

Country of origin and competitive advantage: managing performance through performance related pay in Australian subsidiaries

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Abstract

This paper considers incentive schemes in the form of performance related pay (PRP), one area of reward management. PRP is considered to have beneficial effects on organisational performance and employee motivation. After reviewing the relevant literature and drawing on the Australian Workplace Industrial Relations Survey (AWIRS), this paper examines the PRP practices of local and multinational companies in Australia. The study will be considered in the light of the debate over the applicability of the transfer of HRM practices between nations, and on subsidiary-parent company relationships. The findings reveal country of origin differences in the way PRP practices are applied in subsidiaries of foreign owned companies in Australia and local Australian firms. The study also implies that although MNCs transfer their preferred reward management practices to benefit their subsidiaries, replication might not be appropriate.

Keywords: *Performance related pay, subsidiaries, country of origin, competitive advantage, MNCs*

Introduction

MNCs utilise their organisational knowledge and capabilities on a worldwide basis by transferring their technologies and practices across their subsidiaries (Minbaeva, Pedersen, Bjorkman and Fey, 2014). The transfer of practices is especially important in the HRM domain as the shortages of skilled and talented employees make it necessary for companies to devise and implement policies to attract, retain and motivate talented people in a competitive environment (Chen and Fu, 2008; Jose Duarte, 2012). For example, the design and deployment of the compensation system play a major role in realizing competitive advantages (Chênevert & Tremblay, 2011). In particular,

performance-related pay (PRP) has become one of the critical components of this competition (Gerhart and Fang, 2014).

The benefits of PRP are well documented in HRM literature (for example, Gerhart and Fang, 2014). PRP encourages employee involvement and participative management. It is anticipated that employees will be motivated to perform at a higher level if pay is linked to some measure of performance (Larkin, Pierce & Gino, 2012). At the same time, if such practices are not used properly, it may be demotivating and unattractive to employees (Gerhart and Fang, 2014; Larkin et al., 2012).

A wide variety of types of PRP schemes has been identified in the literature (for example, Gerhart and Fang, 2014; Larkin et al., 2012) ranging from piecework, payment by results in the form of bonus earnings, merit pay, individual performance-related pay, profit-related pay, employee share incentive schemes, to name just a few. These schemes incorporate various ways by which pay is linked to individual, group or organisational performance (Gerhart and Fang, 2014). Understanding such choices is important as it reflects the ways in which MNCs benefit from their core managerial capabilities (Bartlett and Ghoshal, 1989). For example, individual pay-for-performance practices have been popular in United States and there is evidence to suggest that US subsidiaries prefer to operate such schemes even after crossing national boundaries (Colling and Clark, 2002; Vo and Stanton, 2011).

Empirical evidence suggests that PRP is positively associated with overall job satisfaction with pay, satisfaction with job security and satisfaction with hours worked (Gerhart and Fang, 2014). Enhanced motivation in employees generated through PRP schemes results in improved firm performance. From a management perspective, PRP is a way of identifying high- performing employees and rewarding them for being more productive. At the same time it identifies employees with lower productivity (Gerhart and Fang, 2014).

In order to measure performance there should be a formal performance appraisal system (Maley, 2013). That is, PRP requires a set of objectives, ways to appraise performance and finally the linking of accomplishment to pay. In a cross-border context, having clarity on the purpose of performance appraisal and effective communication channels between appraiser and the appraised are crucial, but at the same time challenging for MNCs operating in different countries (Chiang and Birtch, 2010). Given the importance of MNCs in bringing innovative work practices to their subsidiaries in foreign locations and the critical role PRP plays in the reward systems of an organisation to motivate and reward employees, the objective of this paper is to investigate whether there are differences between foreign-owned companies operating in Australia and locally owned companies.

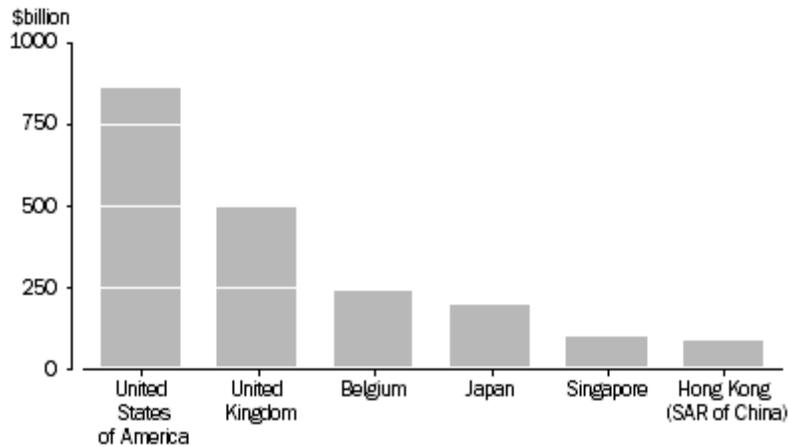
Conceptual framework and research question

Scholars debate the extent to which subsidiary management practices reflect the characteristics of the national business system in which they originate (Almond, 2011; Ferner et al., 2001). The best practice approach perceives MNCs as applying a uniform management style globally (for example, Bartlett and Ghoshal, 1989; Pudelko and Harzing (2008). Pudelko and Harzing (2008) note that HRM practices in MNC subsidiaries are converging towards “global best practices” and that is the American model.

The other viewpoint is that divergence in management style arises from country of origin differences (Almond, 2011; Noorderhaven and Harzing; 2003). These differences are shaped by the cultural (Hofstede, 2001) and institutional (Ferner et al., 2001, Tempel and Walgenbach, 2007) environment of the subsidiary's home country which is mediated by the host country culture and institutions (Ferner et al., 2001). For example, there is evidence to suggest that international human resource practices differ among American, European and Japanese firms (McGraw, 2014; Vo and Stanton, 2011).

The study of country of origin influences in subsidiaries has gained importance because this transferability can form a special competitive capability for an MNC that may be difficult for competitors to imitate (Flood, Ramamoorthy and Liu, 2003). Since there is a significant presence of multinational corporations (MNCs) in Australia (ABS, 2016), it is appropriate to examine how multinational subsidiaries benefit from their parent's management practices in that context.

Figure 1: FOREIGN INVESTMENT IN AUSTRALIA, LEVELS, 31 DECEMBER 2015



Source: ABS, 2016

The current study focuses on the transfer of PRP practices from the country of origin. In particular, subsidiaries of US and UK country of origin are chosen because of their significant presence in Australia (ABS, 2016). Although Rosenzweig and Nohria (1994) question whether parent nationality alone is enough to determine the parent's influence on a subsidiary's HRM practices, for the purpose of the current study, parent country origin is examined, in conjunction with a number of other key variables. The following sections will highlight some of the key features of Australian, US and UK styles of management with reference to PRP.

Studies have indicated that Australian employees and executives typically have a lower variable component in their salaries than employees in North America (Lowe et al., 2002). However, individual PRP practices are becoming popular in Australia, as Australians are coming to appreciate the opportunity to be rewarded for their individual contribution (Hanley and Nguyen, 2005). The US is presented as a more individualistic country by Hofstede (2001). High individualism implies rewards would be designed and focussed on individuals (Dalton and Druker, 2011; Vo and Stanton, 2011). Vo & Stanton (2011) found that countries with individualistic

orientations espouse a pay-for-performance work ethic. US multinationals have been observed to be pioneers in the use of productivity bargaining, performance-related pay, job-evaluation, employee share schemes and appraisal techniques (for example, Gunnigle et al, 1994; Ferner et al. 2011).

The UK approach to HRM is characterized as being similar to the US. Based on Hofstede (2001), the UK ranks high on individualism and masculinity and low on power distance and uncertainty avoidance. However, Hofstede (2001) also suggests that values in the UK emphasise egalitarianism and individualistic management styles, consistent with adaptation rather than standardization (which is found more in the US HRM approach). Gunnigle et al. (1994) and Schmitt and Sadowski (2003) found that in UK companies country of origin effects were more pronounced in the use of variable compensation, employee ownership and vocational training. UK employees attached importance to performance-based reward systems. They also attached importance to non-performance based rewards, such as cost of living adjustments (COLA) and are more likely to pursue a mixed approach to compensation, comprising of seniority, performance and skill bases to compensate their employees (Chiang, 2005).

The literature on management styles, therefore, clearly indicates that in order to gain competitive advantages, irrespective of the impact of globalisation, country of origin continues to be embedded in the business systems of MNCs and is reflected in HR policies and practices of subsidiaries, including reward practices such as PRP. Despite the prominent role of MNCs in transferring innovative management practices to their subsidiaries in Australia and the importance of reward management in enabling MNCs to realize a competitive advantage, to date there has been little research on the reward management practices of multinationals in Australia. Although a substantial body of research on the transfer of HRM practices in multinational corporations can be found in the international human resource management (IHRM) literature (for example, McGraw, 2014), there is limited research on PRP which is the focus of the current study.

Having considered the above-mentioned gaps in the literature and in order to explore how competitive advantages are gained through the transfer of the parent's capabilities, this study seeks to answer the following research question:

- 1. Are there country of origin differences between MNC subsidiaries and Australian companies operating in Australia pertaining to PRP?*

Methodology

The research design is exploratory in nature because this is an area that has been relatively neglected by management researchers to date. Previous studies relating to country of origin differences in subsidiaries of different nationalities in the Australian context have addressed broad HRM issues (for example, McGraw, 2004; McGraw 2014). The current study seeks to contribute to the existing body of knowledge by focussing on subsidiaries trying to gain competitive advantage through the transfer of parents' (country of origin) PRP practices. The use of quantitative method is particularly useful in deriving general patterns in PRP practices in firms of different countries of origin.

Quantitative Analysis

The project involved analysing the latest secondary survey data available, that drawn from the Australian Workplace Industrial Relations Survey (AWIRS 95). The AWIRS database was the second large-scale workplace survey conducted by the Commonwealth Department of Industrial Relations and the results were published in Morehead et al (1997). The AWIRS 95 data have been used and continue to be used by various researchers to examine workplace performance and industrial relations issues. Few of these however consider many human resource issues (for example, Magnani, 2012), very few (Walsh, 2001) have been conducted from a country of origin perspective. This data set was therefore considered useful for the present study.

The main workplace sample was representative of all workplaces with 20 or more employees, excluding workplaces classified as agriculture, forestry and fishing and defence industries (Morehead et al., 1997). The AWIRS 95 data set has a private sector file comprising 1203 workplaces, including foreign-owned workplaces (which include US and UK subsidiaries) and private local companies. As surveys are beneficial in identifying the generic patterns of MNC behaviours in host countries and differences in HRM practices between MNCs of different nationalities (Walsh, 2001), the AWIRS 95 was particularly useful in addressing the research question as it contained relevant information pertaining to PRP practices.

Selection of variables and limitations

The selection of variables posed some serious challenges and much time and effort was spent ascertaining how best to select the variables which would be most suited to the study. For example, two variables gave information about multinational subsidiaries. One variable (BB9) explores the ownership status of the respondents. The main problem with this variable was that it does not distinguish among foreign-owned enterprises. That is, one could not identify the head offices of the companies, which are predominantly or wholly foreign-owned, rendering it difficult to identify the organizational roots (or country of origin) of the company.

The other variable relating to MNC subsidiaries is the country of head office (BB11) under which the subsidiary operates. The advantage with this variable is that one can distinguish among foreign-owned enterprises. However, the question arose whether it was safe to assume that the country of head office would be the same as the country of ownership (thereby explaining country of origin). For example, a UK parent might have its head office in USA and its subsidiary in Australia. The AWIRS data does not furnish these details and this is a limitation of the data. For the purpose of this study, it was assumed that country of head office indicates the country of origin. The country of head office variable to identify country of origin has been used by previous studies (Walsh, 2001). As described earlier, the variables of interest were chosen from the file based on national ownership of the firms, being in this case: USA, UK, and Australia. The frequency of each was as follows: Australia – 686; USA- 113; and UK-71. The sample size of these firms were appropriate to examine country of origin differences (Pallant, 2001) on various reward management issues.

Statistical tests

Since the purpose was to see whether there are any country of origin effects/differences on the specified variables, the most suitable non-parametric technique for testing the research questions was the chi-square (χ^2) test. According to a range of scholars, (De Vaus, 2002; Gardner, 2001,

p.155), when researchers are interested in determining differences in the frequency of events or need to test an association between independent groups then the χ^2 test and analysis is required. The purpose of χ^2 is to determine if there is an association between the factors of interest (Gardner, 2001, p.155).

The main value of interest from the output of the χ^2 test is the Pearson chi-square value and to be significant, the Significant (Sig.) Value needs to be .05 or less (Pallant, 2001, p.259). In conducting the χ^2 test, some variables had many categories and therefore had to be recoded/collapsed as many cells had expected counts of less than 5. One of the assumptions of χ^2 concerns the ‘minimum expected cell frequency’ which should be 5 or greater (or at least 80 percent of cells have expected frequencies of 5 or more) (Pallant, 2001, p.259). However, the categories were only collapsed when it was assessed that doing so would not mask the relationship.

By itself, χ^2 helps us only to decide whether our variables are independent or related. It does not tell us how strongly they are related. When χ^2 is adjusted it becomes the basis for assessing strength of relationship. The two most useful chi-square based correlation coefficients are *phi* and *Cramers V* (De Vaus, 2002, p.258). In the current research, the variables had three or more categories, therefore, Cramers V was used. Both these coefficients range between 0 and 1.0 and that makes them interpretable as a measure of strength of the relationship. A figure near 0 indicates a very weak relationship while a figure nearer 1 indicates a very strong relationship (De Vaus, 2002, p.258).

After assessing that the omnibus chi square test revealed significance, to gauge the differences between the groups, the Gardner pairwise post hoc procedure was performed. The Gardner test performs a Bonferroni adjustment to the alpha level (eg. P=. 05) to control for Type 1 error (Macdonald and Gardner, 2000). So, depending on the number of comparisons, the alpha level was set accordingly. For example, because there were three comparisons (USA, UK and Australia), the alpha= .05/3. So each of the three pair-wise comparisons were required to be equal to or less than .02 to be considered statistically significant. Bonferroni adjustments to alpha are based on the number of tests performed per variable (i.e., survey questions).

Results

To examine the differences in PRP among country of origin groups, χ^2 test was conducted on each of the variables. Table 1 provides the summary findings of the variables.

Table 1 Summary of Survey Findings on PRP

List of variables	<i>p</i> value	Significant differences found between Australia and country of origin groups?
CA17b - Is incentive /bonus scheme currently in place at this workplace?	.015	Yes
CM1- Do any non-managerial employees receive payments based on some measure of performance such as	.188	No

incentive bonuses, merit pay, piece work or commission including profit sharing.		
CM2a -Are these payments based on individual performance?	.936	No
CM2b - Are these payments based in workgroup performance?	.936	No
CM2e - Are these payments based on performance of the organization as a whole?	.05	Yes
CM3 -What percentage of non-managerial employees actually received PRP (performance related pay)?	.340	No
CM4 -For non-managerial employees, are the general criteria by which PRP is assessed, known to everyone else?	.04	Yes

As far as bonuses are concerned, the research revealed considerable differences across the country of origin groups. The survey findings revealed that US firms had more bonus schemes in place than the UK or Australian firms. Previous studies (for example, Vo and Stanton, 2011) have also found that, due to the individualistic orientation (Hofstede, 2001) in US firms, performance-related pay (PRP) and individualised pay is more common than in subsidiaries of other countries.

The UK subsidiaries studies were similar to the US firms in using bonuses, again consistent with previous studies (Chiang, 2005). However, the survey findings revealed that although UK firms use bonus schemes, they do so with less frequency than US firms. This insight into bonus schemes suggests that the UK firms are less individualistic than the US firms, a characteristic shared with Australian firms. Previous studies have found that, culturally, UK firms are similar to US firms in emphasising individual performance. However, they are more inclined to adapt to host country practices rather than apply standardized home country practices than US MNC management practice (Parry et al., 2008). This adaptive approach was revealed in the survey finding whereby no statistically significant differences were found between UK and Australian firms with regard to bonuses and incentives.

With regard to the Australian firms, the survey findings revealed that they were more like the UK firms than their US counterparts in giving bonuses. Previous studies have pointed to PRP being a recent phenomenon in Australia (Hanley and Nguyen, 2005). This could be a reason as to why the survey finding showed significant under-representation of Australian firms with regard to variable CM4: “for non-managerial employees, general criteria by which PRP is assessed is known to everyone else”. Variable pay does not apply at the non-management level in Australian firms. This finding supports previous studies of Australian firms in which employees and executives have a lower variable pay component than that enjoyed by US subsidiaries (Lowe et al., 2002). With regard to bonuses and PRP therefore, the current research is consistent with the previous literature

on management approaches across different countries of origin. This is especially reflected in the US firms.

Linked to the variable individually-based pay issue is the issue of performance management. Research (for example, Rehu et al., 2005) also suggests that among other factors, headquarters' national culture is an important factor in linking performance management to reward. Since variable pay and individual bonuses constitute important parts of the payment system in US firms (Chiang, 2005), it is not surprising that there is heavy emphasis on performance appraisal (Colling and Clark, 2002). This emphasis on performance appraisal in US firms was also found in the current study. The survey results revealed that US firms had more formal performance appraisal systems in place and employees' work performance was evaluated formally against established criteria. These assessments provided the basis of the differential salaries paid to the individuals as well as their bonuses.

Implications for managers and their pivotal role in parent's knowledge utilisation and subsidiary learning

The study concludes that MNCs transfer their preferred reward management practices to benefit their subsidiaries. This implies that subsidiary managers must offer proactive leadership if the transfer of reward practices such as PRP is to be successful. Hence, it is important for managers to understand the difficulties surrounding knowledge transfer and formulate strategies to facilitate transfer and adaptation to suit the local workforce. Given the relative power of local and parent managers, such an approach would require strong negotiation and diplomatic skills on the part of local managers. That is, competitive advantages may only be gained when subsidiaries take the knowledge and interpret and integrate it effectively.

Even if there are cultural similarities between the home and host countries, the study reveals that country of origin differences exists. This implies that there could be problems with adaptation of PRP practices in local subsidiaries involving local workforce. Hence, it is the responsibility of managers of the subsidiaries to understand the reasons for such dissatisfaction and influence head-office decisions when transferring reward management strategies. In this regard, the important role of local managers and their acumen in the careful utilisation and adaptation of their headquarters knowledge are core capabilities.

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