Cornell University ILR School

Cornell University ILR School
DigitalCommons@ILR

CAHRS Working Paper Series

Center for Advanced Human Resource Studies (CAHRS)

11-1-2000

Toward A Model of International Compensation and Rewards: Learning From how Managers Respond to Variations in Local Host Contexts

Matt Bloom
University of Notre Dame

George T. Milkovich
Cornell University

Atul Mitra
University of Northern Iowa

Abstract
Managers and researchers recognize that the tensions created by the interplay of globalization and national environments influence the behaviors of multinational enterprises (MNEs). In order to develop a model that is useful for understanding the effects of the global and local host environments on managerial compensation, we undertook a grounded theory building study of managers in several multinationals. We use the information gained to extend two contemporary perspectives of IHRM: national culture, and strategic alignment. We develop the idea that it is the relative degree of variation (flexibility) within the local host context that is critical to understanding managers' ICRS decisions. We present a different, pragmatic experimentation view of managers' ICRS decision making, which we believe offers insights into the effects of the interplay of the MNE pressures to create integrated global systems and the pressures generated within the local host environments.

Keywords
research, practice, firm, performance, business, pay, manager, human resource, globalization, environments

CAHRS
Center for Advanced Human Resource Studies

CAHRS / Cornell University
187 Ives Hall
Ithaca, NY 14853-3901 USA
Tel. 607 255-9358
www.ilr.cornell.edu/CAHRS/

WORKING PAPER SERIES

Toward a Model of International Compensation and Rewards: Learning from How Managers Respond to Variations in Local Host Contexts

Matt Bloom
George T. Milkovich
Atul Mitra

Working Paper 00 – 14

ilr School of Industrial and Labor Relations
Advancing the World of Work
CORNELL UNIVERSITY

TOWARD A MODEL OF INTERNATIONAL COMPENSATION AND REWARDS: LEARNING FROM HOW MANAGERS RESPOND TO VARIATIONS IN LOCAL HOST CONTEXTS

MATT BLOOM
Department of Management
Mendoza College of Business
University of Notre Dame
Notre Dame, Indiana 46556-0399
(219) 631-5104
mbloom@nd.edu

GEORGE T. MILKOVICH
Center for Advanced Human Resource Studies
Industrial and Labor Relations School
Cornell University
Ithaca, New York 14850-3901
(607) 255-447
gtm1@cornell.edu

and

ATUL MITRA
Department of Management
College of Business
University of Northern Iowa
Cedar Falls, Iowa
(319) 273-7746
atul.mitra@uni.edu

TOWARD A MODEL OF INTERNATIONAL COMPENSATION AND REWARDS: LEARNING FROM HOW MANAGERS RESPOND TO VARIATIONS IN LOCAL HOST CONTEXTS

Abstract

Managers and researchers recognize that the tensions created by the interplay of globalization and national environments influence the behaviors of multinational enterprises (MNEs). In order to develop a model that is useful for understanding the effects of the global and local host environments on managerial compensation, we undertook a grounded theory building study of managers in several multinationals. We use the information gained to extend two contemporary perspectives of IHRM: national culture, and strategic alignment. We develop the idea that it is the relative degree of variation (flexibility) within the local host context that is critical to understanding managers' ICRS decisions. We present a different, pragmatic experimentation view of managers' ICRS decision making, which we believe offers insights into the effects of the interplay of the MNE pressures to create integrated global systems and the pressures generated within the local host environments.

TOWARD A MODEL OF INTERNATIONAL COMPENSATION AND REWARDS: LEARNING FROM HOW MANAGERS RESPOND TO VARIATIONS IN LOCAL HOST CONTEXTS[1]

> The true method of discovery is like the flight of an aeroplane. It starts from the ground of particular observation; it makes a flight in the thin air of imaginative generalization; and it again lands for renewed observation rendered acute by rational interpretation (Whitehead, 1978: 5).

Business managers and academics realized early on that globalization had implications for the way firms compete. The intuitive logic about the impact of globalization came easy: the rapid, efficient movement of capital, information, and people across borders; expanding markets for goods and services; and changing socio-political institutions are affecting the way organizations are managed (Doremus, Keller, Pauly, & Reich, 1998; Nohria & Ghoshal, 1997). For all its appeal, however, translating this intuitive logic into value-generating organization processes has been difficult. While it is true that organizations operating in just one country feel the effects of globalization, multinational enterprises (MNEs) have little choice but to respond to these forces by altering their management systems (Rosenzweig & Singh, 1991). Balancing the interplay of pressures to compete globally with those in the local host context is an ongoing challenge for managers.

Arguably, systems used to determine employment relationships, particularly people's compensation, are among the most politically and socially sensitive to change. In modern societies compensation influences most people's financial well being and often impacts society's political stability and the competitive advantage of a nation (Landes, 1998). Yet the pressures of globalization bear directly on employment compensation, compelling organizations to make adjustments as they compete internationally.

An oft-cited example of how globalization impacts ICRS is the stark contrast in managerial compensation systems at Daimler Benz and Chrysler. Daimler systems, designed in the aftermath of postwar Germany, reflected a post-war, restructuring economy and involved direct union and government participation in corporate governance and the pay determination process. Daimler focused on long-term commitment and social-political stability. German tax law discouraged the use of stock options. Decisions regarding managerial compensation were insulated from the competitive pressures among German enterprises. In contrast, Chrysler's system reflected the competitive U.S. market and involved very limited government or union

---

[1] This project was partially funded by PDI Global Research Consortium Ltd. The support of William H. Mobley, President, and the GRC sponsoring corporations is appreciated.

involvement in managerial pay decisions. It was designed to competitively attract and retain top talent and improve shareholder returns. At the time of Daimler's acquisition of Chrysler in 1997, the compensation of the ten top Daimler executives amounted to $10.7 million, whereas the compensation of Chrysler's CEO alone was over $11 million. Such differences cascaded throughout the newly merged organizations. At Chrysler, as little as 25% of top managers' total compensation was paid in the form of base salary; performance-based variable bonuses and stock options made up the rest. At Daimler, base salaries accounted for up to 60% of managers' total compensation, with performance bonuses (not stock options) accounting for the rest. Merged managers faced the formidable challenge of integrating these two disparate pay systems.

Conventional models of organizations and human resources used to answer questions related to ICRS rely heavily on either a national cultural or strategic alignment logic (Bloom & Milkovich, 1999; Brewster & Harris, 1999; Gomez-Mejia & Welbourne, 1994). The principle underlying a national cultural framework is that when it comes to understanding ICRS, national culture is destiny (Bird & Wiersema, 1996; Hofstede, 1994; Schuler & Rogovsky, 1998). The fundamental assertion is that, because national culture is a deterministic, constraining force, ICRS must fit local cultural conditions (Bradley, Hendry, & Perkins, 1999; Gomez-Mejia & Welbourne, 1994). "[I]n order for MNCs to be globally competitive, it is crucial that they adjust their compensation practices to the cultural specifics of a particular host country (Schuler & Rogovsky, 1998: 160)." Consequently, studies based on the nation-culture model focus on analyzing relationships between national culture and ICRS design (Schuler & Rogovsky, 1998) or the cultural limitations of (usually assumed to be U.S.-centric) compensation theories (Bird & Wiersema, 1996; Hofstede, 1994). Cultural explanations of the Daimler Chrysler situation, for example, would attribute observed differences to Germany's more collectivist, egalitarian culture as compared to the U.S.'s more individualistic culture.

Some managers and researchers express reservations about the national culture view, citing problems in defining culture, demarcating cultural boundaries, and determining the cultural profile of nations (Gomez-Mejia & Welbourne, 1994; Ronen & Shenkar, 1985; Triandis, 1993). Another concern is that this view overlooks the subcultures that exhibit significant diversity in values and norms from the dominant culture (Hollingshead & Leat, 1995) and fail to account for any cultural evolution (Bradley, et al., 1999). These concerns may be especially important given that globalization is eroding national and cultural boundaries at the same time it is creating new boundaries between regions, industries, markets, and the like (Doremus, et al, 1998).

In contrast to the national cultural framework, the strategic alignment model emphasizes the importance of aligning ICRS with the MNE's markets, strategies, structures, and organization culture so that compensation supports and enhances the organization's core competencies (McMahan, Virick, & Wright, 1999; Taggart, 1998). This view treats national characteristics, including cultures, as a continuum. The fundamental assertion is that MNEs should craft ICRS to exploit or influence context to the organization's competitive advantage. For example, the strategic model would view low wage locations or highly educated populations as environments MNEs can productively exploit. Instead of analyses that stop at the border of one country and compare what is on the other side, strategic studies treat firms as the meaningful unit of analysis. Strategic explanations of the Daimler Chrysler situation would focus on the firms' unique competitive environments, strategies, and management structures to explain the nature of their ICRS. Research based on this view addresses questions about relationships between ICRS and organizational characteristics (Sanders & Carpenter, 1998) or how compensation may influence organizational effectiveness (e.g., Gomez-Mejia & Welbourne, 1994). An enduring difficulty with this model has been translating the strategic logic into specific ICRS designs. Especially vexing has been the problem of strategic alignment within a particular MNE and how one knows when the MNE's ICRS has achieved this alignment (Bloom & Milkovich, 1999; Purcell 1999).

Differences between these two models present decision-makers and researchers a conundrum. The national cultural approach takes a relatively abstracted stance where cultural forces operating at macro levels transcend any single organization's control; ICRS design is viewed as reactive, prescribed, and administrative. Accordingly, ICRS should reflect characteristics of the local host context. But the strategic view assumes that managerial responses determine whether organizations can adapt to, exploit, and manipulate their environments successfully; ICRS design thus becomes purposeful, calculated, and controllable as it reflects the organizational strategy, structures, and culture.

In light of these two competing perspectives, we undertook a grounded theory building study to begin to develop a model more useful for understanding ICRS. We explored how managers in several MNEs around the world reconcile the interplay of global - local pressures when they make ICR decisions. We used the insights we gleaned from managers to add to the current thinking on ICRS in a number of ways. We identify which factors in the local host context managers consider most salient when they make ICRS decisions. We integrate this information with existing research. This process lead us to a second, and we believe more important, contribution. We argue that it is the degree of variation in these factors, within and between local host contexts, that matters most for understanding ICRS (Brewster & Harris, 1999). Combining the concept of variation with what we learned from managers, we develop research propositions that reflect a different view of ICRS, one we labeled “pragmatic experimentation” because it represents managers’ attempts to feel their way around the issues arising from the interplay of global and local pressures. The emergent model suggests that neither the reactive assertions of the national culture view nor the planned assertions of the strategic alignment view fully accounts for the complexity reflected in managers’ “loose” fitting pragmatism (Colander, 1999). Although managers are reacting and planning at the same time, it is what they are responding to and how they are responding that offers new insights into ICRS and, by extension, into the management of international organizations.

Theory Building Process

We followed an approach which is very similar to Eisenhardt’s grounded theory building methodology (1989, Brown & Eisenhardt, 1997) wherein we used multiple cases, each treated as an independent source of data, to generate our conceptual insights. Our primary method for collecting information was a series of structured interviews with individual managers. Over the course of one year we conducted intensive, on-site interviews in nine countries with 112 managers representing 14 nationalities. They were employed by five large multinational organizations representing three industries: computer hardware and software, food and beverage distribution, and financial services. These MNEs compete in different markets and are coping with varying degrees of globalization pressures. All agreed to provide us in-depth exposure to top managers, archival data, and to their operations around the world. For each organization, multiple members of the research team interviewed managers from a variety of home countries, who were positioned across operational groups, in different geographic locations, and at different hierarchical levels. Our research sample included both line and human resource managers who are currently managing major operational groups in Europe, South America, Asia, and North America. Some were managing in their native country; others were managing as expatriates or third-country nationals. All managers were directly involved with setting compensation policies at either departmental, strategic business unit, regional, or corporate levels. We utilized a scenario-based approach to structure our interviews. Managers were presented with four scenarios (see Appendix A) that identified hypothetical compensation policy decisions. We then asked the managers to describe the factors they considered in making decisions required in the scenarios. We used a set of open-ended questions to further probe the factors managers considered. Most interviews were also followed by observational data collection sessions that included tours of facilities, presentations by other employees, and work observations. We sought to use multiple researchers to collect data from a variety of sources within each organization. We then analyzed the information, individually and then collectively, for cross-case patterns and additional insights to inform our theory building work.

THE RANGE OF RESPONSES

The national culture model assumes managers' ICRS responses will or should reflect the local culture; thus, factors in the local host context play the crucial role in understanding ICRS. The strategic model assumes that managers' ICRS design decisions will or should reflect the MNE's strategy; accordingly, organizational context is of central importance for understanding ICRS. We suggest that both models are partially correct, but each is incomplete when used in isolation. Managers' discussions of the four compensation scenarios indicate that there is a range of ICRS responses that MNEs may make in local host contexts. During our interviews managers clearly described their mindsets in pragmatic terms, encompassing a trial and error orientation, but the form of their responses also depended on the context they face. These responses range from conformity responses–those that fully adapt ICRS to fit local host conditions–to resistance response–those that do not comply or try to manipulate the host context–to strategic responses–those that tailor ICRS to fit or support the MNE's strategic imperatives. This range reflects differences in whether compensation decision makers view local host contexts as preeminent conditions that become primary determinants of ICRS design, versus situations where organizational conditions are the preeminent determinants and local host conditions are tertiary considerations.

Conformance. When MNEs respond by conforming, the foremost objective of ICRS design is to adjust to the local host context. In some cases local laws, business practices, or the activities of powerful stakeholders may impose coercive ICRS design requirements on MNEs with no hope that the rules can be ignored, changed, or otherwise circumvented. Japanese and German MNEs complying with minimum wage and pay discrimination laws in the U.S. is an example of conformance responses. Aligning compensation systems with the perceived national culture is another. In conformance situations MNEs have only two choices: to accommodate local host conditions or cease operations at that location. In most cases conformance responses are driven by either (1) a desire to avoid sanctions, (2) efforts to achieve competitive parity, or (3) a desire to obtain legitimacy (Davis & Powell, 1992; Oliver, 1991). This may occur because MNEs have only one response alternative as, for example, when they face a strictly enforced law. When alternatives do exist, copying the practices of other companies operating in the local host context is likely to be a low-cost approach to conformity.

The costs and uncertainty associated with interpreting the nuances and implications of contextual factors and then developing a novel response, one that is also difficult for competitors to imitate, may far outweigh any benefits of such a response. Complying with local host laws (e.g., wage and hour laws) or predominant business practices (e.g., 2 weeks of vacation are nearly ubiquitous in the U.S.) are both examples of conformance responses. This isomorphism is likely to make it very difficult for organizations to derive any sort of sustainable competitive advantage from a conformity response, even if it seems to be the correct response mode. The distinguishing characteristic of conformity responses is that they take local host conditions as the primary determinant of ICRS design and acquiesce to local host conditions, regardless of the MNE's strategy.

Resistance. Rather than conforming to local host contexts, MNEs may attempt to resist by refusing to comply or manipulating factors in the local host context (Oliver, 1991). For example, MNEs may search for ways to finesse local host regulations and predominant business practices by innovating unique approaches. One example was offered by a Hong Kong manager's approach to housing in Shanghai:

> Improved housing is really important to professionals in Shanghai, but it is costly and difficult to get reasonable loans. At first, to attract and keep the best people, we tried building or managing apartments, town houses, and even single family houses. But we figured out we weren't in the housing business. So now we are trying making housing loans available at great terms based on two years of performance -- and the loans get forgiven on a sliding scale over the time the individual sustains performance.

The use of virtual workers from Czech Republic also illustrates the point:

> A Czech college computing team won a Europe-wide contest sponsored by us. We do this with the expectation of hiring the entire team. But we couldn't hire the Czech team permanently because of visa difficulties in transferring them, since the Czech Republic is not an EU member. So we hired them as contractors, pay them as if they were on our regular salary schedule, and they work virtually from Prague (Manager of the U.S. MNE in London).

MNEs may also resist by challenging the credibility of factors in the local host context or trying to change them through the use of influence, control, negotiation, or other actions. "If you don't like their interpretation of the law, call again tomorrow, or find the right person to talk to. It's all about building the right relationship." This point of view was expressed by managers in both U.S. computer and finance MNEs, and a UK-based food products MNE. By resisting, a MNE may create opportunities to implement a more consistent set of ICRS across several local host contexts in which it operates. MNEs may also be able to arbitrate (cf., Sundaram & Black, 1992) some of the differences that exist across local host contexts in which they operate. For example, they may circumvent EU visa regulations by using virtual relationships with the Czech programmers. Another approach was described by a U.K. manager of a U.S. MNE in London, who told us,

> When we launched our global stock option plan, the biggest, most time-consuming headache was the maze of tax laws in the world. Some countries, like Sweden, tax them immediately, which makes them a liability instead of an incentive to our people. I know companies…who set up a corporate unit in Switzerland and on the Isle of Jersey, then placed all their option-eligible European managers in it to simplify their compensation strategy. When we decided a global option initiative made sense for us, we made it happen.

The distinguishing characteristic of resistance responses is that organizations do not simply acquiesce to the local host context, but rather through trial and error they pragmatically challenge, attempt to change, or work around the local host context in order to support their business strategy.

Strategic. Rather than conformance or resistance, a strategic response seeks first and foremost to align ICRS with the MNE's organizational context: its strategic imperatives, goals, objectives, organizational culture, other HRM practices, work force characteristics, etc (Gerhart, 2000; Gomez-Mejia & Balkin, 1992; Milkovich and Newman, 1999). Managers in our study overwhelmingly viewed strategic responses as the preferred response. In many cases, a strategic response means striving to craft one ICRS that can be adopted throughout the world. This approach seeks the strong integration obtainable by adopting a consistent management structure worldwide (Kobrin, 1991; Rosenzweig & Singh, 1991; Roth & Ricks, 1994; Sundaram & Black, 1992). Other organizations sought to achieve competitive advantage by using a variety of strategies across the markets in which they compete. One Japanese MNE sought to become a "good citizen" in each nation in which it operates. Corporate officers located in Tokyo required detailed reporting of local responsiveness (donations to museums and schools), but did not require any reporting of salaries and salary increase budgets, which were at the local units' discretion. The result–"150 locations, 150 compensation systems"–might appear to be a conformance response, but is not in this case; the MNE's global strategy is to adapt to local conditions and so it adjusts its ICRS accordingly. While a strategic response does not preclude mimicking "best practices," the MNE does so using its strategic imperative (being a solid corporate citizen) as the selection criterion rather than conforming to the "best practices" in local host context. These are the kinds of responses prescribed in the strategic compensation literature (Gerhart & Milkovich, 1992; Gomez-Mejia & Balkin, 1990). Without doubt, most managers in our study framed their responses to the scenarios in strategic terms. For example, the response of one Indian manager of a U.S. MNE who had just lead the opening of a subsidiary in India stated that,

> What really matter around here are tech types. Essentially, we have two compensation systems and we use them globally: one for tech-types and a different one for everyone else. But the key is that all the best stuff goes to the tech-types. To win in this business we need star techies, not star accountants. And this is true in everywhere we compete.

Other managers described their organization's approach to responding strategically:

> Pay for performance is one of the pillars of our high-performance culture. Bonuses based on performance, weighted to individual, regional business, and corporate, 360 appraisals, customer feedback are all being implemented around the world. At first, some managers, especially in Belgium and Italy, resisted. Some argued that 360 and differentiating on performance is not compatible with their culture. But with the slow economic turnaround and [CEO's] emphasis on winning in the competitive marketplace, we have overcome that (French manager in U.S. MNE in Paris).

> Too often I believe we use our culture as a mask, to hide our true selves. We say "this is a nice idea but please, you must appreciate our culture. It cannot be done here." How must we achieve our business objective: that is primary. Then we must look to use our cultural ideas to support them (Japanese manager in U.S. financial MNE in Tokyo).

The key feature of strategic mindset is that ICRS are rationalized in terms consonant with the MNE's business and market dynamics. Variables in the local host context emerged only secondarily or when prompted by the interviewer's questions. As a British senior executive of a U.S. MNE operating in China told us, "We pay globally because our clients operate globally. One global pay system is, quite logically, the best for us."

UNDERSTANDING MANAGERS' PRAGMATIC EXPERIMENTATION MINDSETS

In our discussions with managers two factors seem to dominate their thinking (Figure 1). The first is the organizations' global strategies or direction–the way they pursue their business in the various markets around the world. We refer to this as organizational context because it includes features such as organizational goals, culture, work and workforce characteristics, organization structures, and processes. The second factor is the degree to which the local host contexts of these markets constrain and influence decision-makers' choices. While managers reported that they focus on only a few factors in the local host context, we found that the key to understanding their responses is the degree of variation in these factors, both within and between local host contexts.

The Role of Global Business Strategy in MNE Managers' Responses

Following Taylor, et al (1998), we take as a starting point Porter's (1986) characterization of MNE's global business strategies as following either a multi-domestic (where each subsidiary is treated as an independent business and inter-subsidiary relationships and dependencies are minimal) or global (where there is a high degree of integration and interdependence among subsidiaries and headquarters) orientation. We found three general orientations toward matching ICRS design with organizational context among MNEs which conform well to the adaptive, exportive, and integrative SIHRM orientations that Taylor, et al. (1996) discuss.

Adapter (Localizer). An adapter or localizer strategy is one in which the MNE attempts to create compensation systems consistent with most or all of the local environments in which it competes. These MNEs use a differentiation global business strategy where they seek a competitive advantage by providing different, tailored products or services in each marketplace. Subsidiaries of localizers operate relatively independently of the enterprise's headquarters and other subsidiaries. Given their orientation, we expect adapters to assume conformance responses in virtually every local host context in which they operate and, similarly, we expect it to be very unlikely for them to engage in resistance responses. These organizations may, however, have difficulties with ICRS design in contexts where there is no dominant set of factors to guide their design decisions. We found this among the various subsidiaries of one Japanese MNE operating in the U.S. and Europe: each subsidiary had its own compensation system. This multinational exhibited the "150 locations - 150 compensation systems" approach.

Proposition 1a: *MNEs pursuing a multi-domestic strategy will be more likely to pursue an adapter approach to ICRS design than MNEs pursuing a global strategy.*

Proposition 1b: *MNEs pursuing an adapter approach to ICRS design will be more likely to exhibit conformance responses than MNEs pursuing an integrator approach.*

Exporter. Exporters are virtually the opposite of adapters in that they prefer "a wholesale transfer of the parent firm's HRM system to its overseas affiliates" (Taylor, et al, 1996: 965). Exporters seek to apply the compensation system used in its home country as a template for the ICRS they use in each local host context. While exporters may tailor each local compensation system somewhat to conform to local conditions–particularly tax and labor regulations–replicating the home-country system is the primary objective. Exporters are likely to adopt resistance responses when they confront obstacles in local host contexts. The prevailing logic of exporters is that a very similar ICRS will facilitate efficiency and make it easier to move managers among local host contexts. We found this logic in the U.S. financial services MNE that sought to apply its U.S.-based business practices across its worldwide business operations.

Proposition 2: MNEs pursuing an exporter approach to ICRS design will be more likely to exhibit resistance responses than MNEs pursuing an adapter approach.

Integrator (globalizer). Like exporters, these organizations seek to implement a common ICRS in all local host contexts, but integrators do not draw upon a home-country system as the archetype. Integrators seek to gather the best ICRS design ideas from around the world and incorporate them into a set of practices that can be used consistently across subsidiaries and local host contexts. These firms are also similar to exporters in that they seek to create a more seamless ICRS that facilitates their "one world" global strategy, but integrators are more likely to resist rather than conform to local conditions than are exporters. The headquarters and subsidiaries are mutually interdependent and heavily networked together to facilitate sharing resources and knowledge, so that ICRS design ideas are equally as likely to flow from subsidiaries to the headquarters, or among subsidiaries. We found this logic in the U.S. high technology MNE that set the creation of strong integration among its subsidiaries, global talent mobility, and a consistent, cohesive set of global business practices among its top goals.

Proposition 3a: MNEs pursuing a global strategy will be more likely to pursue an integrator approach to ICRS design than MNEs pursuing a multi-domestic strategy.

Proposition 3b: MNEs pursuing an integrator approach to ICRS design will be more likely to exhibit strategic responses than MNEs pursuing an adapter approach.

The Influence of Local Host Contexts on MNE Managers' Reponses

Existing research on international human resource management (IHRM) has yielded a great deal of information describing factors in the local host contexts that may be relevant for making strategic and managerial decisions (Black, Gregerson, Mendenhall & Stroh, 1999; Brewster & Harris, 1999; Mendenhall & Oddou, 2000; Palich & Gomez-Mejia, 1999; Taylor, Beechler, & Napier, 1997). Using this literature as a background for interpreting managers' responses in our study, we found that four broad categories of factors in the local host context appear to be most relevant for ICRS design decisions: regulatory - political, institutions-stakeholders, industry-competitive conditions, local markets.

Regulatory and Political Context (governments, laws, & public policies). Characteristics of sovereign states can have penetrating and often compelling influences on MNEs (Nehrt, 1998; Pincus & Belohlav, 1996; Sudaram & Black, 1992) through the dominant business ideologies they espouse and the laws, regulations, and agencies they enact (Kogut, 1991; Locke, Kochan, & Piore, 1995; Weaver & Turner, 1998). For example, Murtha and Lenway (1994) describe how the national political-economic systems of China and Cuba "…rely on very specific policy instruments that subject firms to authority at every point of interaction with their environments" whereas those of Canada, Italy, and the U.S. foster free markets through a laissez faire approach. Dzialo, Jonnegärd, Kärreman, Svenson, and Urbanek (1998) describe how differences in national corporate governance policies affect such things as the monitoring role of supervising boards and the measures used to evaluate organizational performance. Doremus, et al., (1998) discuss how the business ideologies and public policies of the U.S. (free enterprise liberalism), Japan (technonationalization) and Germany (social partnership) have profoundly affected the strategies, structures, and operations of MNEs from those countries, including the design of their compensation systems. Buechtmann (1993) edited a volume of research articles describing the significant effects that differences in employment protection laws have on the HRM and pay practices of organizations operating in Germany, France, Italy, the U.K., and the U.S. (see also Houseman, 1997). Through policies related to issues such as the configuration of financial markets, taxation, and ownership structures, governments may profoundly affect how MNEs structure their ICRS (Applebaum & Batt, 1994; Kochan, Landsbury, & MacDuffie, 1998). Perhaps the most commonly cited example is the direct relationship between a nation's tax code and the use of stock options, particularly broad based option plans. Favorable tax treatment in the U.S., U.K., and Hong Kong and unfavorable treatment in Sweden, Germany, and until recently Japan correlates closely with the use of options in the managerial pay systems of MNEs operating in those countries (Mercer, 1999; ACA, 1999). Managers in our study also stressed the importance of these factors. An Indian manager of a U.S. MNE in India stated, "In India, income tax laws drive total compensation. There are ways to shelter income from tax laws! (The) interpretation of tax-related laws has caused some variability in (pay) packages in India." A U.S. manager of a U.S MNE operating in Tokyo told us,

> We introduced stock options to our Japanese professionals seven days after the Diet passed the enabling legislation. It was a rush job; many of our people didn't understand what options were or why they got them. But we rushed to get them introduced because there were serious tax advantages for our Japanese employees (taxes on foreign MNE options granted to Japanese citizens were "overlooked" in early legislation), and we figured we could explain later. And

> stock options gave us a clear advantage in recruiting top Japanese talent to a foreign company in Tokyo.

Institutions and Stakeholders. Whether singly (a particular stakeholder) or in concert (stakeholder groups, political coalitions, union federations, competitors), the activities, practices, and demands of external stakeholders influence decisions about such issues as pay levels, allowances and benefits, and the types of incentives MNEs adopt. The characteristics of owners (e.g., individuals vs. institutions, dispersion of ownership, power), relationships between owners and managers, and the rights and responsibilities of these parties have been the subjects of a significant body of compensation research (Finkelstein & Hambrick, 1996; Murtha & Lenway, 1994; Gedajlovic & Shapiro, 1998). In some nations the government owns all firms (e.g., Cuba) or is the major shareholder of many privatized companies (e.g., China, India) (Lau, 1998; Murtha & Lenway, 1994) while in others such as the U.S., stock is widely held, but rarely is any government an owner. In Sweden and Belgium, controlling shareholders negotiate compensation policies via tripartite procedures (Freeman & Katz, 1995); U.S. shareholders have little direct influence on managerial compensation decisions (Boyd, Carroll, & Howard, 1996; Dzialo, et al., 1998; Gomez-Mejia, 1994). Stakeholders involved in the collective representation of workers often directly influence compensation practices (Houseman, 1977; Locke, et al., 1995; Pinfeld & Berner, 1994). Institutions and strategic pressures clearly interact in their effects on managers' pay decisions, especially on the mix of compensation. The use of housing, transportation and family allowances, bonuses, medical and pension coverage, and stock options vary widely among nations (institutional effects) and among MNEs (strategic effects). Managers in our study explained these differences and their potential effects in terms of differences in tax treatment, political orientation, and business strategies.

> Our tax codes are incentives to increase the use of allowances and bonuses rather than base pay. Our company faces payroll taxes on base pay but not on any other form, and just this year we can offer options for the first time (Japanese manager in Japanese MNE in Tokyo).

> For most Europeans, personal wealth is in their pension plans. In the U.S., it is increasingly in their stock portfolios. So our managers' reactions to changing pensions and other benefits really depend a lot on the nation's social and tax policies (Spanish manager in U.S. MNE in Paris).

> For a global company, (total compensation) should have the same core (around the world) but a flexible exterior…a pay-for-performance system is an example of a core principle. An example of flexible exterior would be to allow flexibility in benefits based on laws or social norms about, say, women's issues. (Indian manager working for a U.S. MNE in India).

Industry Conditions and Competitive Dynamics. A large body of strategy research is devoted to the impact of industry conditions on organizations (Gardener, 1995; McGahan & Porter, 1997; Rajagopalan & Finkelstein, 1992; Rosenzweig & Singh, 1991; Rumelt, 1991), including their compensation systems (Melin, 1992; Mitchell, Shaver, & Shaver, 1992; Sanders & Carpenter, 1998). The uncertainty about how to best respond or optimally leverage these competitive dynamics is evident in the variety and continually changing managerial compensation systems MNE are experimenting with. The Star Alliance (the strategic partnership between United Airlines, Lufthansa, Air Canada, Mexicana, SAS, and ANA) integrates its ticketing, ground crews, baggage handling, and some financial information systems across companies, but does not integrate its managerial compensation systems. NeWorld, (the partnership between American Airlines, British Air, Iberia, Quantas, Cathay), on the other hand, is experimenting with a common compensation approach for managers whose roles include cross-company coordination and active participation in cross-company committees. Managers in our study argue that the strength of these effects varies across industries, and also that the impact of these competitive dynamics are increasing rapidly. In addition, they expect these forces to continue pushing companies into a global talent marketplace where national boundaries will mean less and less, and attracting the best workers from around the world will become the norm. This is especially true among managers at the high-technology MNEs who assert that theirs is a truly global industry where firms compete in a global marketplace for both customers and employees. A manager of a U.S. MNE in India noted, "every IT worker in India knows exactly how IT workers in the U.S. are being paid, and its much better than IT workers in India. What pay package do you think they expect? Like all IT companies, we compete globally for talent." Managers at financial services companies, on the other hand, note that their industry is segmented along both global and national boundaries:

> The way business is done in this industry requires that our people help each other no matter where they are located globally, but at the same time they must carefully balance this with performance in their own region. The global focus on total pay helps foster teamwork and global mobility, the regional focus on bonus pools helps foster regional performance (U.K. manager of a U.S. MNE in China).

Markets. A well-established theoretical and empirical literature from economics (e.g., Abowd, 1994) and industrial relations (e.g., Freeman & Katz, 1995; Locke, 1998) emphasizes the importance of capital, labor, and product markets in understanding the compensation practices of MNEs. This work is extensively reviewed elsewhere (Ezzamel & Watson, 1998; Freeman & Katz, 1995; Groshen & Schweitzer, 1997). Increased information flows across borders, facilitated by worldwide telecommunications alliances, are changing traditional notions of competitive markets (Venkataratnam & Verma, 1997). These and other market developments are breaking down a variety of barriers, including geopolitical, social and economic boundaries, that affect management and compensation decisions (Lodge & Reavis, 1999). During our interviews managers stressed the importance of markets in the ICRS decisions. For example, in Shanghai, managers from several companies used the same "General Motors' entry" example to illustrate labor market effects. One manager explained it this way:

> When General Motors started hiring for their new facilities in Pudong they substantially raised salaries and signing bonus. We all had to adjust. I gave two financial analysts their performance increases one week and the very next week I called them in and gave them another, even larger increase to try to offset General Motors' move. If this keeps up, Shanghai isn't going to be a low labor cost location for long.

Another example is financial markets that Doremus, et al. (1998) argue determine the dominant time horizon of managers - short-term in the U.S. and long-term in both Japan and Germany. This may also result in differences in ICRS design. For example, a U.S. manager of Japanese MNE in New York City lamented,

> How can I compete for software engineers? This is a Japanese company; their stock is not traded here. The first question I get is, 'what is your option program?' When I tell my Japanese executives, they explain that here we don't want people only interested in stock, so it is best that they don't join us.

A Hong Kong manager of a U.K. MNE working in Shanghai described how his MNE responded to market conditions:

> Improved housing is really important to professionals in Shanghai, but it is costly and difficult to get reasonable housing loans. At first, to attract and keep the best people, we tried building or managing apartments, town houses, and even single family houses. But we figured out we weren't in the housing business. So now we are trying making housing loans available at great terms based on two years of performance -- and the loans get forgiven on a sliding scale over the time the individual sustains performance.

National Culture

To our surprise, few managers in our study voluntarily cited national culture as an important factor in their thinking about the problem scenarios. In response to our further probes, "Does national culture enter into your thinking? If so, how does it do so?" managers invariably reported it did not. By inference, managers' responses raise questions about the usefulness of characteristics of national culture in understanding ICRS. While managers did not reject the notion that culture at some level - different from and perhaps larger than the organization's culture - matters, their responses suggest that the notion of national culture may not be an appropriate representation. They imply a recognition of the difficulties researchers face both in demarcating the boundaries of non-organizational cultures (some transcend national boundaries, others encompass only a small subset within national borders) and in developing a comprehensive, valid measure of culture. The response of one U.S. manager is typical:

> Compensation policy depends more on tax policies and the dynamics of our business than it does on (national) culture. I suppose you could argue that tax policies reflect a country's dominant culture, but from where I sit it depends on the political aims of the ruling coalitions and our ability to effectively work with them. The culture argument is something politicians hide behind.

This response echoes the complexities associated with studying culture, well recognized by cultural scholars (Triandis, 1994), but often overlooked in ICRS. As noted earlier, the conventional national culture logic asserts that a nation's culture is a necessary, almost sufficient, determinant of ICRS. In the comparative cultural literature, culture is treated as a multilevel, multidimensional construct that characterizes entire nations (Hofstede, 1980; Trompenaars, 1995), organizations or networks (Daft 1984; Dennison, 1996; Schein, 1992) and groups of individuals (Triandis, 1994, 1998). Hofstede (1990) focuses on national-level shared mental programs that influence how information is processed. Denison (1996: 624) sees culture as a "deep structure of organizations which is rooted in values, beliefs and assumptions held by its members." And Triandis (1994), focusing at the individual level, depicts it as "the human made part of the environment. It has both objective elements -- tools, rules, and applications -- and subjective elements -- categories, associations, beliefs, attributes, norms, rules, and values" (p. 111). Common to all these views is that cultural analysis, at its core, requires a cognitive perspective.

In their review of individualistic - collectivist cultural research Early and Gibson (1998) imply that the national culture model is useful to understanding ICRS. They observe that collectivist cultures such as China, Israel and Japan prefer group-based compensation and equal allocation of pay increases, whereas individualistic cultures such as the U.S. or U.K. prefer individual-based compensation and pay increases that are proportional to contributions. Yet further studies reveal that national borders are not essential to understanding the role culture may play in determining ICRS. Studies by Early (1997), Wagner (1995), and Trompenaars (1995) report that the effects of cultural diversity (variability in individualism - collectivism, risk aversion and power distance) can be observed within nations. One study (Bloom, Milkovich, & Zupan, 1996) found that Slovenian MBAs tended on average to be more risk taking and individualistic than U.S. MBAs. Among the most striking findings was that the variation in each cultural dimension was virtually the same in both the Slovene and U.S. data. Consequently, one can find risk-adverse collectivists and risk-taking individualists in both nations. Relying upon the nation's "average" on any cultural factor may not be useful when trying to understand the effects of global and local pressures on ICRS. Rather, we argue that it is the degree of variation in cultural norms within a country that is crucial to understanding the role culture plays.

The Importance of Variation in Local Host Contexts

Much of the existing literature on IHRM focuses on how factors in local host contexts (e.g., national culture, laws, stakeholders) affect the structure of ICRS (Sparrow, 1999; Taylor, et al., 1996). Based on our interviews, we conclude that managers' decisions depend more on the degree of variation in those contextual factors. Gould (1996) argues that the concept of variation in systems is of central importance for understanding how contexts shape a variety of phenomena. He asserts that "any measure of central tendency *(e.g., mean, mode, median occurrences)* acts as a harmful abstraction, and variation stands out as the only meaningful reality" (p. 45),…"failure to consider the 'full house' of cases plunges us into a serious error again and again. (p. 46)" We believe that to fully understand the determinants and effects of ICRS, considering only central tendency of national culture, local business practices, or regulatory provisions has limited utility and, more importantly, may obscure important causal relations. We argue that variation is a boundary condition that determines when local host contexts are more constraining, thus increasing the likelihood of conformance responses, and when they allow greater discretion, increasing the possibility for resistance and strategic responses. We next consider three ways that variation can be manifested in local host contextual factors (i.e., heterogeneity, formalization, and pervasiveness). We then use it to develop research propositions that predict how local host contexts influence MNEs' ICRS decisions (Table 1).

TABLE 1

The Effects of Variation in Local Host Context on ICRS Design Responses

Boundary Condition	Description	Effect on MNEs' ICRS Design Responses
Variation	The degree of variation heterogeneity, difference, or deviation in how the contextual factor is expressed or manifested in the local host context.	Increases discretion, creates opportunities for choice, increases likelihood MNE will respond strategically.
Formalization	The extent to which contextual factors are codified into a law or regulatory imperative, are enforced by third-party agencies, and carry enforceable, severe sanctions or penalties for violation.	Deterministic: constrains responses, increases likelihood that MNE will conform.
Pervasiveness	How widely the contextual factor is adhered to and supported among organizations/institutions in the local host context. Factors that are ubiquitous or affect larger numbers of organizations are more pervasive.	Deterministic: constrains responses, increases likelihood that MNE will conform.

Defining the Concept of Variation. Variation is manifested in the degree of heterogeneity in contextual factors. For example, in some nations pay-related laws may vary greatly from region to region. In other nations a single set of laws is applied uniformly throughout the sovereign territory (Sudaram & Black, 1992). Greater variation in the number, provisions, or enforcement of applicable laws within a local host context provides MNEs with more response options and greater latitude in how they can respond in their ICRS design decisions. For example, laws related to the ownership of organizations in the U.S. permit a wide range of options including sole proprietorships, full and limited partnerships, and variety in corporate governance. Laws in China permit fewer forms. The greater heterogeneity of corporate governance forms in the U.S. creates a less constraining environment, and allows MNEs more latitude in how they structure themselves, including how they design their ICRS. Information about the most common or median form of ownership in a nation may be less useful than understanding the variability in it. Variation in the social norms followed by the population of a local host is another example. MNEs are likely to be less constrained by social norms where diversity is greater, in part because there is no dominant set: focusing solely on the population average on social values could be misleading. Greater heterogeneity in important contextual factors is one way that variation is manifested in local host contexts.

Proposition 4a: *Local host contexts that have greater homogeneity in the way important contextual factors are manifested will constrain MNEs toward conformance responses in their ICRS design decisions.*

Proposition 4b: *MNEs will adopt strategic responses in their ICRS design decisions when factors in local host contexts exhibit greater heterogeneity.*

Formalization. The degree to which important contextual factors are formalized is another way that variation is manifested in local host contexts. Contextual factors exist in a variety of states ranging from beliefs about proper conduct, to guidelines, to strictly enforced laws. As contextual factors become more codified or institutionalized, formalization increases. Formalization also increases to the extent that contextual factors carry penalties for failing to comply. The more formalized the contextual factor, the lower its variation and the more deterministic its effects on MNEs. For example, the Fair Labor Standards Act in the U.S. establishes minimum pay standards for most jobs and imposes stiff penalties for failing to comply. Several Eastern European nations stipulate the allowable differential between executives and the average wage paid to the workforce. In some transitioning economies MNEs must conform to government-approved wage structures for all jobs and industries (Hsu, 1995; Vaughan-Whitehead 1998). In other nations, such laws may exist but be only loosely enforced. Formalization is lower in these cases, and the greater variation that results provides MNEs with wider latitude for how they may respond. Greater formalization in contextual factors constrains MNEs' ICRS responses, often limiting them to conformance responses. Less formalization the local host context permits MNEs wider discretion affording the possibility of resistance or strategic responses.

Proposition 5a: *Local host contexts that have greater formalization in important contextual factors will constrain MNEs toward conformance responses in their ICRS design decisions.*

Proposition 5b: *MNEs will adopt strategic responses in their ICRS design decisions when factors in local host contexts exhibit less formalization.*

Pervasiveness. Variation is also manifested in the pervasiveness of factors in local host contexts. Contextual factors that are widely used or adhered to by a number of organizations, or that are broadly supported by a number of different stakeholders are more pervasive. Pervasive factors may reflect institutional pressures to conform (DiMaggio & Powell, 1983) or they may take on a deterministic rule-like status or contagion of legitimacy (Oliver, 1991). Vacation allowances in the U.S. and Europe are pervasive. Even though there is no U.S. law regulating vacation days, the vast majority of organizations operating in the U.S. offer vacation schedules based on time employed and job level (e.g., two weeks minimum). Pervasive factors have limited variation and, therefore, constrain ICRS design responses and create pressures to conform.

Proposition 6a: *Local host contexts that have greater pervasiveness in important contextual factors will constrain MNEs toward conformance responses in their ICRS design decisions.*

Proposition 6b: *MNEs will adopt strategic responses in their ICRS design decisions when factors in local host contexts are less pervasive.*

CONVERGENCE AND DIVERGENCE OF ICRS: WITHIN AND BETWEEN MNES

Understanding the degree of variation in the local host context is also useful for predicting where the differences in ICRS used within a *single* MNE throughout the world are converging (or diverging) and where the ICRS used *among* MNEs operating in the same local context will be more likely to converge or diverge. We are interested in understanding how pressures toward conformity (aligning ICRS with local host contexts) and integration (aligning ICRS with organizational context) affect the design of ICRS used within a single MNE worldwide and among several ICRS operating in the same local host context.

ICRS Designs Within a Single MNE. We have predicted that lower variation in a local host context will constrain MNEs' responds toward conformance responses. Consequently, we expect the ICRS within a single MNE to become more heterogeneous when the several local host contexts in which it operates are more constraining. When variation is low within each of the local host contexts, the MNE will be more likely to conform by adopting different ICRS for each local context; at the limit, one for each low variation (highly constraining) context because each requires its own unique ICRS. (An exception is the case where two or more constraining local host contexts have the same configuration of contextual factors [e.g., their governments, laws, and markets are the same]). When the local host contexts that a MNE faces have greater variation (are less constraining), the MNE can respond strategically by crafting its ICRS to match its organizational context. Given the strength of pressures to integrate (Nohria & Ghoshal, 1997; Rosenzweig & Singh, 1991), we expect these strategic responses to exhibit greater convergence so that the MNE moves toward an exporter or integrator approach. If all the local host contexts are sufficiently discretionary, the MNE can adopt a single integrated ICRS and use it throughout the world.

Proposition 7: *The divergence of ICRS within a single MNE will tend to be greater when variation with the different local host contexts a MNE faces is lower (the local host contexts are more constraining).*

ICRS Designs Among MNEs Operating in the Same Local Host Context. Because constraining local host contexts translate into less choice in the design of ICRS, we expect the ICRS among multiple MNEs operating in the same local host context to be more isomorphic when that environment is more constraining. Mimetic processes—which are likely to underlie responses in constraining contexts—support homogeneity among ICRS. At the limit, the local host context may dictate ICRS provisions to the point that all MNEs must adopt essentially the same ICRS. Comparative descriptions of national compensation systems (e.g., comparisons of Japanese, German, and U.S. "systems") are based on the unstated premise that all employers adhere to a national archetypal system. However, when the local host context exhibits greater variability, MNEs are able to respond strategically by designing ICRS that fit their unique organizational contexts. Given that organizations seek unique strategies to gain a competitive advantage, we expect MNEs to adopt distinct ICRS where possible. Thus, we expect to observe greater ICRS heterogeneity among MNEs operating in the same high variation (highly discretionary) local host context.

Proposition 8: *The ICRS among MNEs operating in the same local host context will tend to be more homogeneous when the local host context is more constraining.*

Implications for ICRS Effectiveness. We asked managers what factors they believe are important for creating ICRS that achieve their goals. On the whole, managers' opinions are consistent with the strategic compensation and international strategy literatures in that they assert ICRS effectiveness is enhanced when pay systems support their organization's strategies, structures, and cultures (Bloom & Milkovich, 1999; Gerhart, Trevor, & Graham, 1996; Gomez-Mejia & Balkin, 1992). For example, Doremus et al. (1998) report that, rather than adjusting chameleon-like to each country's context, successful organizations retain their own distinctiveness across national borders by adopting a uniform set of practices throughout the global organization. Thus, we expect that ICRS will be more effective when MNEs can make strategic responses and less effective when MNEs are constrained toward conformity responses.

Proposition 9: *Organizational effectiveness will be enhanced with MNEs can respond strategically in the design of their ICRS.*

CONCLUSION

One of our central purposes in this paper was to fold managers' ideas into the process of building theories of international management. Our grounded theory approach allowed us to investigate how managers of different nationalities, working around the world in organizations with different national origins, thought about identical compensation issues. An important strength of blending managers' mindsets into theory building, particularly in new areas, is integrating the ideas offered by those actually making, and living with, management decisions. Perhaps the most obvious weakness is that model building based on abstract, hypothetical experiences may omit critical factors and include non-relevant ones. However, these limitations became mitigated when the grounded ideas make up only part of incremental theory building process. Along with existing theories and empirical study, the grounded model is part of a continual cycle of study.

Two contemporary models of international HRM, the national cultural and strategic alignment models, were used to frame the study. We found that, while both can be useful for understanding managers' decisions, neither fully captures how managers are responding to the pressures of globalization. One of the central findings emerged from the way managers of MNEs, regardless of their nationalities or the origins of their enterprises, responded to the pressures of globalization. Managers were clearly seeking to respond strategically, yet they often encounter local host contexts that constrained their ability to do so. Managers acted as pragmatic experimentalists: conforming when necessary, resisting when feasible, and crafting strategic responses whenever possible as they tried to adjust ICRS in such a way that compensation would support their organization's unique context.

The emerging model suggests that neither the reactive assertions of the national culture view nor the planned assertions of the strategic alignment view fully accounts for the complexity reflected in managers' "loose" fitting pragmatism. Although managers are reacting and planning at the same time, it is what they are responding to and how they are responding that offers new insights into ICRS and, by extension, into the management of international organizations. It directly parallels some current models in international business research (Nohria & Ghoshal, 1997; Rosenzweig & Singh, 1991) in that it reflects managers' attempts to balance pressures to respond to local host contexts (differentiation; by crafting ICRS that match local host contexts) against pressures to coordinate global operations (integration; by utilizing a consistent strategy and structure across local host contexts) (Bartlett & Ghoshal, 1991; Doz & Prahalad, 1991; Pucik, 1992; Rosenzweig & Singh, 1991). The pragmatic experimental view is messier and less parsimonious than either the nation cultural or strategic models because it reflects the disorderliness, complexity, and uncertainty of the global environment. Yet, we believe it may be a more realistic representation of the environment managers say they face: one that fluctuates between periods of dramatic change and periods of gradual change, and one that never seems to achieve equilibrium. In some sense this emergent view parallels punctuated equilibrium, yet equilibrium is not as useful a concept as punctuated change and continuous evolution (Brown & Eisenhardt, 1997).

Our discussion with Toshiba managers over dinner in Tokyo after a long day of interviews illustrates how even in a traditional Japanese company, managers are debating and experimenting in response to globalization. One executive expressed his belief, perhaps hope, that “once we get past these upheavals, things will stabilize and return to normal.” Other managers countered, suggesting that “expecting stability or return to stability was not in the future.” Even accepting an uncertain future, managers at Toshiba, just as those at other MNEs, are searching for better ways to manage a global workforce with compensation. One Toshiba manager used an old Chinese metaphor to make his point: “We are forever crossing a raging river in our bare feet. We must take one step at a time, feeling along the bottom for sharp stones and drop-offs, while searching for the way across.”

Studying managerial compensation from a global vantage point provides new insights into not only how compensation is determined, but also into why these decisions are often so complex to understand. From a global perspective it is readily apparent that managerial compensation is very important at the national level because it is embedded in many nations’ social contracts and affects national political and economic conditions. Consequently, compensation decisions are often heavily constrained by laws, public policies, and a variety of institutions. At the same time compensation is important at the organizational level, because it influences managers’ attitudes and behaviors, and so it is also often heavily influenced by organizational factors (e.g., strategic intentions, management structures, organizational culture). Both environmental and organizational factors make pay systems appear rigid and resistant to change and it often takes major shifts in environments, something akin to the jolts of earthquakes on geological formations, to break down these constraining effects. For managers in our study, globalization is clearly such a process.

REFERENCES

ACA News. 1999. Focusing on International Assignments. July/August. Scottsdale, AZ

Applebaum, E., & Batt, R. 1994. The new American workplace: Transforming work systems in the United States, Ithaca, NY: ILR Press.

Bartlett, C. A., & Ghoshal, S. 1991. Global Strategic Management: Impact on the New Frontiers of Strategy Research. Strategic Management Journal, 12: 5-16.

Bartlett, C. A., & Ghoshal, S. 1998. Managing across borders. Boston: Harvard Business School Press.

Bird, A. & Wiersema, M.1996. Underlying assumptions of agency theory and implications for non-U.S. Settings: The Case of Japan. Research in sociology of organizations 14: 149-180.

Black, J., Gregerson, H., Mendenhall, M., & Stroh, L. 1999. Globalizing people through international assignments. Reading, MA: Addison Wesley.

Bloom, M., & Milkovich, G. T. 1999. A strategic human resource management perspective on international compensation and rewards. In G. R. Ferris (Ed.), Research in personnel and human resource management (Suppl. 4, pp. 283-304), Greenwich, CT: JAI Press.

Bloom M. C., & Milkovich, G. T. 1996. Issues in managerial compensation. In C. L. Cooper & D. M. Rousseau (Eds.), Trends in organizational behavior (vol. 3, pp. 23-47), New York: John Wiley & Sons.

Bloom, M. C., Milkovich, G. T., & Zupan, N. 1997. Contrasting Slovenian and US employment relationships: The links between social and psychological contracts. CEMS business review, 2: S93-S107.

Boyd, B. K., Carroll, W. O., & Howard, M. 1996. International governance research: A review and an agenda for future research. In S. B. Prasad (Ed.), Advances in international comparative management (vol. 16, pp. 191-216). Greenwich, CT: JAI Press.

Bradley, P., Hendry, C., & Perkins, S. 1999. Global or multi-local? The significance of international values in reward systems. In C. Brewster & H. Harris (Eds.), International HRM: Contemporary issues in Europe (pp. 120-142), NY: Routledge.

Brown, S. L., & Eisenhardt, K. M. 1997. The art of continuous change: Linking complexity theory and time-paced evolution in relentlessly shifting organizations. Administrative Science Quarterly, 42: 1-34.

Buechtmann, C. F. (Ed.) 1993. Employment security and labor market behavior. Ithaca, BY: ILR Press.

Colander, D. 2000. The future of economics. The Economist. March 4, p. 80.

Davis, G. F., & Powell, W. W. 1992. Organization-environment relations. In M D. Dunnette & L. M. Hough (Eds.), Handbook of industrial and organizational psychology (2nd ed., vol. 3, pp. 315-375), Palo Alto, CA: Consulting Psychologists Press.

Denison, D. R. 1996. What is the difference between organizational culture and organizational climate? A native's point of view on a decade of paradigm wars. Academy of Management Review, 21; 619-655.

DiMaggio, P. & Powell, W. W. 1983. The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. American Sociological Review, 48: 147-160.

Doremus, P. N., Keller, W. W., Pauly, L. W., & Reich. S. 1998. The myth of the global corporation. Princeton N. J.: Princeton University Press.

Doz, Y. L., & Prahalad, C. K. 1991. Managing DMNCs: A Search for a New Paradigm. Strategic Management Journal, 12: 145164.

Dzialo, J., Jonnergard, K., Karreman, M., Svenson, C., & Urbanek, P. 1995. Corporate boards' line of reasoning—Comparison between corporate governance in Poland and Sweden. In M A. Hitt, J. E. Ricart I Costa, & R. D. Nixon (Eds.), Managing strategically in an interconnected world (pp. 227-253), New York: Wiley.

Earley, P. C. 1997. Face, harmony, and social structure: An analysis of organizational behavior across cultures. NYW: Oxford University Press.

Earley, P. C. & Gibson, C. B.1998. Taking Stock in our Progress on Individualism - Collectivism: 100 years of solidarity and community. Journal of Management, 24: 265-304.

Ehrenberg, R. G., (Ed.). 1997. Modern labor economics, Reading, PA : Addison-Wesley-Longman.

Eisenhardt, K. M. 1989. Building theories from case study research. Academy of Management Review, 14: 532-550.

Ezzamel, M., & Watson, R. 1998. Market comparison earnings and the bidding-up of executive cash compensation: Evidence from the United Kingdom. Academy of Management Journal, 41: 221-232.

Finkelstein, S., & Hambrick, D. 1996. Strategic leadership: Top executives and their effects on organizations, Minneapolis/St. Paul: West.

Freedman, M. & Katz, H. 1995. Differences and changes in wage structures, Chicago: University of Chicago Press.

Gardner, M. 1995. Labor movements and industrial restructuring Australia, New Zealand, & the U.S. In K. S. Weaver & L. Turner (Eds.), The comparative political economy of industrial relations (pp. 33-69). Madison, WI: Industrial Relations Research Association.

Gedajlovic, Eric R., Shapiro, Daniel M. 1998. Management and ownership effects: Evidence from five countries. Strategic Management Journal, 19: 533-553.

Gerhart, B. 2000. Pay strategy and firm performance. In S. L. Rynes & B. Gerhart Compensation in organizations: Current research and practice, San Francisco: Jossey Bass.

Gerhart, B., & Milkovich, G. T. 1992. Employee compensation: Research and theory. In M. D. Dunnette & L. M. Hough (Eds.), Handbook of industrial and organizational psychology (2nd ed., vol. 3, pp. 481-569), Palo Alto, CA: Consulting Psychologists Press.

Gerhart, B. Trevor, C. O., & Graham, M. E. 1996. New directions in compensation research: Synergies, risk and survival. In G. R. Ferris (Ed.), Research in personnel and human resource management (vol. 14, pp. 143-204) Greenwich, CT: JAI Press.

Gomez-Mejia, L. R. 1994. Executive compensation: A reassessment and a future research agenda. In G.R. Ferris (Ed.), Research in personnel and human resource management (vol. 12, pp. 161-222), Palo Alto, CA: JAI Press.

Gomez-Mejia, L. R., & D. Balkin 1992. Compensation, organizational strategy, and firm performance. Cincinnati, OH: Southwestern Publishing.

Gomez-Mejia, L. R., & Welbourne, T. 1994. Compensation strategies in a global context. Human Resource Planning, 14: 29-41.

Gould, S. J. 1996. Full house: The spread of excellence from Plato to Darwin, N.Y.: Three Rivers Press.

Groshen, E. L., & Schweitzer, M. E. 1997. Macro- and microeconomic consequences of wage rigidity. In D. Lewin, D. J. B. Mitchell, & M. A. Zaidi (Eds.), The human resource management handbook (part I, pp. 217-250), Greenwich, CT: JAI Press.

Harris, H., & Brewster, C. 1999. International human resource management. In H. Harris & C. Brewster (Eds.), International HRM: Contemporary issues in Europe (pp. 1-28), N. Y.: Routledge.

Hofstede, G. H. 1980. Culture's consequences, international differences in work-related values, Beverly Hills: Sage Publications.

Hofstede, G., 1994. Cultural constraints in management theories. International Review of Strategic Management, 5; 27-51.

Hollingshead, G., & Leat, M. 1995. Human resource management: An international and comparative perspective. London: Pitman.

Houseman, S. N. 1994. External and internal labor market flexibility: An international comparison. In D. Lewin, D. J. B. Mitchell, & M. A. Zaidi (Eds.), The human resource management handbook (part III, pp. 21-44), Greenwich, CT: JAI Press.

Hsu, I. 1995. The rise of modern china (5th ed.), Oxford University Press.

Jacoby, S. M. (Eds.) 1995. The workers of nations. New York: Oxford University Press.

Kochan, T. A., Batt, R., & Dyer, L. 1992. International Human Resource Studies: A Framework for Future Research. In. D. Lewin, O. S. Mitchell, & P. D. Sherer, (Eds.), Research frontiers in industrial relations and human resources (pp. 309-337). Madison, WI: Industrial Relations Research Association.

Kochan, T. A., Lansbury, R. D., & MacDuffie, J. P. (Eds.). 1997. After lean production: Evolving employment practices in the world auto industry. Ithaca. NY: Cornell University Press

Kogut, B. 1991. Country capabilities and the permeability of borders. Strategic Management Journal, 12: 33-47.

Lau, C. 1995. Strategic orientations of chief executives in state-owned enterprises in transition. In M A. Hitt, J. E. Ricart I Costa, & R. D. Nixon (Eds.), Managing strategically in an interconnected world (pp. 102-117), New York: Wiley.

Landes, D. S. 1998. The wealth and poverty of nations : why some are so rich and some so poor, NY: W.W. Norton.

Lewin, D., & Mitchell, D. J. B. 1994. Human resource management: An economic approach (2nd ed.), Cincinnati, OH: Southwestern.

Lewin, D., Mitchell, D. J. B., Zaidi, M. A. (Eds.). 1997. The human resource management handbook, Greenwich, CT: JAI Press.

Locke, R. M. The transformation of industrial relations? A cross-national review. In K. S. Weaver & L. Turner (Eds.), The comparative political economy of industrial relations (pp. 9-32). Madison, WI: Industrial Relations Research Association.

Locke, R., Kochan, T., & Piore, M. (Eds.) 1995. Employment relations in a changing world economy. Cambridge, MA: The MIT Press.

Lodge, G. C., & Reavis, C. 1999. Global friction among information infrastructures. HBS No. 9-799-152. Cambridge, MA: Harvard Business School.

McGahan, A. M., & Porter, M. E. 1997. How much does industry matter, really?, Strategic Management Journal,18:15-30.

McMahan, G. C., Virick, M. & Wright, P. M. 1999. Alternative theoretical perspectives for strategic human resource management revisited: Progress, problems, and prospects. In P.

M. Wright, L. D. Dyer, J. W. Boudreau, & G. T. Milkovich (Eds.), Research in personnel and human resource management (Supple. 4, pp. 99-122), Greenwich, CT: JAI Press.

Mendenhall, M. & Oddou, G. 2000. Readings and cases in international human resource management (3rd ed.), Cincinnati: Southwestern.

Melin, L. 1992. Internationalization as a strategy process. Strategic Management Journal, 13: 99-118.

Milkovich, G. T. & Newman, J .M. 1999. Compensation (6th ed.), Homewood, IL: Irwin.

Milliman, J., Von Glinow, M. A., & Nathan, M. 1991. Organizational life cycles and strategic international human resource management. Academy of Management Review, 16: 318-340.

Mitchell, W., Shaver, J. M., & Shaver, B. 1992. Getting there in a global industry: Impacts on performance of changing international presence. Strategic Management Journal, 13: 419-432.

Moss Kanter, R., & Dretler, T. D. 1998. “Global strategy” and its impact on local operations: Lessons from Gillette Singapore. Academy of Management Executive, 12:60-68.

Murtha, T. P. & Lenway, S. A. 1994. Country capabilities and the strategic state: How national political institutions affect multinational corporations’ strategies. Strategic Management Journal, 15: 113-129.

Nehrt, C. 1998. Maintainability of first mover advantages when environmental regulations differ between countries. Academy of Management Review, 23: 77-97.

Nohria, N., & Ghoshal, S. 1997. The differentiated network. San Francisco: Jossey-Bass.

Oliver, Christine. 1991. Strategic responses to institutional processes. Academy of Management Review, 16: 145-178.

Osborn, R. N., & Baughn, C. C. 1990. Forms of interorganizational governance for multinational alliances. Academy of Management Journal, 33: 503-519.

Palich, L. E., & Gomez-Mejia, L. R. 1999. A theory of global strategy and firm efficiencies: Considering the effects of cultural diversity. Journal of Management, 25: 587-606.

Pincus, L. B., & Belohlav, J. A. 1996. Legal issues in multinational strategy: To play the game, you have to know the rules. Academy of Management Executive, 10: 52-61.

Pinfeld, L. T., & Berner, M. F. 1994. Employment systems: Toward a coherent conceptualization of internal labor markets. G. R. Ferris (Ed.), Research in personnel and human resource management (vol. 12, pp. 41-78.), Greenwich, CT: JAI Press.

Pucik V. 1992. Globalization and HRM. In V. Pucik (Ed). Globalizing management, New York: Wiley.

Purcell, J. 1999. Best Practices and Best Fit: Chimera or Cul De Sac? Human Resource Management Journal, 93: 26-36.

Rajagopalan, N., & Finkelstein, S. 1992. Effects of strategic orientation and environmental change on senior management reward systems. Strategic Management Journal, 13: 127-142.

Rosenzweig, P. M., & Singh, J. V. 1991. Organizational environments and the multinational enterprise. Academy of Management Review, 16: 340-361.

Ronen, S., & Shenkar, O. 1985. Clustering Countries on Attitudinal Dimensions: A Review and Synthesis Academy of Management Review, 10: 435-454.

Roth, K. 1995. Managing international interdependence: CEO characteristics in a resource-based framework. Academy of Management Journal, 38: 200-231.

Roth, K., & Ricks, D. A. 1994. Goal configuration in a global industry context. Strategic Management Journal, 15: 103-100.

Rumelt, R. P. 1991. How much does industry matter? Strategic Management Journal, 12: 167-185.

Sanders, W. G., & Carpenter, M. A. 1998. Internationalization and firm governance: The roles of CEO compensation, top team composition, and board structure. Academy of Management Journal, 41: 158-178.

Schuler, R. S., & Rogovsky, N. 1998. Understanding compensation practice variations across firms: The impact of national culture. Journal of International Business Studies, 29: 159-178.

Sparrow, P. R. 1999. International rewards systems. In H. Harris & C. Brewster (Eds.), International HRM: Contemporary issues in Europe (pp. 102-119), N. Y.: Routledge.

Sundaram, A. K., & Black, J. S. 1992, The environment and internal organization of multinational enterprises. Academy of Management Review, 17: 729-757.

Taggart, J. H. 1998. Strategy shifts in MNC subsidiaries. Strategic Management Journal, 19: 663-681.

Taylor, S., Beechler, S., & Napier, N. 1997. Toward an integrative model of strategic international human resource management. Academy of Management Review, 21:959-985.

Triandis, H. C. 1994. Cross-cultural industrial and organizational psychology. In H. C. Triandis, M. D. Dunnette, & L. M. Hough (Eds.), Handbook of industrial and organizational psychology (2nd ed., vol. 4. Pp. 103-172), Palo Alto, CA: Consulting Psychologists Press.

Triandis, H. C. 1995. Individualism and collectivism, Boulder, CO: Westview Press.

Trompenaars, F. 1995. Riding the waves of culture: Understanding diversity in global business, Burr Ridge, IL: Irwin.

Ungson, G. R., & Steers, R. M., 1984. Motivation and politics in executive compensation. Academy of Management Review, 9: 313-323.

Venkataratnam, C. S. & Verma, A. (Eds.). 1997. Challenge of change: Industrial relations in Indian industry (pp. 363-389). New Delhi, India: Allied Publishers Limited.

Wagner, J. A., III. 1995. Studies of individualism-collectivism: Effects on cooperation in groups. Academy of Management Journal, 38: 152-172.

Weaver, K. S. & Turner, L. (Eds.), The comparative political economy of industrial relations (pp. 33-69). Madison, WI: Industrial Relations Research Association.

Whitehead, A. N. 1978. Process and reality. NY: The Free Press.

Yigang, P., & Chi, P. S. K. 1999. Financial performance and survival of multinational corporations in China. Strategic Management Journal, 20: 359-374.

Zajac, E. J. & Westphal, J. D.,1995,Accounting for the explanations of CEO compensation: Substance and symbolism, Administrative Science Quarterly, 40: 283-308.

APPENDIX A

Attracting Critical Talent

- Your unit needs to hire a software engineer, a financial analyst, and a marketing associate. The top candidates for these positions have been identified. (You were involved in that process.) These are clearly superior to all the other applicants, so you are very keen to hire them.
- How would you use total compensation to help hire them? What package would you offer to attract them? What factors do you actually consider when making these decisions?

Improving the Pay-for-Performance System

- At an upcoming global leadership meeting, you have been asked to give your ideas and reasoning about how best to improve your company's current performance-based pay approach in your organization. What are some of the suggestions you would make?
- What factors do you consider when deciding on how to improve performance-based pay?

Total Compensation Packages at Joint Venture

- Suppose your company has entered into a joint venture with an enterprise in your location. The financial leader will be an expatriate from your company. S/he will partner with the Operations Leader at the local operations. Your company and its JV partner are negotiating the total compensation package for the JV leadership, particularly the expatriate financial officer and the local operations general director. What factors would you consider in designing these two packages?
- What elements of total compensation would you include in each? How would the two compensation packages compare? Does it matter?

Developing and Paying for Global Talent

- To lead a global organization requires employees capable of thinking and operating with a worldwide mindset. Currently, most multinationals use some variation of an expatriate remuneration system based on people's home region. Faced with the prospect of growing and gaining access to global-thinking employees, what are some of your ideas about a compensation system for a globalized talent cadre to lead your company in the next century?