macro-level study, however studying individual behaviors related to compensation (attraction, retention and motivation) is a micro-level study. Some scholars (Adler and his colleagues) argue that it is possible to become more similar on macro-variables yet remaining their culturally based dissimilarities. This means that organizations globally could have the same compensation, but the individual employees may still have their individually based differences.

The thesis does is less inclined towards the existence of *both strong* macro-similarity in compensation practices and individual-based cultural differences due to the following reasons: a) if the employees feel that the compensation practices are not aligned with their perspective on pay, they are likely to leave due to the sorting effects of pay- moving to an organization where the alignment exists b) similar compensation practices due to the institutional constraints like market characteristics, profit-behavior, local laws would change the attitude of people at work and it also leads to a change in social relationships at work. An example of this might be a qualitative change in social relations and attitudes at work in response to a move from mass production to automated manufacturing systems (Drucker, 1968). This is further explored in further sections of this Chapter.

DiMaggio and Powell (1983), however, argue that structural change in organizations seems less driven by this need for obtaining efficiency and bureaucratization and other forms of homogenization emerge from the structuration of organizational fields. They define organizational fields as “organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies and other organizations that produce similar services or products”. They also explain that organizations have “structural equivalence” if they have ties with the same set of the organization- they do not necessarily need to be connected.

With common stakeholders (government regulations, key suppliers, customers, other stakeholders). These organizations are facing the same set of environmental pressures. This leads to *isomorphism*, which as defined by Hawley’s (1968) is the constraining process that forces one unit in a population to resemble another unit that faces the same set of environmental conditions (DiMaggio and Powell 1983).

The sections below explain the different kinds of isomorphic pressures.

2.2.1 Coercive Isomorphism

Coercive isomorphism results from both formal and informal pressures exerted on the organizations by their environment including their external stakeholders and the society within which the organization functions (DiMaggio and Powell 1983). Coercive isomorphism results in adaption/localization if the coercive pressure in the host country creates the need for divergence from a company’s normal practice or country-of-origin practices. For example, an organization with highly technical production processes might be forced to use a different strategy or expatriate labor if the labor force in a host country does not have the required skills. Local laws in the host country could also place coercive pressure in the host business environment.

As stated by Bloom et. al (2003) “Strongly enforced local laws may enforce coercive compensation design requirements on organizations and leave little, if any, opportunity to ignore or circumvent these pressures”.

In the United States, for example, the Equal Pay Act of 1963, prohibits sex-based wage discrimination between men and women in the same establishment who performs jobs that require substantially equal skill, effort and responsibility and under the same working conditions. The Age Discrimination Act of 1967 prohibits employment discrimination against employees who are 40 years or older. The minimum wage can be different in every country and could enforce coercive pressures to be followed.

Coercive pressure could also come from the home country leading to the country-of-origin effect. Thus, the coercive authorities could also exist in both home and host country organizational fields resulting in the push and pull situations. Coercive pressure can come from the parent organization to align compensation practices according to the home-country compensation practices. This results in the country-of-origin effect. This effect could also be seen in subsidiaries when the parent firm transfer compensation practices from the home country to achieve alignment and easy transfer of personnel from home to host country. This view is consistent with DiMaggio and Powell (1983) who state that the greater the dependence of an organization on another organization, the more similar it will become to that organization in structure, climate and behavioral focus. Multinational enterprises often export their compensation practices to pursue “one world, one strategy” where they seek to establish a consistent strategy and set of management practices at all locations in which they operate (Bloom et. al 2003). The information flow in this case is one-way, and they do not intend to learn from the local host context (Bloom et. al 2003).

The coercive pressure could also be exerted from the labor market demand and supply. The “external competitiveness” policy in the pay model tells us that organization pays according to the market rate (or even above the market pay) to remain competitive in the market (Milkovich et. al). This is seen in Yoshio Yanadori (2011)’s research on examination of the compensation management of a US multinational finance firm in the Asia Pacific Region. In the study it was found that in comparison to pay mix (the ratio of the financial and non-financial compensation), pay level (the base pay) is less influenced by the strategic alignment logic over the pay mix (the amount of financial and non-financial compensation). A possible explanation for the variance in the pay level across subsidiaries in the 10 countries is the supply of skilled labor in each country, which influenced their market pay. For example, the supply of skilled workers is more abundant in developed countries and the pay level for financial analysts relative to other workers may consequently be lower in these countries where qualified workers are hard to find (Yanadori 2011).

2.2.2 Mimetic Isomorphism

In contrast to coercive isomorphism, mimetic isomorphism is the tendency for organizations to copy others not because they have to but because they have the desire to be similar to successful organizations. Uncertainty is a powerful force that encourages imitation (DiMaggio and Powell 1983). In an effort to reduce uncertainty, organizations imitate each other. Uncertainty results in modeling and successful organizations serve as a convenient source of practices that the borrowing organization uses (DiMaggio and Powell 1983). This modeling could be according to the successful organization in the host business environment (localization) or it could model the successful practices in the home country (country of origin effect) or according to the best practices from around the globe (dominance effect/ globalizers).

DiMaggio and Powell (1983) argue that the more uncertain the relationship between the means and ends, the greater the chance the organization would model itself after a successful organization. However, a strategic management viewpoint adds to this perspective by highlighting that “me too” strategies can rarely be expected to deliver competitive advantage unless the imitator possesses resources or competencies that allow it to give a greater competitive advantage (Gamble et. al 2009). From this perspective, we could argue that simply copying the compensation practices from the host/home or around the globe would not be helpful if the firms do not have the same resources as the “modeled firm”.

Explaining mimetic isomorphism, Dimaggio and Powell (1983) argue that the more ambiguous the goals of the organization, the greater the extent to which the organization will model itself after organizations that it perceives to be successful. They argue that appearing to be legitimate increases the scope of survival. It may also help to attract top talent in the organizational field and may provide the firm with the skills and capabilities needed to get a greater competitive advantage. This is further explored in the normative isomorphism section of this Chapter.

Explaining mimetic isomorphism, DiMaggio and Powell(1983) also argue that role modeling is appropriate at times of conflict over organizational goals. However, this thesis looks at this in a different direction. It believes in the complexity model (Uhl Bien et. al 2017) and the idea of “adaptive space”- where entrepreneurial initiatives interact with operational constraints to create innovation. Their idea is especially applicable in the multinational firm’s context as such firms are often marked with diversity (having expatriates and host country national employees) which is essential to the idea of adaptive space to create innovation. The concept of “adaptive space” in multinational corporations is further elaborated in Chapter 3 of the thesis.

2.2.3 Normative Isomorphism

DiMaggio and Powell explain normative isomorphism as pressures from “professionalization” highlighting that professions are subject to the same coercive and mimetic pressures as are organizations. They argue that filtering occurs through the hire of individuals from the firms within the same industry in the organization field. This however raises a question- how these individuals tend to have the same behavior? As previously stated, the thesis is less inclined towards the existence of equally strong macro (same organization structures) and micro variables (differences in the employee’s on-the-job behaviors). In congruence with DiMaggio and Powell (1983)’s viewpoint, the thesis believes in behavior modeling takes place as individuals in an organizational field undergo anticipatory socialization to common expectation about their personal behavior, dress code, organizational vocabularies (Cicourel 1970; Williamson, 1975) and even standard methods of speaking joking and addressing others (Ouchi, 1980). Support of this is also found in Aycan (1999)’s Model of Cultural Fit. As discussed in Chapter 1, an organization’s internal culture is influenced by managers assumptions about the task and how it can be best accomplished. A non-profit organization, for example, may look for different behaviors in comparison to a profit-seeking organization (Aycan et. al). This results in the filtering of personnel. Aspiring managers may undergo anticipatory socialization into the norms and mores of the organization they wish to join (DiMaggio and Powell 1983). This overall filtering process is defined by Kanter (1977) as a “homosexual reproduction of management”.

DiMaggio and Powell (1983) also explain that individuals that escape the filtering process, are likely to modify behaviors after being subjected to pervasive on-the-job socialization. This goes consistent with the reinforcement theory, where the employees (through observation/personal experience) will recognize a set of behaviors that are rewarded by the organization and would repeat such behaviors. The pressure to adopt certain behavior may also be external and not necessarily coercive. An example of this is found in DiMaggio and Powell (1983)’s study where

they explain how the government recognition of key firms or organizations gives such organizations recognition and legitimacy which leads to other firms adopting such key behaviors.

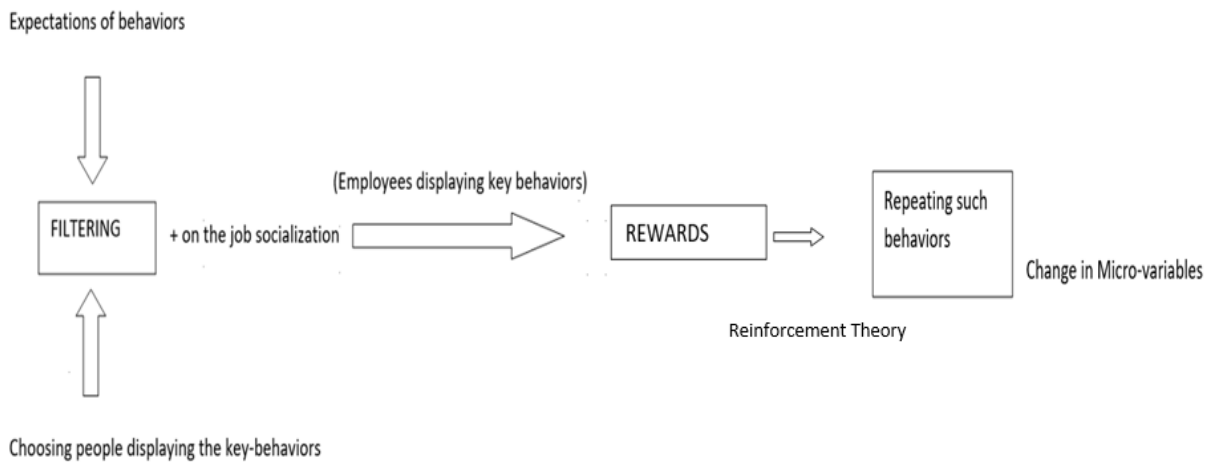


Figure 6: Displaying filtering and effect its on organizational behavior

The forms of isomorphism explored in the sections above suggest that compensation practices would become more similar across the operation of multinational corporations. Organizational prestige and resources are the key elements in attracting professionals. Many organizations offer attractive compensation and other benefits to attract, motivate and retain talented workforce. It is essential to know the reward type, reward system and reward criterion that best motivates employees in the organizational field. This creates complexity as multinational firms intend to attract and retain both host and home country national employees, who are a part of the same organizational fields.

This brings us back to the convergence and divergence debate. If the expatriates prefer a different reward type, reward system and reward criterion (see Taxonomy of Reward Chapter 1) than the host country nationals, then they would not be attracted to work overseas. The

integration of global operations adds to this complexity as it has made human resource management practices like compensation more visible to employees in other countries. This increase in the visibility could be one of the reasons as to why global managers decide to pay according to the market pay level in every subsidiary (in order to increase the sense of fairness)- leading to more variance in the pay level. Yanadori (2011) argues that the increase in the visibility in the pay mix has also allowed employees to compare their income risk with high variable pay increasing their income risk to a greater extent in comparison to more base-less variable ratio (Einsenhardt 1988). Thus, he argues that in order to create a sense of fairness, pay mix will have less variance across subsidiaries. He further found in his study that the compensation for managers found the strategic alignment logic to a greater extent than the compensation for non-managerial employees. This could be in order to attract and retain expatriate managers (normative isomorphism) and have easy movement of personnel across different subsidiaries.

In the remaining sections I will explore the “dominance effect” to see if the isomorphic pressures (coercive, mimetic and normative) are making organizations increasingly similar to a dominant model and then I explore if the cultural dimensions could be used to predict deviations from the dominant model, particularly about the employee preferred compensation policies.

2.3 The Dominance Effect

Human resource management is often seen as a function that is least likely to converge as it deals with the management of people (Pudelko et. al 2007). Workers around the world have important culture differences even when working for the same organization (Child 1981).

We observed previously in the sections of isomorphism that organizations continue to seek legitimacy of their key stakeholders to remain competitive in the market by modelling successful

organizations in the field. This section will explore if there is a dominance observed in the organizations being modelled.

C Smith and Meiksins (1995) argue that due to the dominance of American business schools in the development of dissemination of new management knowledge, the dominance of American consultancies in further spreading this knowledge, and most importantly the strength of American economy and American MNC's, that best practices in management are often explicitly located with the management practice employed by successful American MNCs (Pudelko et. al 2007).

Reward management policies by US subsidiaries are of particular interest as American companies are renowned to be "innovative" in their management of pay, and first to develop many forms of reward management within their relatively unregulated home business environment where individualistic work values prevail (Kadire 2010).

Standardization thus takes place in two forms either following the HRM practices of the home country (country-of-origin effect) or making HRM practices according to the dominant model (companies in the United States). To examine the dominance effect, Pudelko et al (2007) compared HRM practices of nine different groups of organizations- Headquartered in the United States, Germany and Japan and subsidiaries of them in each country i.e. German and Japanese subsidiaries in the U.S., Japanese and US subsidiaries in Germany and U.S. and German subsidiaries in Japan. They developed a questionnaire comparing U.S. HRM practices, Japanese HRM practices and German HRM practices. They compared the mean score of the 9 different groups. They found a clear dominance effect in the Japanese subsidiaries in Germany and German subsidiaries in Japan. They observed the same for German and Japanese subsidiaries in the United States. However, they could not say if it was due to dominance or

localization effect. They also found in their research that dominance effect is going to increase in the future (see Markus and Pudelko 2007).

The presence of a dominance effect in organizations found by scholars like Markus and Pudelko (2007) indicates the growing importance of cross-national learning in the field of human resource management.

It can also be observed that “standardization” does not just mean the transfer of country-of-origin practices but around the best practices- wherever they originate from. Another implication from the studies indicating the increasing presence of the dominance effect is that multinational corporations should not localize those management practices that the employees themselves consider obsolete (Pudelko et. al 2007). For example, multinational firms may introduce pay that depends on seniority and group performance in Japan when Japanese companies show convergence towards the dominant model.

Pudelko et. al (2007) however, explored the dominance effect in several areas of human resource management- recruitment and selection, training and development, performance appraisal and employee compensation. In the last section of this Chapter, we will further examine the dominance effect particularly in reward management by looking at the influence of local culture on reward type, reward system and reward criteria. This taxonomy of reward preferences given by Flora Chiang (2005) (see Chapter 1) will help us to identify which independent constituent of reward is more influenced by culture and which constituent has proclivity towards the dominant model.

2.4 Reward Type (Financial vs Non-Financial) and Societal Culture

2.4.1 Masculinity-Femininity and Reward Type (Financial vs Non-Financial)

Masculine societies emphasize assertiveness, achievement, and material success whereas feminine societies emphasize the human relationships, concern for others and quality of life (Chiang 2005). Hofstede's masculinity dimension (Hofstede 1980) can be compared to Kluckhohn and Strodtbeck (1961)'s "doing orientation", in which people are continuously engaged in activity to accomplish tangible tasks. Masculine cultures are likely to consider "achievement needs" at the top of their respective reward perspective (Hofstede 1980).

Considering Hofstede (2006)'s definition on masculinity, it could be assumed that masculine cultures perspective on success is financial success. The "achievement" perspective highlighted by Hofstede makes us think about what a sense of achievement really means in a masculine culture. This achievement need could be linked with the desire of financial rewards over non-financial reward i.e. getting a high base pay and incentives. This sense of achievement may also come in when employees get the opportunity to earn more than their peers i.e. with individual incentives. However, non-financial compensation (extrinsic) like challenging tasks, opportunity to use a wide variety of skills and job satisfaction may also be related to the sense of achievement. Such rewards are however intangible and non-cash in nature and may give a sense of satisfaction only in the organizational environment.

Unlike masculine culture, feminine cultures emphasize "quality of life". Many scholars (Chiang 2005, Birch et. al 2005, Yeganeh et. al 2008) in their study hypothesized that this quality of life comes with quality of relationships. With non-financial compensation like work-life balance, human interaction (relationship with colleagues) at the workplace, job satisfaction, this quality of life could be enhanced. Chiang (2005) in her study highlights the importance of social relationships in feminine culture. Thus, intangible compensation perfectly aligns with what individuals in Hofstede's feminine society would desire.

However, when comparing the reward preferences of culturally diverse countries like Hong Kong, Canada, UK and Finland in a single industry (banking), Chiang (2005), discovered that all countries placed more importance on non-financial intrinsic rewards over financial rewards. This refutes the notion that masculine cultures will always prefer financial compensation over non-financial compensation. She also found that the UK and Canada who are culturally similar, share different perspectives on the choice of intrinsic rewards and countries like Canada and Finland which are although culturally different, share many similarities on reward preferences.

Unlike Chiang (2005) who tested the impact of cultural orientation on the preferred compensation policies by cross-country comparison, Yeganeh et al (2008) examined Kluckhohn and Strodtbeck (1961)'s cultural dimension on the employee preferred compensation policies by examining cultural orientation and preferred compensation policies individually in Iran. They observed that respondents in their study preferred non-monetary compensation over financial compensation and observed a positive correlation observed between "being" and non-monetary reward. However, multiple regression between cultural dimensions and employee preferred compensation policies showed that only 12.6% variation between monetary and non-monetary compensation could be explained due to culture.

Birch et. al (2005) in a similar study on Canada, Hong Kong, UK and Finland received mixed support for financial compensation and masculinity. They found that overall, there was a preference of non-financial compensation among all countries, however base salary was particularly important to Hong Kong, Canada, and Finland.

In general, these findings for the relationship between masculinity/femininity and compensation practices are mixed.

2.4.3 Individualism- Collectivism and Reward Type

Individualists' involvement with the organization is largely contractual and calculative (Chiang 2005) whereas collectivist cultures look to increase the group cohesion and prevent activities that are likely to have a detrimental effect on the group harmony. Many scholars (Chiang 2005, Birch et. al 2005, Yeganeh et. al 2008) in their study hypothesized individualism with the desire of financial compensation. The calculative nature of employees in an individualistic culture could lead to the sorting effect of pay, where employees move to organizations having compensation practices that they consider to be "fair" and "most rewarding".

Hofstede (1980) views an individualistic society as one where beliefs and behaviors are shaped by individuals. This could be another reason as to why employees in an individualistic culture may value "monetary" rewards more over someone else's (their organization, in this case) opinion about their hard work/performance. On the other hand, non-financial compensation like recognition, achieving challenging goals together, social interaction at work is likely to increase the group cohesion and loyalty towards both the co-workers and towards the organization. This increase in loyalty and commitment towards the members of the in-group could be considered desirable in a collectivist culture.

However, the results observed in the cross-cultural studies are mixed. Many studies (Chiang 2005, Yeganeh 2008, Birch et. al 2005) indicate that culture interacts with other macro in the business environment to shape employees orientation on reward. Like observed in the previous sections, many scholars observed strong preference of non-financial compensation over financial compensation. Canada (high individualism) and Hong Kong (high on collectivism) displayed a similar preference for individual incentive (financial compensation).

For example, in Chiang (2005) and Birch et. al (2005) study, Canada displayed the highest importance to job security (intrinsic non-financial compensation). This may be due to the growing immigration of highly skilled employees in Canada. The high preference of benefits

(financial compensation) in Hong Kong (high on collectivism) may be due to the reliance on the employing organization on benefits due to the absence of a state-sponsored benefits plans (Chiang 2005).

2.4.3 Uncertainty Avoidance and Reward System

Uncertainty avoidance is defined as the degree to which individuals tolerate uncertainty and ambiguity in various positions. High uncertainty avoidance thereby means that individuals would avoid uncertainty and prepare well for the uncertain future. From a reward perspective it means that employees take more risk and accept an uncertain future (Chiang 2005)

Lowe et. al (2002) in their cultural studies compared nine countries (Australia, Canada, China, Indonesia, Japan, Korea, Mexico, Taiwan and the United States) and found that firms in the United States (low UA) prefer performance related pay to a lesser extent in comparison to Japan and Korea (high UA). In their study, they also examined what compensation policies 'should be' by asking the nine respondent countries to indicate the desired future state of compensation policies on a five-point Likert scale. They found that although overall all nine countries indicated a high future preference for performance related pay- the highest scores were observed in the United States and Mexico (both have low UA) and was lowest in Japan and Korea (countries with high UA index). The nine countries were also asked to indicate the current and future desired state on "incentives as a major part of compensation. They observed both low "is now" and "should be" scores. For the should be scores, no countries placed a high emphasis (mean above 4.0) on pay incentives as a significant amount of pay. These data suggest that to some degree it may be a worldwide phenomenon that employees do not want to have a large proportion of their pay at risk (based more on incentives over base pay) (Lowe et. al 2002).

Similarly, Chiang (2005) observed that irrespective of the cultural orientation in Hong Kong, Canada, Finland and Hong Kong, individual based performance incentives observed no significant differences. Canada (UA: 48) and Hong Kong (UA: 29) showed similar preferences for individual-based incentives.

Reasons for this could be attributed to globalization and growing presence of multinational corporations. Due to increasing global competition and in an attempt to attract, retain and motivate talented employees, organizations are increasingly becoming better prepared for uncertainty and also want to attract skilled employees from other cultures. This better preparation for uncertainty could be making such organizations an in-charge of the environment in which they are operating in. Yeganeh et. al (2008), for example, observed high scores for Iran (moderate UA) on thinking and mastery. Thinking cultures are supposed to be oriented towards analysis, calculation and orientation (Yeganeh et. al 2008).

2.4.2 Masculinity-Femininity and Reward System

Masculine societies emphasize on the desire of material success. This desire for material success and achievement could be linked with the preference of a performance-based reward system. Like previously noted, masculine culture could be linked with “doing cultures”, in which people are continuously engaged in activity to accomplish tangible tasks. Thus, it could be assumed that masculine cultures have high internal locus- individuals feeling a control on their environment and assuming to have the KSA to achieve the essential functions of the tasks. Thus, a reward system tied to their performance, increases their ability to earn more. Thereby we could assume that masculine cultures would prefer variable pay (pay varies on performance), production based pay (employees are paid on the amount of work produced) and skill based pay (workers are paid on the mastery of their skill) (Yeganeh et. al 2008). The same preference could be assumed in Kluckhohn and Strodtbeck (1961)’s mastery orientation.

In Lowe et. al (2002)'s study future desire for pay for performance is observed in all countries and is the highest in Mexico, the United States, Taiwan, Canada, and China (listed from the highest to the lowest). Interestingly the scores of these countries on Hofstede's masculinity dimension follow close to the same order (Mexico: 69, China: 66, United States: 62 , Canada: 52 and Taiwan: 45).

Since feminine cultures emphasize on the quality of relationships and life, their preference for rewards could be assumed to be non-competitive in nature. Their relationship with their co-workers is the "relationship of harmony". Thus, being and thinking culture could be assumed to want fixed pay, job-based pay (where your job duties determine how you get paid) and seniority-based pay (more pay by tenure). Although few studies (Chiang 2005, Birch et. al 2005) observed the preference of performance-based pay consistently across participants, Yeganeh et. al (2008) observed a significant negative correlation between "being orientation" and "skill-based pay". However, they also observed a significant negative correlation between "being" and "fixed pay" which showed in their study that although being(feminine) cultures want job-based pay but they also desire variable pay.

Overall, an increase in the preference of performance-based pay is observed in the review.

2.4.3 Individualism- Collectivism and Reward System

Since an "individualists" involvement in the organization is largely contractual and calculative, they could less likely care about the detrimental effect of competitive rewards on the group cohesion and would want the rewards to be equivalent to their inputs. In a collectivist culture however, performance-reward links could induce sentiments like jealousy which eventually could impact the loyalty towards the in-group members. For the same reason, collectivist culture could be less likely to resist strong hierarchies in the organization and would have more

tolerance towards seniority-based compensation plans, fixed pay, job-based compensation etc. (Yeganeh et. al 2008)

Feminine and collectivist culture share quite a few common objectives, the main one being- “both feminine and collectivist culture have a desire to increase the quality of human relationship”. Like feminine cultures, a collectivist culture also emphasizes a harmonious relationship with the employees.

The overall preference of performance-based reward systems, however, challenges the above assumptions. However, it was found in Yeganeh et. al (2008)’s study that strong locus of control (mastery orientation) is related to the preference of skill-based pay, variable pay and production-based pay.

2.4.4 Power Distance/Hierarchy and Reward System

Hofstede (1980) states that in high power distance organizations are marked by centralization, concentration of authority and tall pyramids. Non-performance reward type could dilute this power distance- giving the subordinates who are better skilled an opportunity to earn more than their superiors. Thus, less preference of skill-based and more preference of job-based compensation could be assumed. Like discussed in Chapter 1, in a high-power distance culture, reward is decided by the subjective evaluation of managers (power-holders) who reserve the right to give differentiated salary to their employees. Similarly, to avoid the uncertainty of subordinates earning more, with reward type like variable pay, high power distance cultures could be assumed to prefer either a reward type where everyone (the power holders and the employees) get fixed returns irrespective of how they perform i.e. fixed pay or where the power holders (superiors) have an added advantage over the non-power holders i.e. seniority based pay. Furthermore, to maintain their status-quo as power-holders, it could also be assumed that there is low participation of employees in designing the administrative framework of pay.

However, in many studies, the respondents (irrespective of the cultural orientations) generally favored performance, skill and competency-based rewards over seniority rewards. In Chiang (2005), for example, it was observed similar preference for individual incentive in Hong Kong (High Power Distance) and Canada (Low Power Distance). In Yeganeh (2008)'s study, although managers in Iran reflected a high degree of orientation on hierarchy, their preference on compensation reflected more preference for performance (although no significant correlation was observed between hierarchy and seniority/performance based compensation preference). They however observed significant correlation between power distance/hierarchy and fixed pay and job-based pay (although only 8.6% variance in seniority/performance based pay could be attributed to culture).

In Pudelko et. al (2007)'s study on dominance effect, Japanese (high power distance) compensation practices are defined as having a little difference between top and average workers whereas the compensation practices in the United States are defined as having very large differentials between the top managers and average workers. Thus, the above assumptions receive mixed support.

Masculinity-Femininity and Reward Criteria

Like discussed in Chapter 1, reward criteria refers to the choice between individual and group based rewards. Since masculine cultures could be linked with the high internal locus and the desire of material rewards, it could be assumed that they would prefer rewards based on individual performance. Since feminine culture emphasizes on the quality of relationships, collective achievement could strengthen the group cohesion, feminine culture could be assumed to prefer rewards that are based on the performance of the group.

In the previous sections, we linked masculinity with the Kluckhohn (1961)'s mastery orientation. For the same reasons it could be argued that employees having high internal locus will prefer

rewards that are based on individual performance- due to their chances of earning more individually and feeling a sense of achievement. Subjugation/Fatalistic culture could be assumed to prefer group performance to due to high external locus. Harmonious cultures could also be assumed to prefer group performance to increase a sense of collectivism and harmony.

Many studies, however, refutes these assumptions with a preference on individual incentives irrespective of culture. However, a deeper dive in Chiang (2005) studies revealed that Canada and Hong Kong (who share similar scores on Hofstede's masculinity dimension) have similar preference for individual incentives and Finland (high on femininity), showed the least preference on individual incentives.

However, in Yeganeh et. al (2008) study, less than 10% variation in the preference of individual/group performance could be attributed to culture. Thus, mixed support for the above assumption is observed.

Individualism-Collectivism and Reward Criteria

Due to their contractual relationship with the organization and their emphasis on individual needs and interests over the interest of the other members of the group, it can be assumed that individualistic culture rarely cares about the detrimental effect of individual based rewards on group loyalty. Thus, unlike the collectivist culture (that could be assumed to prefer rewards based on group performance), individualistic culture could be assumed to prefer individual based rewards. However, Yeganeh et. al (2008) discovered that although Iranian managers rate Iran high on collectivism, they share an equal preference on individual and group rewards. Similar preferences for individual-based reward were found in many other studies.

CHAPTER 3

Discussion

In the previous chapter, we saw that an organization's attempt to attract, retain and motivate employees from both the host and home country gives rise to the standardization vs localization debate. While the strategic alignment logic results in the standardization of compensation systems across subsidiaries, the localization logic highlights the importance of making the compensation according to the local needs. We also saw that organizations in a field may have common stakeholders and with the constraining process of isomorphism such organizations are increasingly becoming similar to each other.

Although we did see that many countries with the same cultural rating showing different preferences for rewards and countries with different cultural ratings showing the same preference for rewards, some divergence was also observed. However, insufficient information on the factors leading to divergence does not allow us to conclude whether the divergence was due to culture solely. For example, in Yeganeh et. al (2008)'s study, although Kluckhohn (1961)'s being orientation was negatively correlated with skill-based pay and variable pay in Iran's feminine culture, multiple regression showed that a small percentage of variance in the dependent variable (skill-based pay and variable pay) could be explained because of culture (independent variable). Preference of performance-based reward irrespective of the UA (uncertainty avoidance) scores in Chiang (2005) could be because of normative isomorphism in the organizational field as their study included respondents from 120 countries in the same industry. This is inconsistent with Gomez Mejia and Welbourne (1991) who emphasize that high financial incentive is associated with an increase in employee's income risk which may cause dysfunctional behavior in a culture with high UA (Yanadori 2011). Such inconsistent findings

show that factors in addition to culture (which could be one out of the many macro-variables impacting compensation) interact with each other to create a business environment. Thus, although cultural differences offer us insights on understanding employee behavior, its effect should not be overstated (Chiang 2005).

Thus, the thesis advises multinational firms to examine other institutional constraints in addition to culture- other macro-variables (economic environment, political environment, legal environment etc.) and the pressure exerted by key stakeholders in the organizational fields, before deciding to localize or export home country reward practices. Blindly copying home-country practices without appropriately examining the business environment and the pressure exerted by the key stakeholders who are now going to be a part of their extended organizational field as they expand their business beyond the domestic borders of their home country, can do more harm than good.

3.1 Adaptive space & International Reward Management

The country-of-origin effect could be called as an “order” response by multinational firms. Uhl Bien et. al (2017) in their research on complexity in the organizational environment discovered that organizations facing complexity, show ordered response as their most natural response. This ordered response emphasizes standardization, alignment and control. According to them, organizations must balance between the need to innovate (exploration) and the need to produce (exploitation) (for their research see Uhl Bien et. al 2018). They also argue that organizations emphasizing more on the need to produce display the ordered response. In addition to the country of origin effect (Bloom et. al 2003), another ordered response found in the literature of multinational corporations is copying the dominant model to deal with uncertainty. However, we have seen in the review, neither the ordered response of displaying the dominance effect or the country-of-origin effect could guarantee success in international reward management. On the

other side of the order response, is to either align the compensation structure according to the local culture (localization) or to draw inspiration from the rest of the world (globalizers). I classify both of these effects under entrepreneurial response.

Uhl Bien et. al (2018) argue that in order for innovation to take place, it is essential for the operational and entrepreneurial leaders to come together in an adaptive space where entrepreneurial initiatives interact with operational constraints. Any factor that does not allow the pulling of ideas from the adaptive space into the formal system can be called as an operational constraint and in Uhl Bien et al (2018)'s words could act as "brick wall". For example, Matt Bloom et. al (2007), in their study, discovered that respondents preferred their international compensation system to have strategic alignment with their business strategy and localized only when the variance in the contextual factors (example pay related laws, market conditions, how managers are paid etc) was low. They explained variance as the diversity of ways in which the contextual factor is expressed in the host business environment. For example, different states can have different minimum wage (heterogeneity) and can also have strongly or loosely enforced pay-related laws (formalization). Low variance implies that the constraining forces act as a deterministic-rule like structure to which non-conformance is difficult, costly and consequently unlikely (Bloom et.al 2007).

In the adaptive space, entrepreneurial and adaptive leaders should identify the new stakeholders in the multinational firms extended organizational field. For example, the parent company's abandoned strategy element might not have been successful in the home country but could be successful in the home country. Multinational firms should, therefore, identify what their HR strategy would look like in a greenfield investment, assuming as if there were no constraints at all and then do a force-field analysis to identify constraining forces that may create a "brick wall". For example, a multinational firm may have a compensation system for

rewarding employees on their performance (in order to align with their high-performance HR strategy). While expanding internationally to a collectivist culture, the operational constraints faced by the firm might not just include the “collectivism” in culture but also constraints in the legal, political, social, economic and technological environment (that could possibly act as a brick wall).

The force-field analysis might also involve managers to engage in a trial and error process which Bloom et. al define as “pragmatic experimentation”. This pragmatic experimentation would require managers to take out ideas from the adaptive space and put it in the formal structure i.e. provide “sponsorship” (in Uhl Bien et. al’s words). For example, introducing pay-for-performance in a collectivist culture and seeing how successful it becomes. However, it is important to do such sponsorship after analyzing the business environment and finding reasons for it to be successful (in the example- less presence of unions, profit-oriented nature of the firm, high internal locus of control in employees etc.) i.e. it is essential for the experiment to be pragmatic and well analyzed.

This “exploration” would therefore require exploring macro-variables other than culture. One such macro-variable is the economic environment in the host country. The pay level in the host country is usually determined by the market pay level which is influenced by the demand and supply of labor. For example, if the demand for skilled labor is high and there is less supply with many firms competing for talent, the pay level is going to increase. This demand and supply of labor is influenced by multiple factors like the (inflation rate, bargaining power of the supplier, the kind of skill required, government regulation etc.) and could differ across subsidiaries. Thus, it would not make much sense to have the same pay level across subsidiaries without considering the market rate. The equity theory of pay states that people compare their pay with each other, thus like discussed in Chapter 1, if pay level is not inclined with the market pay it

may cause problems related with attraction, retention and motivation for employees. It is also argued that employees in a subsidiary firm do not just compare their pay with each other but they also compare it to see how well they are paid across subsidiaries in different locations. This would however depend on how well the subsidiaries are connected with each other, although it is argued that globalization has increased this visibility with employees increasingly working with each other in teams across subsidiaries. Internal pay comparison is, therefore, more easy and relevant than before (Freyer 2003). Yenadori studied this comparison and found out that employees are more likely to compare their pay mix over the pay level and pay mix is more influenced by the strategic alignment logic (Yenadori 2011).

The variables in the economic environment interact with each other to create a legal business environment for a subsidiary i.e. the factors influencing the demand and supply of labor creates a minimum wage that employers must pay. This minimum wage is different in different countries and could also vary between different states. The legal environment consists of laws to protect both the interest of the laborers and the employer. For example, in the United States, the Wagner Act (1935) gives the right to workers to unionize and prohibits unfair labor practices, the Taft-Hartley Act promotes good faith bargaining and unfair union practices, the Fair Labor Standards Act sets a minimum wage, rules for overtime and child labor. The legal environment may be different in subsidiary locations, preventing multinational firms to have a standard pay across locations. However, the legal environment could be less constraining if the laws are loosely enforced i.e. the “formalization” of laws could vary. In Bloom et. al (2003)’s words “formalization is the extent to which contextual factors are codified into a law or regulatory imperative, are enforced by third parties or carry enforceable penalties for violation”. Again, if a single set of laws are common and there is no variation in its application, it becomes a deterministic rule-like structure which multinational firms have to follow (coercive isomorphism).

Most of these legislations are passed by the government which forms a part of the political environment.

The technological environment consists of innovative ways of producing goods and providing services. For example, many MNCs enter international markets with new methods and techniques of operating business and have a high-performance HR strategy that wants them to attract skilled workforce. The more advanced technology that a multinational firm comes up with, the more skilled people it would require to operate them. The demand and supply of skilled workers in the market can have an influence on their market pay. Market competition can also force an organization to be more pragmatic or normative.

Overall, it can be seen that in addition to culture several other macro-variables interact with each other and influence employee compensation in a subsidiary firm. Different countries may have different economic, political, legal, technological, and cultural environments, and such high cross-context variation (between countries) would make it difficult to have a single international compensation system. Compensation practices from developed countries to periphery countries may take an 'active importing' (Kadire 2010) outlook where periphery countries provide a permissible business environment to actively learn from other countries.

Thus, we could say that although societal culture may impact human resource management policies by moderating internal work culture, the relationship is moderated with various institutional and structural constraints. Similar compensation preferences observed in cross-national studies indicates that macro-variables could be increasingly becoming similar. For example, in Ayecan et. al(1999)'s study on the model of cultural fit, it was discovered that India is high on "self-reliance", which was a strange finding considering the collectivist culture of India. They explained this finding by highlighting how "self-reliance" could mean different things in their

culture, where they do not want to depend on the members of the in-group and increase the group harmony and cohesion in that way. Similarly, the common preference of non-financial compensation (like job security, work life balance, job satisfaction etc.) irrespective of masculinity-femininity, individualism-collectivism, points to how with increase cross-borders movements of personnel and increase in the supply of skilled people have created job insecurity and also questions if sense of achievement is solely with financial compensation.

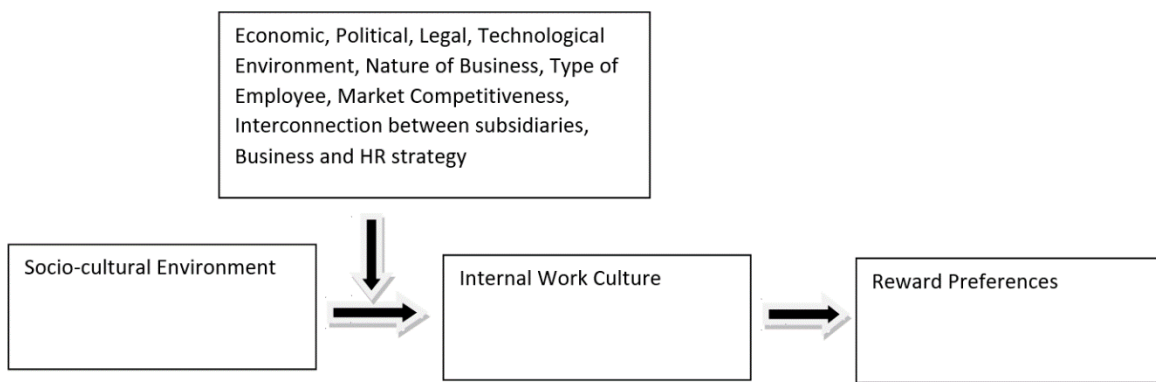


Figure 6:

Relationship between national culture and compensation

As explained by Uhl Bien et. al (2017), it is essential to have a diversity of perspectives in the adaptive space for innovation to take place. They argue that if all agents bring the same perspective then rich interconnectivity is not possible. Thus, although the thesis advises to study institutional/structural constraints (moderators), it also stresses on considering the benefits a multinational firm may have by exporting home country practices or by following the dominant model (especially when the cross-context variation is low and within context variation is high). This perspective from both sides creates “tension” (complexity), which leads to innovation. In the adaptive space where conflicting ideas interact with each other, it is essential to identify

strategic inflection points. Gamble et. al (2009) explains that when a company reaches a strategic inflection point, management has to make some tough decisions about the company's direction, because at one side abandoning a company's strategy carries a considerable risk and on the other side not responding to changes in the marketplace in a timely way leads to opportunities to slip-away. For example, the merger or acquisition of a profit firm with a non-profit firm would create "tension" about the goals of the firm as a single entity i.e. whether the firm now has the objective of profit or social gain. The choice of the direction in which the firm would head will create strategy inflection points.

It is also essential for multinational firms to balance this exploration and exploitation (have organizational ambidexterity) i.e. not spending too much time in the adaptive space that leads to loss of opportunities (example first-mover advantage). Uhl Bien et. al explains this as "linking up"- where agents have enough common perspective to come to a decision.

CHAPTER 4

CONCLUSION

Due to the mixed support of convergence and divergence, we can conclude that sociocultural dimension could be used as a starting point to find out how the employees would behave but the moderating effect of other institutional/structural constraints should not be ignored. Future research should be done to find other such institutional constraints similar to the ones presented in the model (Figure 6). Furthermore, the power of these constraints over each other also warrants future research.

The preference of performance-based rewards in many studies, irrespective of the culture tells us there was an evidence of “dominance effect” which in this study is explained as countries following the human resource management practices similar to the United States. Thus, blindly assuming employees reward preferences are solely driven by the local culture may lead to having a costly learning curve.

If home countries practices are successful, this competitive advantage should be carefully exploited (Pudelko et. al). However, this exploitation should be balanced with exploration- where multinational firms analyze the business environment and recognize the within and between cross- contextual variance. This recognition creates operational constraints that act as a “brick wall” . Due to mixed review on convergence vs divergence, I applied Uhl Bien’s et. al (2017)’s complexity model to give recommendations. Viewing localization and global integration of successful compensation practices as an entrepreneurial response and applying Uhl Bien’s complexity model offers a potential path forward. Exporting home country practices or following the dominant model is then viewed as an ordered response.

What is considered as an ordered response may depend on the organization's strategy. An organization's ordered response may be to localize in every country it operates, thus making all the other kinds of responses entrepreneurial. In general, there are mixed results on the predictive utility of culture on employee preferred compensation. Through the thesis I argue that the adaptation of compensation practices can be viewed as pragmatic experimentation and adaptive space can be used to make a decision on standardization and localization in international reward management. Despite the limitations, the thesis gives us an overview on the impact of culture on reward management.

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