

## GLOBAL REWARDS: STRATEGIC PATTERNS IN COMPLEXITY

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**ABSTRACT:** This conceptual paper presents a tri-level model of global pay. On level one - the underlying level of assumptions - four often assumed models-in-use are presented and discussed. Level two - the level of pay strategy, practices and systems - consists of a horizontal axis (pay designed to follow “universal” set of decisions, or alternately, follow a wide range of “local” conditions) and vertical axis (delineating multiple units of analysis - person, job, occupation, national and firm). On level three - the surface level of pay form and administration - three forces (transparency, portability and decision support technology) are discussed.

**KEYWORDS:** Global Pay, Compensation Models, International Rewards

### Introduction: Complexity in global rewards

Pay practices associated with global business have developed so rapidly in the last five to ten years as to outstrip the capacity of human resource practitioners and academics alike to capture their dynamic nature (Reynolds, 2000a; McWilliams, Van Fleet and Wright, 2001; Pucik, 1997; Schuler, Dowling and DeCieri, 1999). This paper is presented in an effort to respond to the inadequacies, or rather the incompleteness, of existing approaches and models seeking to capture developments in the field of global compensation.

This paper presents a tri-level model consisting of issues related to: 1) global pay assumptions, 2) pay strategy and attendant practices and systems, and 3) pay forms and administration. Articulating a more sophisticated, complete and interactive model of global pay issues will allow pay strategists and academics to move beyond domestically-embedded (and therefore domestically biased) pay systems characterized by host pay systems clumsily grafted upon a parent company framework (Dowling and Welch, 2004: Chapter 6; Heneman, Fay and Wang, 2002: 25-29; Milkovich and Newman, 2005: 530-531). The proposed model may capture more accurately the complex and dynamic realities facing pay decision makers in global firms as they grapple with global diversity while concurrently providing a clearer heuristic for long term and coordinated strategic pay planning (Dowling and Welch, 2004: Chapter 6; Engle and Mendenhall, in press).

### Complexity and strategic patterns

The proposed model, following Schein's (1985) tri-part presentation of organizational culture and Milkovich's (1987) presentation of pay strategy, is comprised of three basic levels. Each of the three levels contains accepted implicit or explicit models (or decision nodes) that make up a firm's global pay decision space. It is this pattern of accepted models that comprises the global pay strategy-in-context

#### Level one: Underlying assumptions

On the first level of analysis, that of the underlying level of norms and assumptions, four deeply held yet seldom explicitly discussed models-in-use are presented. We label these models "Completeness," "Internal Relationships," "Paradigm Travel," and "The Exchange Basis." Each model is envisioned to present two or more competing sets of assumptions about work and work related pay (Evans and Genadry, 1999).

"Completeness" presents the tension between pay effectiveness seen as a consequence of free agent or outsourced pay as opposed to being seen as a consequence of a more complete and holistic "high commitment" pay system (Lawler, 2000: 59-62; Milkovich and Newman, 2005: 12-13). Firms assuming or valuing the

efficiency of market-driven “transactional” relationships will follow explicit contract to the letter, deal with employees in a calculative-renumerative sense (Eztioni, 1961) and avoid unnecessary long-term employment entanglements. Alternately, firms assuming or valuing the long-term effectiveness of “high commitment” relationships will seek out complex, often implicit “family like” understandings with employees, dealing with them in a “moral-normative” sense (Etzioni, 1961), and valuing long term developmental relationships that often provide long term incentives and value seniority (Lowe, Milliman, DeCieri, and Dowling, 2002: 48; Milkovich and Newman, 2005: 13).

“Internal Relationships” presents the innate tension between an organizational emphasis on egalitarian pay systems as opposed to competitive, differentiating pay hierarchies (Lawler, 2000: 280-283; Milkovich and Newman, 2005: 75-77). Firms valuing the egalitarian system may perceive potential payoffs in the areas of cooperation and self esteem as such self esteem relates to increased innovation, creativity and employee self sufficiency. This egalitarian system may have advantages when macro-societal values (i.e. collectivism and cooperation), regulatory codes or technological process complexities make hierarchical pays systems problematic (Hofstede, 2000; Triandis, 2002).

Firms valuing the hierarchical approach may perceive advantages in the area of individual responsibility and motivation for long-term career investment (Bloom, 1999; Jaques, 1990). This approach may be seen to be associated with “scientific’ cause-and-effect value systems. Symmetrically, hierarchical systems may have advantages when macro-societal values (i.e. competitive individualism), regulatory codes (legally mandated merit system requirements) and task process simplification make individual performance attribution possible (Mahoney, 1989; Triandis, 2002).

Differentials may become so intense that differences in the strategic value and uniqueness inherent in the intellectual capital of various employee groups in a firm may result in radically different relational forms (contracts) between the firms and the various employee groups. Differences can result in a distinguishing “architecture” of human resource relationships, resulting in radically different pay systems across these groups and yet within one firm (Bloom, 1999; Snell, Lepak and Youndt, 1999).

“Paradigm Travel” presents the innate tension between those who assert the usefulness of prescribing a globally generalizable pay system – “best practices” applied to pay systems – and those who question the usefulness or even the validity of such a system (Ritchie and Seltz, 2000). This is a pay-specific case of a larger tension between “contextualist” and “universalist” human resource paradigms (Brewster, 1999; 2003). Advocates of a contextualist pay approach would question the universality of “best pay practices” (e.g. high merit components, MBO, job based rewards and scientific, contextually-free pay prescriptions), asserting rather that these “best” pay practices conform to norms of competitive, individualistic achievementism, low context cultures and free-will functionalist objectivity. Contextualist perspective would assert that these norms might not travel well when applied to cultures outside of the U.S. cultural sphere of influence (Jackson, 2002: 62-63; Maxwell, 2000; Sparrow, Schuler and Jackson, 2000).

“Exchange Basis” refers to the timing and definability of pay exchanges, and is made up of two sub-dimensions: intrinsic vs. extrinsic rewards and incentives vs. rewards. Ongoing debates on the wisdom of paying people for work related activities that they are now engaged in for their own intrinsic reasons falls under the intrinsic-extrinsic dimension (Frey, 1997). Firms may choose to focus on creating an overarching cultural value system that provides an organic blend of intrinsic and extrinsic rewards, resulting in an “employer of choice” niche (Lawler, 2000: 65-69; Milkovich and Newman, 2005: 208-209). This approach can be contrasted to firms that take a direct, Skinnerian approach to pay and focus on creating and communicating an explicit, objective menu of inducements. Cultures wherein work is based on more integrated personal social “relationships” may value a more complete balance of intrinsic and extrinsic rewards, while cultures characterized by personal independence and isolation (“individualism”) and rapidly changing personal and social contexts may emphasize the extrinsic rewards – given the absence of a strong and enduring social matrix that gives intrinsic rewards their meaning and power (Bernstein, 2000: 493; Frey, 1999; Triandis, 2002).

Incentives are defined as promises made in exchange for performance; rewarded after the performance occurs (Mahoney, 1979; 1989; Maxwell, 2000: 245-247). The sequence is as follows: promise – performance – rewards. Rewards are defined as the consequence of performance. Here the sequence is performance

followed by rewards. Incentives require organizational agents to: 1) know what performance activities the firm desires and values, 2) know how to accurately measure if and when these performance events actually occur, 3) be able to ascertain who (individual or group) acted to achieve these performance events, and 4) be able to value these events, so that rewards promised do not exceed the value of the performance. In certain simplistic, mechanical task situations, incentives are useful (Lawler, 2000: 159-165; Milkovich and Newman, 2005: Chapter 10). In more complex and less understood task environments (i.e. research and development projects, new product introduction to market, movement into new markets and functionalities) such systems may be less useful. Employees may be asked to engage in general task actions and then be rewarded only after the fact, and based on some macro level firm performance outcome months or years later.

Stock options and the possibly misnamed long term “incentive” systems can be seen as an attempt to tie employee actions to firm consequences in a complex and nonlinear global environment. In this complex environment performance can neither be defined beforehand nor associated with a discrete reward before the fact (Brandes, Dharwadkars and Lemesis, 2003; Engel, 2002: Chapter 10). Reward systems, particularly in a low trust, low context work environment, may be seen as a problem (Steers and Sanchez-Runde, 2002: 204-207).

Fundamental and unspoken differences stem from the fact that decision makers may hold differing norms, values and assumptions along these four dimensions. Mapping and making these differences more clearly defined will be a critical first step in overcoming the significant potential for misunderstandings so inherent in global pay processes.

#### Level two: Pay strategy, practices and systems

On this second level the increased complexity of global pay systems is brought into focus by a two dimensional model, consisting of a horizontal and vertical axis. The horizontal axis captures the standardization vs. customization of pay dimension, while the vertical axis captures alternate levels or units of analysis for pay. This space comprises a global version of the traditional, explicit “strategic” pay domain that developed in research over the 1980s and 1990s, as pay – like most other aspects of

human resource management – was explicitly linked to corporate strategy (Milkovich, 1987; Bloom and Milkovich, 1999).

On the horizontal axis, pay can be designed as a limited, globally standardized, “universal” set of decisions. Alternately, pay may follow a wide range of “local” conditions (Bloom and Milkovich, 1999; Bloom, Milkovich and Mitra, 2003; Mitra, Bloom and Milkovich, 2002). Where a given firm’s strategy falls on this universal – local continuum is said to be based on the combined requirements of both the firm’s macro business strategy as well as the pressure for local compliance present in the host context (Mitra, Bloom and Milkovich, 2002).

Strategy is conceptualized by these authors in terms of models of local “adaptor,” “localizer,” “exporter” or “globalizer” (Mitra, Bloom and Milkovich, 2002: 12-13). Pressures for local compliance are more complex, being comprised of “diversity” – differences within a cost country pay context; “freedom to choose” – flexibility and innovativeness inherent in the host pay system; “formalization” - defined as “the degree to which contextual factors are codified into rules and enforced”; “pervasiveness” – how “widely adopted or adhered to by many organizations” pay practices are in a host country; and “centrality” – how important a pay practice is considered by a large number of organizations (Mitra, Bloom and Milkovich, 2002: 11-12). Based on ease of administration alone, firms are thought to prefer standardized global practices. Even so, a combination of strategic and contextual pressures may force global pay decision makers to grudgingly move toward more local pay solutions. Analyses of differing local contexts may result in a series of coordinated global-local pay dyads, each adjusted to local conditions. Regional adjustments within and across local pay contexts will remain an ongoing source of complexity (Reynolds, 2000, b: 89-91).

On the vertical axis, multiple units of analysis – beyond the traditional job-based pay system – are represented (Perlman, 1980; Wallace, 1983). *Person* based pay, based on competencies (Boudreau, Ramstad and Dowling, 2003; Engle, Mendenhall, Powers and Stedham, 2001; Lawler, 2000: 41) or personal pay “choice” (Milkovich and Bloom, 1998: 22-23); *job* based pay (Bensky, 2002); group or *occupational* pay (Lawler, 2000; Sparrow, 1999); “customized” pay at the *national* level (Overman, 2000); or even a standardized “core” pay for all employees at the

*firm* level (Milkovich and Bloom, 1998: 22) are presented as complementary units of analysis for pay.

A more complete analysis of global pay may have to account for these multiple, complementary units of analysis. We may combine pay packages across multiple vertical units and provide “*composite*” pay – a combination of personal, job, group, national and uniform corporate pay (Engle and Mendenhall, in press; Schuler and Rogovsky, 1998). This two dimensional model at the strategic level provides for the flexibility and completeness required to provide strategic answers to diverse employee and local constituency demands and rapidly changing business environments.

### Level three: Pay form and administration

On level three, the surface level of pay form and administration, three trends or forces may be seen at work. We label these highly interrelated forces “Portability and Standardization,” “Transparency,” and “Decision Support Technology.” These macro forces operate on all firms engaged in global pay processes.

“Portability and Standardization” refers to an increase in the portability and the standardization and codification of both the benefit and pension plan forms of pay. These effects are due to forces as diverse as European Union mandates to “harmonize” employment (Brewster and Larsen, 2000; Coleman, 2000: 260; Sparrow, 1999; Sparrow and Hiltrop, 1999), market forces in the U.S. (Milkovich and Newman, 2005: 404-420, 437-442 and 446-447) and as a response to increasing numbers of “global” or “transpatriate” employees operating around the world (Chaukar, Sovina and Tyler, 2003; Milkovich and Newman, 2005: 530-531). Given these forces, significant differences in pay forms as well as differing legal and administrative contexts remain in the field of pay (Klein, 2001).

“Transparency” refers to an increase in the ease and accuracy of pay comparisons across cultures, industries and occupational groups. Transparency results from regional trade and employment blocks, long distance international commuting (Chaukar, Sovina and Tyler, 2003), global media, and the rise of global recruitment and selection firms. Standardization of pay metrics across formerly

distinct regions (e.g. the Euro) also makes cross border pay comparisons easier and highlights pay differentials across regional cultures.

“Decision Support Technology” refers to the ability of information system technologies to provide a much richer, more timely stream of information on employee activities and pay status. Using these technologies, firms may “learn” more about individual and group employment status and conditions (Heneman and Schutt, 2002: 498-499; Reynolds, 2000 c: 568-569). This ability combines with decision support routines that will allow aggregation upward – to occupational, functional, geographic or product line levels – as well as the disaggregation of data down to the individual employee as the focal unit of analysis (Engle and Mendenhall, 2001; Parker, 2000; Peppard, 1999). The ability to drill down or aggregate up in an employee database has the potential to facilitate more surgical and customized pay policies operating across significant distances. How comfortable divergent employee groups are with such a detached, abstracted and distant pay communication system remains to be seen (Reynolds, 2000 c; Ritchie and Seltz, 2000).

The technology described above may be seen as the force bringing diverse employees together, or it may become a force that exacerbates differences and dissent. The management of these pay forms remains a “. . . wild card in the near term future” (Reynolds, 2000, c: 570).

### Conclusions

One can readily envision how a “universalist” assumption may combine with an “egalitarian” assumption from level one of the model to provide the motivation for a pay strategy (at level two) characterized by a focus on standardization of pay and a focus on a nation or organization as the preferred unit of analysis. Conversely, a “contextualist” –“differentiating” set of assumptions at level one might result in a pay strategy characterized by a focus on local or regional customization and a personally accommodating “composite” pay preference. These effects may be independent of the ease or difficulty in pay policy administration. What other relationships may be empirically derived across the complex pattern of these three levels of pay assumptions, strategies and forms? Empirical studies related to this proposed model may provide dynamic answers to this kind of question. Without such a necessarily

(but not unduly) complex conceptual framework, critical questions can never be systematically asked and answered.

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