The influence of context on individual level rewards and appraisal

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Abstract

Individual performance rewards and individual performance appraisals are key elements of "calculative HRM." As practices, they figure strongly in the most highly cited studies within strategic HRM research. However, these studies are generally located within a single, distinct context, the USA, a context in which there is an underlying assumption of firm latitude. Varieties of capitalism literature indicates that this assumption is inappropriate to the context of coordinated market economies of Europe. We review cross-national studies of the adoption of calculative HRM and observe a substantial influence of national context on its adoption by firms. In terms of how to conceive national context, we observe that recent research suggests that formal institutional influences are of more salience than informal influences. The relative importance of formal institutional influences has consequences for international management education that predominantly views context through a cultural lens. We further observe that recent research of the uptake of calculative HRM perceives context as a constraint rather than as a determinant. Regardless of context, managers have at least some latitude to implement calculative HRM practices. However, we suggest that their efforts need to be adapted to and sensitive to contextual constraints.

The influence of context on individual level rewards and appraisal

INTRODUCTION

In this chapter, we address the influence of national context on two closely related human resource management (HRM) practices, namely individual level rewards and individual performance appraisals. Not only are these two practices closely connected, but also various researchers choose to treat them as the primary constituents of a common approach to HRM that we label 'calculative HRM' (e.g. Gooderham et al., 1999; Gooderham et al, 2015). Why our focus on these two particular practices? As we document, the simple answer is the centrality accorded to these two practices both within macro- and micro-level strategic HRM empirical studies. However, in this chapter, we are arguing that before considering the impact of individual level rewards and appraisal on performance, we need to take a step back and consider the effect of context on the application of these practices.

Having established the status of individual level rewards and appraisal as key elements of strategic HRM research, we underscore the dominance of studies that have drawn on data derived from the US national context. Unlike many European national contexts, in the US context there is a justifiable assumption of firm latitude (Brewster, 1995) meaning that management can readily introduce individualistic practices. In contrast, in many European contexts, the use of individual level rewards and appraisal is constrained because management has to be responsive to stakeholders such as labour unions that have collectivistic agendas.

Prior to reviewing a body of research that indicates that national context conditions the use of calculative HRM, we briefly introduce the differentiation between formal and informal institutional influences that are present in various institutional perspectives (Gooderham, Mayrhofer, & Brewster, 2018) since this will be an important lens for our analyses with regard to individual rewards and appraisal. In our review of empirical research of the impact of context on the use of these core calculative HRM practices, we signal that many studies either have not employed this distinction or have incorporated the one rather than both institutional influences. We then point to recent research that does disentangle informal and formal aspects of national institutions. The evidence suggests that the latter constitutes the more salient feature when considering the impact of context on these practices. However, as this research emphasizes, it is important to avoid any simplistic notion of contextual determinism. Firm latitude also needs to be taken into account.

THE RISE OF INDIVIDUAL LEVEL REWARDS AND APPRAISAL AS CORE HRM PRACTICES

As HRM emerged as an academic topic in the mid-1980s, two now-classic macro models of HRM appeared. Both were products of the US context. While in one the perspective was firm-centric (Fombrun et al., 1984), in the other the broader national context, including governments and society, figured as an important influence on HRM (Beer et al., 1984). In the former, HRM promised to deliver strategically driven systems that would boost firm performance: in addition to recruitment and training, the core systems of "strategic HRM" were individual level rewards and performance appraisal. In the latter, there was significantly greater emphasis on enhancing employee influence.

Just as these models emanated from one specific national context, so did much of the most influential empirical research on HRM (Brewster et al., 2016). For the most part, the Fombrun et al. strategic HRM model was the primary influence on this US research stream (Brewster, et al, 2016). Thus, a substantial proportion of the most highly cited empirical studies have had as their primary focus the relationship between firm-level strategic HRM practices or systems and organizational performance, not least financial performance (Jackson, Schuler, & Jiang, 2013). Not only has this firm-level or macro-perspective been at the forefront in terms of research effort but researchers such as Becker and Huselid (1998) and Guest (1997) were explicit that this either had or should become the core endeavor of HRM research. Individual level rewards and appraisal practices are an essential element of such an approach and it is hardly surprising, then, that they figure prominently within empirical research targeting the link between HRM and firm performance. Some of those macro-level studies have been highly cited and include, either as single practices or as components of HRM systems, individual level rewards (Arthur, 1994; Batt, 2002; Delaney & Huselid, 1996; MacDuffie, 1995); performance appraisals (e.g. Delery & Doty, 1996; Huselid et al., 1997; Snell & Dean, 1992); or both (e.g. Combs et al., 2006; Huselid, 1995; Youndt et al., 1996). These practices came to be viewed as a generic and fundamental form of HRM, variously labeled as "'hard'" (Legge, 1995) or "'calculative'" (Gooderham et al., 1999). What constitutes such a system of HRM practices, often referred to as a high-performance work system (HPWS), varies: "The managerial practices that are deemed to constitute an HPWS are subject to a confusing array of definitions and assertions…" Boxall & Macky, 2009 p.6). Thus, there is no single agreed or fixed list of HRM practices (Paauwe, 2009).

A more contemporary understanding of individual performance, again US embedded, views it as function of ability, motivation and opportunity ('AMO'; Boxall, 2003). Thus, Appelbaum et al. (2000) and Lepak et al. (Lepak, Liao, Chung, & Harden, 2006) argue that HRM practices, or systems of practices that are designed to impact on employee performance, can be divided into three domains: first, skill enhancing HRM practices are designed to ensure appropriately skilled employees; second, motivation-enhancing HRM practices aim at increasing employee motivation; and third, opportunity-enhancing practices are implemented in order to ensure that employees use their skills and motivation to seek out challenges at work thereby achieving organizational objectives (Jiang et al., 2012. As the AMO approach has evolved, individual level rewards and performance appraisals regularly figure as drivers of individual performance as they affect all three types of enhancement practices.

For example, Ostroff & Bowen (2000) suggested that employee knowledge and skills (human capital) can be either acquired by recruiting and selecting employees with high ability, and be developed by formal and informal training. They also identify performance appraisals and feedback, use of work teams, job enrichment, skill-based pay, and internal labor markets as skill enhancing practices. Similarly, Delery and Shaw (2001) viewed staffing, training, and compensation-related HR practices as associated with employees' level of knowledge, skills, and abilities as well as their motivation.

Motivation-enhancing HRM practices also generally involve performance management, rewards and performance-based compensation. Thus, Ostroff & Bowen (2000) noted that employee commitment, intrinsic motivation, and reward motivation are enhanced by HRM practices such as skill-based pay, merit-based pay, organization-based pay, and contingent pay. Likewise, Delery & Shaw (2001) viewed compensation-related HRM practices as associated with employees' motivation but also added training.

Typical of opportunity-enhancing HRM practices are flexible job design, work teams, employee involvement and information sharing (Batt, 2002; Delery & Shaw, 2001; Kalleberg, Nesheim, & Olsen, 2009). However, Batt (2002) suggested that HRM incentives such as ongoing training, employment security, high relative pay, and performance management systems build trust toward the organization and encourage employees to work toward its long-term objectives.

THE UNIVERSALITIC ASSUMPTION IN U.S. RESEARCH

In their analysis of the most influential HRM studies Brewster et al. (2016: 182-183) observed a preponderance of HRM studies that sampled firms exclusively within the USA. Their conclusion was that it was "reasonable to claim that the dominant research orthodoxy bears the imprint of the USA." Further, by and large this research orthodoxy with its focus on individual level performance rewards and appraisals tacitly assumes that its insights and approaches are by and large universalistic, i.e. their results are claimed to be true across a broad variety of national, cultural, and institutional contexts.

The predominance of US-centric studies often firmly rooted in the universalistic HRM paradigm raises the question of the cross-national generalizability of the dominant research orthodoxy. At least as salient an issue is the validity of firm-centric studies for national contexts where firm-latitude is constrained. Based upon these observations, we now turn to the issue of why one should consider context in studies of individual performance rewards and appraisal that taken together are the essence of calculative HRM.

CONTEXT

Conceptualizing context requires defining a theoretical angle. The use of 'obvious' surface phenomena such as size, sector, unemployment rates, quality of the educational system, etc. is important but has its limits. Unless we define what these elements represent in theoretical terms, understanding their importance for HRM will be difficult. Placing our considerations firmly in the institutional quarter, we will first briefly address comparative capitalisms as a major theoretical discourse for conceptualizing context in HRM before pointing towards firm autonomy as a major conceptual cornerstone for describing and explaining commonalities and differences in the use of individual level performance and appraisal in different contextual settings.

Comparative capitalisms

Hoffman (1999: 351) states that

> "[i]nstitutional theory directs attention toward forces that lie beyond the organizational boundary, in the realm of social processes (Powell & DiMaggio, 1991; Scott, 1995). A firm's action is seen not as a choice among an unlimited array of possibilities determined by purely internal arrangements, but rather as a choice among a narrowly defined set of legitimate options determined by the group of actors composing the firm's *organizational field* (Scott, 1991). The form of this influence is manifested in *institutions:* rules, norms, and beliefs that describe reality for the organization, explaining what is and what is not, what can be acted upon and what cannot."

Standard neo-institutional explanations of management practices and strategies predict limited diversity among firms that operate in the same industry or organizational fields within the context of a single society or national economy (Powell & DiMaggio, 1991; Dobbin, Sutton, Meyer & Scott, 1993). The field of comparative new institutionalism accepts this insight but argues that acquiring and maintaining legitimacy is construed very differently across national settings. Analysts have attempted to link intra-organizational behavior with politics (Roe, 2003), political systems (Pagano & Volpin, 2005), or legislation (Botero, Djankov, La Porta, López de Silanes & Shleifer, 2003) but the most promising and to date widely used approach in HRM is the synthetic theories developed to include these and other national factors in explaining the differences between countries. Collectively these are known as comparative capitalisms theories (Jackson & Deeg, 2008), with important contributions from Amable (2003), Thelen (2014), Whitley (1999) and Hall & Soskice (2001). Of these, comparative HRM researchers have increasingly applied the latter .

Varieties of capitalism (VoC) theorizing has established itself as the most influential comparative institutionalist perspective for explaining variations in the use of HRM practices across a variety of developed countries (e.g. Farndale et al. 2017; Wood, Brewster & Brookes, 2014). VoC distinguishes two major varieties of capitalism: the 'liberal market' economies (LMEs) of the US and the UK and the 'coordinated market' economies (CMEs) of mainland Europe with Germany as the prime example. In the former, "[t]op management normally has unilateral control over the firm, including substantial freedom to hire and fire. Firms are under no obligation to establish representative bodies for employees such as works councils; and trade unions are generally less powerful than in CMEs." (Hall & Soskice, 2004:29). The USA and the UK are 'shareholder economies' under which private enterprise is about maximizing short-term profits for investors rather than seeking any broader harmony of interests. Within this context, managerial decisions are typically perceived as legitimate to the extent that they align closely with shareholder interests, maximizing firm profitability. Germany, the classic example of the CME, is characterized by a considerably greater emphasis on coordination through non-market mechanisms – relational contracting, coordination and mutual monitoring through networks – and greater reliance on collaborative rather than competitive relationships to build firm competence. Firm governance is characterized by attention to a wider set of stakeholder interests, reinforced by legislation on employee rights and by financial arrangements that are less reliant on open capital markets. Firms operating in the latter context are regarded as significantly more institutionally constrained than those in the former, in the sense that they operate within contexts whose legal frameworks and systems of industrial relations constrain managers' autonomy in applying market-driven or technologically contingent management practices. As Hall and

Soskice recognize a large number of European countries including France, Italy, Spain and Portugal have somewhat ambiguous positions in relation to the LME/ CME distinction.

It is important to note that in relation to the institutional perspective, VoC is centered on the formal or 'rules' aspect to institutional context such as the legal protection shareholders have and collective bargaining rights (Hall & Gingerich, 2004). Further, these regulatory differences are reflected in other regulatory features of national context including employment legislation and industrial relations (Hall & Gingerich, 2004). Thus, VoC does not capture the informal aspects of the institutional perspective, norms and beliefs. To remedy this, one approach has been to include a separate measure of national culture as a proxy for informal aspects (Gooderham et al., 2015). Finally, one limitation to VoC is the limited number of countries for which there are VoC measures. This has prompted some researchers to use, for example, Botero et al.'s cross-national measure of employment legislation because it spans a greater number of countries (Gooderham et al., 2015). Nevertheless, the approach is one of comparing and contrasting liberal market economies (LMEs) with coordinate market economies (CMEs).

One important aspect of the VoC theoretical framework is firm autonomy, i.e. to what degree organizations are free in their managerial action, both internally when applying various managerial measures, e.g. rewards and appraisal tools, and externally when deciding their overall course of action such as strategic positioning. To this we turn next.

Firm autonomy

The theoretical importance of firm autonomy with regard to calculative HRM practices in general and, individual level rewards and appraisal in particular, did not come by chance, but has to be understood in light of broader societal developments, in particular in the USA. Gooderham et al. (2015) refer to the institutional change that took place in the 1970s in the US, when the New Deal employment relations regime of linking wages to jobs and employee groups dissolved (Weinstein & Kochan, 1995). Labour unions became increasingly marginalized while management and shareholders increased their power. In this, as Weinstein & Kochan (1995: 27) observe, “[g]overnment played an important role by weakening its enforcement of labour and employment laws and by allowing (some would say encouraging) a harder line by management in its resistance to unions”.

This change established a significantly greater degree of firm latitude. As Ferner (2000) and Ferner et al. (2004) argue, the business system that emerged in the US can be understood as a distinctive model of economic organization. It is characterized by a dominant individualist ethos and a strong anti-union mentality. Overall, pay and performance management became characterized by the innovative use of performance systems, including individual performance rewards and forced performance distributions in employee appraisal processes. By way of example, in the early 1980s the US company General Electric (GE) introduced as its core HRM policy the practice of using performance appraisals to identify and cull the bottom ten percent of performers. This degree of differentiation constituted a complete break with what had been GE’s approach to rewarding employees (Gooderham & Nordhaug, 2003). Speaking more generally, Gerhart, Rynes, & Fulmer (2009) estimated that calculative HRM in the sense of performance related pay based on appraisal ratings is a feature of roughly 90 percent of US organizations.

The firm-centric Fombrun et al. (1984) model we have discussed, including the requirement to link HR policies in general and compensation systems in particular with wider business strategies via reward and appraisal and improved methods for monitoring employee development, was therefore a manifestation of the opportunities provided by this new leeway. Thus, a key managerial assumption that developed in the US is that firms have discretion to introduce HRM practices aligned with their competitive strategies (Tichy, Fombrun, & Devanna, 1984). Similar institutional changes have been described by Gooderham et al.

(1999) in the UK during the 1980s during the Thatcher period, and by Gooderham et al. (2006) for Australia in 1993 with the introduction of the Industrial Relations Reform Act. Their work did not observe similar changes for Germany, France or Scandinavia (cf. Hall & Gingrich, 2004). This is borne out by Crossland & Hambrick's (2011) study that indicates while an assumption of managerial autonomy is relatively prevalent in the US, the UK and Australia; it is markedly less common than in many European countries, such as Germany or France. This notion of the distinctiveness of Europe in terms of limited managerial autonomy finds significant resonance in the VoC theorizing of Hall & Soskice (2001).

THE IMPACT OF CONTEXT ON INDIVIDUAL REWARDS AND PERFORMANCE APPRAISALS

As we now review the research on the impact of national context on the use of individual performance rewards and appraisals, it is important to recognize that early research efforts did not have available the VoC theoretical lens. Indeed some of the early research did not have a specifically institutional theoretical lens. When necessary, we retrospectively apply this lens to the empirical findings.

Since 1990, the long-running Cranet project has been a particularly important source of data for comparative HRM studies and has enabled researchers to examine how HRM policies and practices vary between countries (Brewster & Hegewisch, 1994; Parry, Stavrou & Lazarova, 2013). In our overview of empirical studies of the impact of national context on performance rewards and appraisal as calculative HRM practices, because of the dearth of other multi-country HRM data sets we draw on research that has made use of the Cranet project dataset. However, before reviewing the most salient Cranet studies we present some key findings from other non-Cranet strands of research.

We start with Hall and Soskice (2001) who point to a number of systematic and fundamental differences in HRM practices among firms operating in LMEs and CMEs that are derived from these institutional structures. Thus, for example whereas in LMEs substantial pay differentials are observed, even within the same industries, in CMEs most pay negotiation occurs at the industry level, taking pay negotiation out of the workplace. In other words, this indicates that LME firms avail themselves of their opportunity to use individual performance related pay. Likewise, whereas in LMEs the opportunities for employee dismissal are relatively unconstrained, in CMEs a tradition exists of long-term labor contracts and substantially greater security against arbitrary lay-offs. The implication is that LME firms employ individual performance appraisals not just to calculate contingent pay, but also as a means to removing underperforming employees.

In their review of the individual pay-for-performance literature, Gerhart et al. (2009:258) argue that people with higher need for achievement prefer jobs where pay is linked to performance and that “most employees (at least in the U.S.) prefer their pay to be based in individual rather than group performance.” As a result, U.S. organizations use pay for performance in an attempt to address turnover and motivation. Sturman et al. (2012) question the universality of this arguing that in certain contexts, organizations may decide that there is significantly less need to introduce individual performance related pay. More specifically, Gerhart et al (2009) speculate that individual performance related pay is likely to fit better in settings where competition between individuals is encouraged and cooperation is regarded as relatively unimportant. In short, the transferability of individual performance related pay may be moderated by informal institutional or cultural factors.

Thus in terms of Hofstede's (1980a) cultural dimensions, the pronounced incidence of individual performance related pay in the United States could be ascribed to its extreme position on the Individualism/ Collectivism dimension. This dimension plots the degree of preference for a loosely knit social framework in which individuals are expected to take care of only themselves and their immediate families as opposed to a preference for a tightly knit social framework in which individuals can expect their relatives or members of a particular in-group to look after them in exchange for loyalty. Thus, Hofstede (1980b: 61) argues "the Individualist conception [means that] the relationship between the individual and the organization is essentially calculative, being based on enlightened self-interest". Other researchers have also observed the significance of individualism/collectivism for the distribution of rewards. Hui, Triandis, & Yee (1991) find that in collectivist societies, there is a preference for rewards to be distributed equally among group members rather than to be individually targeted. Smith, Dugan, & Trompenaars (1996:231) argue that in individualistic cultures, on the other hand, individual performance related pay appeals directly to the "utilitarian involvement" aspect of individualism that stresses and links individual responsibility with recognition.

We turn now to Cranet-based studies of the impact of context on performance management and rewards.

Informal institutions

As outlined above, elements of national culture are part of the informal institutions relevant for organizations. In their analysis of variations in a range of HRM practices among European firms including pay-for-performance and focus on individual performance, Schuler & Rogovsky (1998) employed Hofstede's four cultural dimensions. They found that 'Individualism' was significantly correlated with firms' use of these calculative HRM practices. However, neither 'Power Distance' nor 'Masculinity' was associated with these practices while firms in countries with high levels of Uncertainty Avoidance were markedly less inclined to use them. Schuler & Rogovsky's (1998) results specifically indicated that "individual incentive compensation practices have a better fit in countries with higher levels of Individualism" (172), and in countries with low levels of Uncertainty Avoidance. Although, as Schuler and Rogovsky acknowledged, their research failed to control for a range of variables such as firm size and industry, all of which they conceded might explain a certain amount of variance in the use of these HRM practices, Individualism and individual rewards and performance appraisal do appear to be related.

Informal and formal institutions

Like the other studies in this sub-section, Gooderham et al.'s (1999) analysis of the impact of context did not distinguish formal and informal institutions. Their starting point was to develop a particular grouping of national HRM contexts based on two generic HRM dimensions. Their first aim was to examine the degree to which 'calculative' HRM practices - of which individual level rewards and appraisal are key – are deployed across different national contexts. Their second aim was to examine the degree to which 'collaborative' practices such as employee consultation are deployed. Using Cranet data from six European countries, they tested predictions from institutional and rational perspectives concerning the degree of adoption of these two sets of HRM practices. Their findings indicated that institutional determinants, as indicated by the national embeddedness of firms, have a substantial effect on the application of both calculative and collaborative HRM. For the purpose of this chapter, we note their particular findings for the application of the calculative HRM practices, including those related to individual level rewards and performance appraisal. They found that among UK firms there was a relatively high degree of use of calculative practices while firms in Germany and the Scandinavian countries were lower. Firms in France and Spain were closer to their UK counterparts. Overall, Gooderham et al. (1999) found that the country that most resembled the USA in terms of calculative HRM was the LME country, the UK. These findings are robust even when controlling for the impact of rational determinants such as firm size and industry embeddedness. Thus, it was concluded that national institutional embeddedness plays a far more important role in determining the use of individual rewards and appraisal than industrial embeddedness.

Given that US companies make significant use of calculative HRM practices such as individual level rewards and appraisal, one may expect that US multinational companies (MNCs) would attempt to apply them in their foreign subsidiaries (Cantwell et al., 2007). However, institutional theory points to the issue of achieving legitimacy in the local environment. As institutional distance – in the sense of dissimilarity between the regulatory, cognitive, and normative institutions of two contexts (Xu & Shenkar, 2002) – increases, the more problematic transfer of HRM potentially becomes. This is particularly the case for practices that impinge on wage bargaining and compensation (Farndale et al., 2017). Individual level rewards and performance appraisals are more likely to be subject to local constraining forces than other HRM practices such as training and direct information provision. Both VoC's measures of regulatory or formal institutional distance and Hofstede's (1980b) measures of cultural or informal institutional distance indicate substantial overall institutional distance between the USA and many European contexts. As such, one should expect that subsidiaries of US MNCs in these contexts will experience significant tension between the need to be globally integrated with the parent company and to be isomorphic with the local institutional setting (Kostova & Roth, 2002).

Using Cranet data, Gooderham et al. (1998 & 2006) explored this tension by examining the deployment of calculative HRM (primarily individual level rewards and appraisal) by US subsidiaries in the UK, Ireland, Scandinavia, Germany and Australia. Specifically, they addressed the extent to which US multinational companies (MNCs) adapt their use of calculative HRM to the local institutional setting. Controlling for industry and size, they observed that while the CME locations of Scandinavia and Germany result in a significant reduction in the use by US MNCs of calculative HRM, their subsidiaries in these locations deploy calculative HRM to a significantly greater degree than their domestic counterparts. Thus, US MNCs in these contexts do not passively adapt to the local institutional setting: they also resist, and in resisting they are sources of innovation. Gooderham et al. also observed that in the LME settings of the UK and Australia, US MNCs clearly experience no resistance to their deployment of calculative HRM. In turn, these findings provide clear support for the notion that US firms are distinctively prone to using calculative HRM.

Over and above the issue of the degree the power of the MNC in relation to local institutional actors, the implication is that the degree of global integration should vary according to the degree to which the local institutional context the subsidiary confronts differs from the norms of the parent organization. By extension, because these norms are substantially derived from the parent organization's own institutional environment, the degree of local adaptation will reflect the degree of divergence between the local institutional context and the parent institutional context.

In a similar vein and using Cranet data for 1995 and 2000, Poutsma et al. (2006) examined variations in the use of HRM practices across national borders. Applying institutional theory, they developed three clusters or bundles of HRM practices including individual, calculative performance-oriented practices. They observed substantial effects of country-specific institutions and of the country of origin of MNCs on the use of practices, which the authors argue clearly support the institutional duality thesis. It was also reported that foreign-owned MNCs, especially US MNCs, appear to exert moderate country-specific institutional effects on the diffusion of the three HRM clusters.

A second theme in the Poutsma et al. (2006) study is their analysis of the convergence and divergence of HRM practices across Europe. Although their data did not permit firm conclusions as to the extent of diffusion of practices, they found evidence of directional convergence (Mayrhofer, Brewster, Morley, & Ledolter, 2011) of individual calculative practices. This means that the use of individual calculative practices increased in organizations in all countries but significant diversity between countries remained. Gooderham & Brewster (2004) reported similar findings. They discerned a limited degree of convergence to the use of calculative HRM in the sense of individual level rewards and appraisal. However, they emphasized that their findings also indicated substantial national differences in the use of these practices in Europe, with for example the UK as very different to Germany. As such, national institutional contexts had extensive explanatory power for divergence in the use of these practices.

Formal institutions

Concerning national convergence, Farndale et al.'s (2017:1076) study arrived at a similar conclusion for individual level performance rewards, labeling it as one of "non-robust convergence". However, unlike the studies in the previous sub-section Farndale et al. employed an operationalization and application of VoC theory. Rather than using country – which comprises both formal and informal institutional influences – Farndale et al. employed a measure of exclusively formal institutions.

Formal versus informal institutions versus agency

A set of studies provides additional angles by comparing the relative significance of formal and informal institutions and by explicitly focusing on organizational and managerial agency. Brookes et al.'s (2011) study is a response to the need to distinguish the relative impact of formal and informal institutional factors on firms' use of calculative HRM practices

– first and foremost individual level rewards and appraisal - in order to determine their separate analytic power. Their findings indicated that formal institutional factors have more explanatory power than informal factors. Thus, they concluded that formal institutional distance from the US is more significant than informal institutional distance in determining the incidence of calculative HRM. The same authors (Gooderham et al., 2015) then further refined their analysis of the influences on the adoption of individual level rewards and appraisal by including the role of union influence and the role of firm level agency. While they found that both formal institutions in the sense of labor regulations and union influence had a direct impact on the use of individual level rewards and appraisal, the role of informal institutions was primarily indirect. In other words, formal institutions and union influence mediated the influence of informal institutions. Because, Gooderham et al. employed a multi-level analysis they could also observe the significant impact of senior manager agency on the adoption of calculative HRM. They observe, that: "[r]egardless of country context, there is considerable variability at the firm level [meaning that while formal institutions] influence (they) do not entirely constrain firms' compensation practices" (Gooderham et al., 2015:22). Thus, in line with Oliver's (1991) theorizing, firms can exercise strategic agency in active resistance to institutional constraints.

CONCLUSIONS, IMPLICATIONS FOR PRACTICE AND FOR FUTURE RESEARCH.

Individual performance rewards and individual performance appraisals – the core of calculative HRM – have figured strongly as practices within the most highly cited studies of HRM. However, these studies are overwhelmingly located within one context, the USA.

Comparative institutional theory points to the underlying assumption within the USA of firm latitude and to the non-transferability of this assumption to CME Europe. Our review of cross-national studies of the adoption of calculative HRM, – both Cranet based studies and others –, reveals a significant influence of context. Recent research suggests that formal institutional influences are of greater importance than informal influences. This research also underscores that while context is a substantial constraint, this does not mean that it determines the uptake of calculative HRM. Regardless of context, managers do have agency.

For managers, our review has two particular implications that go beyond individual level rewards and appraisal practices. The first is that context does matter. However, rather than viewing context in terms of informal institutional or cultural distance (e.g. Hofstede, 1980a, 1980b), a more useful analytic approach is to be found in the VoC literature. An emphasis on formal rather than informal institutional distance has consequences for international management education. The second implication is that managers have latitude to incorporate calculative HRM practices such as individual level rewards and appraisal regardless of context. However, we suggest that their efforts need to be adapted to and sensitive to the contextual constraints.

We would argue that future research should distinguish formal and informal contextual influences and integrate this in an overall conceptual frame (see, e.g. the comparative conceptual framework presented by Gooderham et al., 2018). Further, in order to capture firm level or managerial influences it should employ multi-level approaches. Particularly this latter ambition involves relatively large data sets drawn from multiple countries. We view Cranet as being well equipped to carry this research agenda forward. However, arguably there is now an even greater need for qualitative research that reveals how managers understand and respond to institutional constraints and how at least some of them develop firm-level approaches that “defy” those constraints.

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