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LOCAL ADAPTATION VS. GLOBAL INTEGRATION OF PAY AND REWARDS PRACTICES AMONG MNCS

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Abstract

In view of the opposition between integration and adaptation processes in Multinational Companies (MNCs) the article poses the question of how their relationship does influence the compensation policy in organizations. On the basis of two case studies, the BrazilCo and India's MNCs case study the article discusses the importance of their pay and rewards practices. The proposed illustrations finally emphasize the role of hybridization in view of the transfer of compensation strategies. In such a context, the concluding thoughts admit that cultural and institutional pressures influence MNCs when transferred in host countries which results in reformulation of their HRM strategies in order to be more adequate to the foreign business environment.

Keywords: *multinational companies, pay and rewards, hybridization, business adaptation*
JEL Codes: *F42, M12*

INTRODUCTION

During the last two decades, the debate of global integration vs local adaptation of HRM practices started to receive big attention (Festing et al., 2012; Pudelko and Harzing, 2007), whereas during the 1960s MNCs were mainly applying the different principles of international integration as a response to globalization (Pugh et al., 1969; Cray, 1984). Compensation practices support the strategies of MNCs, as they're "powerful tools for furthering the organization's strategic goals and impacts employee attitudes and behavior" (Noe et al., 2006, p. 462). This paper explores whether it's better for MNCs to globally integrate their practices, locally adapt them or blend both approaches, and illustrates how MNCs consider cultural and institutional influences (Chung, Sparrow, Bozkurt, 2014; Smale et al., 2013).

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DISTINCTION BETWEEN ADAPTATION AND INTEGRATION

Belizon et al. (2016) argue that integration and adaptation are two opposing concepts, as businesses adapt to only one in the different geographic areas. Local adaptation is preferred approach, when companies want to differentiate and adapt to the local regulations and institutions, as the national culture in some areas is deeply embedded (Belizon et al., 2016; Festing et al., 2012). Such relations can be observed to a high extent in organizations which have to operate on an international level, on the one hand, and to observe intercultural assets arising from the local features, on the other (Kiryakova-Dineva, Chankova, Hadzhipetrova-Lachova, 2017; Stoykova, 2016; Trompenaars, Bergh, 2016). Edwards et al. (2013) add that localization allows MNCs to acquire legitimacy in the local institutional environment and conform to the host socio-cultural environment and achieve competitive advantage. On the other hand, global integration is necessary when MNCs want to integrate their practices across borders, control their subsidiaries, transfer practices and have consistency and transparency in order to leverage capabilities (Cray, 1984; Rosenweig, Nohria, 1994). The main idea of centralization of HRM practices stems from the need for identical systems that organize knowledge, capabilities and people. This consistency facilitates MNCs to have common practices and objectives with their subsidiaries as well as equal and fair pay of their employees (Rosenweig, Nohria, 1994). This facilitates operational efficiencies and feeling for equality of employees (Bloom et al., 2002).

BrazilCo CASE STUDY

HRM was the area that was mainly influenced by the national differences and this is evident in the transfer of pay and rewards in host countries, where the socio-cultural context differs from the home country (Rosenweig, Nohria, 1994) and business require adaptation of their practices (Yahiaoui, 2014). This idea is presented in a case study of BrazilCo, which is a Brazilian company that transfers its operations in Canada, and didn’t acknowledge the importance of the cross-cultural differences during the transfer of compensation practices (Geary, Aguzzoli, Lengler, 2017).

The subsidiaries relations with Brazilian MNCs are characterized as being integrated, where subsidiaries have limited local autonomy and respect Brazilian HRM policies (Muritiba et al., 2012). The transfer of compensation practices in Brazilian MNC is ethnocentric, where Brazilian MNCs give little autonomy on their subsidiaries and the institutional environment creates economic dependence and high institutional power (Storgaard, 2014). This example illustrates the dominance effect of the US best practices, which are evident in German subsidiaries in Japan as well (Pudelko, Harzing, 2007), where businesses set their ‘best practices’ without the influence of the local context nor the country-of-origin context. However, even though Brazil sources its HR practices from American consultants, the institutional context of the management style in Canada had a direct impact on implementing the HR practices in the host countries (Geary, Aguzzoli, Lengler, 2017).

The company tried to integrate its pay and rewards in its subsidiaries, where it introduced pay-for-performance system, having an aggressive approach and not allowing local adaptation (Geary, Aguzzoli, Lengler, 2017). Even though the Brazilian company mimicked the best practices of the American HR model and those of other leading international companies (Ando, 2015), the challenge still remained as how to adapt them to the cultural settings. The problem that arose when implementing the pay system in Canada were the cultural impediments, creating distrust among managers and lack of confidence (Geary, Aguzzoli, Lengler, 2017).

Cultural artefacts play a major role in forming HRM practices (Laurent, 1986) and lead to hybridization of current and country-of-origin practices. Some of the structural factors that impact MNCS are related to individual performance, social benefits and employee ownership, that are more effective in particular countries compared to other (Schuler, Rogovsky, 1998).

BrazilCo aimed to create a new system that will allow 70% of the worker’s salary to be fixed, whereas 30% to be determined by the performance and 6% by the price of nickel (Geary, Aguzzoli, Lengler, 2017). Canadian workers rejected the introduction of the new compensation strategy due to the low levels of power distance and high levels of individualism, believing that the new payment and pension systems will lead to reduction in their earnings and retirement benefits as well as the management not being able to fairly evaluate the performance of the employees (Geary, Aguzzoli, Lengler, 2017). Individual incentives may not motivate employees in collectivist countries like Brazil but will influence employees in Canadian countries where there is high power distance and employees accept inequalities, and because of that MNCs need to think locally (Aguinis, Joo, Gottfredson, 2013). This example illustrates the need for a geocentric approach due to the high demand for adaptation and integration, due to the country-specific requirements and MNCs orientation (Perlmutter, 1969).

This example illustrates the hybridization method implemented, as BrazilCo amended the originally planned compensation policy to fit the Canadian subsidiary. They saved the current pay scheme by increasing the nickel price bonus from 6% to 8%, but the reduced the value of the pay-for-performance system from 24% to 22%, which was a fair approach for the Canadian subsidiaries (Geary, Aguzzoli, Lengler, 2017).

India's MNCs CASE STUDY

This case study illustrates the transfer of compensation practices from India to Australia and the impediments that Indian's MNCs face. Indian IT MNEs rely on the country-of-origin and local practices for pay and rewards of their employees in Australian subsidiaries (Patel et al., 2018). The research carried out identified that the payroll for employees is carried out in India, however, the Indian headquarters take into account the employment system, where the local wage is governed by the legal document settings (Patel et al., 2018). One of the managers in the Australian subsidiaries stated that: „The processing of payroll for our subsidiary staff happens in India; however, we take services from Australian payroll and taxation consultants to provide market intelligence regarding the payment of salaries and benefits" (Patel et al., 2018, p. 274), and this illustrates how pay and rewards are localized but managed centrally from the Indian headquarter (Patel et al., 2018) and initiates the benefits of hybridization. Indian MNCs stick to the wage awards of Australia, payment of salaries and condition for employment, however, they introduced pay-for-performance system, where salaries are affected by the individual performance.

Institutional factors influence the integration of compensation strategies when transferring to Australia, as labour legislation, pay of employees and minimum wage differ among countries (Hall, Soskice, 2001) as well as cultural artefacts like beliefs, behaviors, etc. influence the formation of practices (Laurent, 1986). Institutions create coercive pressures that affect businesses directly due to the different laws and government regulations that are imposed over MNCS. The combination of the institutions in the parent country and the environment of the host company create 'institutional duality', divergence in practices, which makes the transfer of HRM practices to the host country more difficult (Kostova, 1999; Solomon, Wu, 2012).

The country of origin is another aspect found in Indian transfer of compensation practices, where most of the practices of the home country are transferred to the host country (Yu, Park, Cho, 2007). This means that MNCs transfer their best practices that led to their success in other countries, for example many US businesses transferred Taylorism systems and the formalized payment systems in the EU (Kogut, 1991).

THE CONCEPT OF HYBRIDIZATION

Both case studies illustrated the role of hybridization, where companies balanced the standardization and localization of HRM practices, creating a "culturally-animated universalism" (Bonache, Trullen, Sanchez, 2012) and resulting in global, multidomestic or multifocal strategies (Prahalad, Doz, 1987). Gamble (2010) proposed the concept of hybridization, involving the creation of new management practices through the simultaneous process of highly selective adoption, transfer and local adaptation. MNCs follow a hybrid model in order to achieve global integration, national responsiveness and worldwide innovation (Ghoshal, Bartlett, 1990), influencing the long-term competitive advantage of MNCs.

It's a preferred approach, as a mismatch between the host country environment and MNCs practices can lead to inappropriate employee behavior and difficulty in retaining staff (Chung et al., 2014; Gomez-Mejia, Welbourne, 1991. Hybridization is evident in the transfer of compensation strategies, as they aren't homogeneous in all countries and MNCs hybridize their operation to fit the environment (Grant, 1996). Hybridization has unpredictable results, as it may lead to the development of completely new and unexpected practices that resemble the transferred ones (Yahiaoui, 2014).

CONCLUSION

Standardization of pay and rewards practices is evident in limited cases between US and similar MNCs in foreign countries (Edwards et al., 2016). On the other hand, the variations of the context in different countries cannot be solved by adaptation of HRM practices, but can be seen as an opportunity for MNCs to come up with new take-up practices that will aid the operations of both the host and national MNCs (Edwards et al., 2016). The extent to which the different practices are adopted by the host country are dependent on the openness of the host institutions, as the transfer of practices is easy when the legal and cultural constraints are low (Whitley, 1992).

It's better for MNCs to hybridize their practices, bringing sustainable competitive advantage, strength and stability in the international network

(Kobrin, 1991). Cultural and institutional pressures influence MNCs transfer of practices to the host countries and force them to reformulate their HRM strategies to fit the foreign environment. The two examples illustrate that not all the time MNCs can integrate their practices, thus a notion of adaption is necessary to fit the environment.

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