

INTERNATIONAL COMPENSATION PRACTICES: A TEN-COUNTRY COMPARATIVE ANALYSIS

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This article presents a comparative study of compensation, by exploring nine items which measure pay and benefits practices in ten locations (nine countries and one region). First, similarities and differences in employee compensation are examined. Second, emerging issues for international compensation are identified. Third, gaps are identified between current practice and employee preferences for future compensation. Overall, the results of this study provide some support for previous research, although a number of counterintuitive findings are identified with respect to the ways in which culture might be expected to impact employee preferences for cross-cultural compensation practices. The research suggests several challenges for compensation practice and directions for future research. © 2002 Wiley Periodicals, Inc.

Introduction

The escalating pace of globalization is increasing the need for organizations to develop effective international compensation programs. Though globalization is not a new phenomenon, it is the rapid pace of escalation that has focused attention on international issues in both the business press and the executive suite. In these turbulent and increasingly global competitive markets, no function is under greater scrutiny than the human resource function (Bowker, 1996). Despite the need to attract, motivate, and retain an effective workforce in a variety of foreign locations, the international compensation literature has focused primarily on a small percentage of the international workforce: the expatriate manager. It is important that international compensation scholars begin to extend this focus beyond the expatriate to inform organizations

regarding the cross-cultural use and motivational utility of various compensation practices on the larger workforce.

The Purpose of This Article

The purpose of this article is to explore the role of pay and benefits in international compensation from an empirical perspective. This ten-country/region study is exploratory in nature and has three primary objectives. First, to determine what “is now” the current state of practice for a variety of compensation practices (what are the similarities and differences evident in employee compensation in different countries?). Second, to determine to what extent managers feel these compensation practices “should be” utilized in these countries (what constitutes the current ideal in compensation practice?). Third, to identify the gap between what “is now” the state of practice

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and employee preferences for what “should be” the state of practice for varying compensation forms across these ten countries and regions (how distant is practice from employees’ wants and expectations?). Observations taken from this exploratory comparative study may enhance our understanding of the current state of practice (“is now”) in these ten countries as well as provide guidance as to the cross-cultural appropriateness of various compensation practices (“should be”). In addition, understanding the gap between current practice and employee preferences for practices is likely a much needed first step toward designing compensation systems that maximize employee motivation to engage in behavior consistent with organizational goals and direction (Milliman, Nason, Von Glinow, Huo, Lowe, & Kim, 1995). Prior to presenting these results, we will briefly review the literature to highlight the importance of effective international compensation practices and the relative dearth of empirical evidence on the topic.

The Importance of International HRM and Compensation

Three factors make effective human resource management critical in the quest for global competitiveness. First, increased emphasis on multinational trade and the growth of foreign subsidiaries has heightened the need for managers in foreign countries. Second, expansion of the international work force brings increased capabilities and often lower costs to multinationals but only if line employees in these locales can be properly motivated. Third, the traditional factors of production (capital, technology, raw materials, and information) are increasingly fungible, with employee quality the only sustainable source of competitive advantage to developed country multinationals.

Globalizing the work force in search of increased competitiveness and profits brings with it an attendant set of HR problems. Perhaps none of these problems is more vexing than the international compensation plan. Compensation, as Geringer and Frayne (1990) have defined it, “includes those rewards—monetary and non-monetary, direct

and indirect,—that an organization exchanges for the contributions of its employees, both job performance and personal contributions” (p. 114). Several authors (cf. Bonache & Fernández, 1997; Reynolds, 1997) have suggested that international compensation management is the most time-consuming and strategically important HRM activity in multinational enterprises. Further, from the perspective of employees, compensation is one of the most visible aspects of Strategic International Human Resource Management (Reynolds, 1997). Market data suggest an increasing appreciation for the role of international compensation with a recent survey showing an 18% year-over-year compensation increase for managers who can plan and administer international compensation and benefits (Lissy & Morgenstern, 1995).

To successfully manage international compensation and benefits requires a knowledge of the mechanics of compensation such as employment and taxation law, customs, environment, employment practices, familiarity with currency fluctuations, and the effect of inflation on compensation—all within the context of shifting political, economic, and social conditions (Dowling, Welch, & Schuler, 1999). Yet, with all of these differences, the three primary objectives of international compensation plan are no different than a domestic-only plan—to attract, retain, and motivate employees to achieve competitive advantage (Crandall & Phelps, 1991).

In an effort to maximize work force effectiveness, international compensation programs must move beyond an appreciation for the admittedly complex cross-cultural mechanics of adopting a domestic plan to an overseas locale. A preferred approach might be to first identify pay and benefit practices that are desired by employees in the respective nations and cultures. Once employee needs and desires are appropriately identified, then the mechanics of selectively adopting existing programs to a variety of operations might be addressed and the need to develop new programs identified. Laabs (1996) suggests that HR managers first take local practices into consideration, and then investigate what is

possible and practical from the host-country perspective.

Expatriate Myopia and the Need for Comparative Compensation Research

For this manuscript we searched the literature using terms such as “international compensation,” “international pay,” and “international benefits.” We found that most of what has been written on international compensation is focused exclusively on compensating the expatriate. Further, it is generally assumed that these expatriates are headquarters-country nationals. While there is little question that the selection, motivation, and retention of a few individuals in key leadership positions is important to international unit effectiveness, it is equally likely that other employee groups are as important or more important. Recent research by Roth and O'Donnell (1996) suggests that it is particularly important to look beyond expatriates when examining the area of compensation. Their study of foreign subsidiary managers found that variance in compensation practices increased with “distance” from headquarters. In other words, compensation designed for more senior managers (typically expatriates) will be closer to compensation design at headquarters. Further, Roth and O'Donnell (1996) found that nationality was the strongest predictor of compensation design. Tilghman and Knight (1998) note that it may be short-sighted to focus on expatriate compensation over compensation of local nationals who possess language and cultural skills that make them more valuable to the organization in the long term than headquarters-country nationals. Understanding the preferences and needs of these locals may be increasingly important as high costs encourage many firms to take a second look at the use of expatriates (Esquenazi-Shaio, 1996). Locals may have different preferences for pay and benefit practices due to cultural and other country environmental variables such as government laws and tax policies. Organizations need to know what these different preferences are. Addressing these different preferences with cross-cultural adaptation and innovation is responsive and

systematic HR when viewed within the context of business objectives (Townsend, Scott, & Markham, 1990).

Yet, the academic and practitioner literature is largely silent on this issue with authors using terms such as “dearth,” “nil,” “anecdotal,” and “needed” to describe the theory and empirical research on international and cross-national compensation (Adler, 1983; Black, Gregerson, & Mendenhall, 1992; Gomez-Mejia & Welbourne, 1991; Harvey, 1993a, 1993b; Hodgetts & Luthans, 1993; Milliman, Von Glinow, & Nathan, 1991; Milliman & Von Glinow, 1990). While the quantity and quality of information on pay practices varies across countries, little systematic empirical research comparing pay practices or preferences for pay practices across countries has been conducted (Hansen, 1998; Milliman et al., 1995; Von Glinow, 1993). Dowling (1989) further suggests that in-depth academic research is needed in salary and benefit practices to improve on the largely anecdotal (Harvey, 1993b) and general guidelines (Luthans, Marsnik, & Luthans, 1997) regarding what “should be” included in an international compensation package.

This scarcity of cross-national comparative research may be attributed to a number of reasons including: (1) the large quantity of effort, skills, and resources required to develop, translate, and back-translate surveys while achieving functional item equivalence; (2) the challenge of acquiring multiple-data collection sites in multiple nations; (3) the high-touch approach required to obtain data sites in many countries reduces sample comparability which contributes to an inability to publish research in the “best” journals; (4) the issue of expatriate compensation is in debate and has overshadowed issues of the larger workforce; (5) ethnocentrism has resulted in the exportation of compensation programs (Hyer, 1993); (6) multinationals find it convenient to assume that duplicating local practice will maximally motivate workers (Abdullah & Gallagher, 1995).

Summary

The literature clearly identifies that an effective international compensation plan is an

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important component of organizational effectiveness in a global business environment. Yet comparative empirical studies investigating the current state of practice (“is now”), a desired future state (“should be”), and implications of the corresponding gap are virtually nonexistent. A clear need exists for cross-cultural comparative compensation research. This study represents an early and exploratory approach toward developing this literature.

Research Methods

A brief overview of the sample and survey are provided below. Geringer, Frayne, and Milliman (2002—this issue) provide a more extensive description of measurement development, survey construction, data sampling strategy, and resulting sample demographics and characteristics.

Sample

The sample is comprised of primarily managers and engineers in ten different locations (nine countries and one region) responding to functionally equivalent survey items. The nine countries and their respective sample sizes are Australia ($n = 435$), Canada ($n = 124$), Peoples Republic of China (PRC) ($n = 190$), Indonesia ($n = 241$), Japan ($n = 271$), Republic of Korea ($n = 237$), Mexico ($n = 179$), Taiwan ($n = 241$), and the United States (U.S.) ($n = 144$). The region of Central and South America is referred to as “Latin America” in this article and is composed of Costa Rica, Guatemala, Panama, Nicaragua, and Venezuela ($n = 143$). Surveys were distributed to both managers/engineers in all ten countries and to nonmanagers in some of these countries. In an effort to improve sample comparability, only the manager data are included in this analysis. Samples were varied in terms of the depth and breadth of industries surveyed in each country. Though differences in sample comparability with respect to type of industry are common to comparative international research, caution remains prudent in interpreting the results (Milliman et al., 1995).

Survey

This study is part of a larger research program designed to study a range of HRM practices

and organizational/contextual factors. The survey was originally developed in the United States by a number of content experts familiar with cross-cultural issues in HR practice and rigorous steps were taken to assure functional item equivalence. Nine compensation items taken from Balkin and Gomez-Mejia (1990) and three compensation outcome items were answered with a five-point Likert type scale with the anchors 1 = not at all, 2 = to a small extent, 3 = to a moderate extent, 4 = to a large extent, 5 = to a very great extent.

Compensation items in survey order queried the extent to which: (1) pay incentives are important to compensation strategy; (2) benefits are an important part of total pay; (3) pay is contingent on group or organizational performance; (4) long-term performance is emphasized over short term; (5) seniority influences pay decisions¹; (6) pay incentives are a significant amount of total earnings; (7) benefits are generous; (8) pay system has a future orientation; (9) pay raises are determined by job performance. Respondents were asked two types of questions with respect to each compensation practice: first, to indicate the *current* state of practice in their organization (“is now”) and second to indicate the *desired future* state (“should be”). Thus a total of 18 responses were made to the nine items, nine “is now” assessments and nine “should be” assessments.

Three compensation-effectiveness items queried the extent to which compensation practices: (1) help our company to have high performing employees; (2) help our company to have employees who are satisfied with their jobs; and (3) make a positive contribution to the overall effectiveness of the organization. Only the current state (“is now”) was assessed for compensation effectiveness. The compensation practice and effectiveness items including the associated instructions can be found in Table I (see Results).

Analysis

The study design was to maximize the breadth of practices considered, rather than to explore in great depth only one or at most two practices. Consequently, the compensation practice items were not selected with *a priori* intent

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to constitute a set of scales or to mimic a set of scales previously established within the academic community as being both valid and reliable. While we recognize the inherent limitations associated with single-item measures, we would also argue that our broad approach is appropriate given that comparative research on international compensation is in its infancy. Our intent in this manuscript is to explore the data and establish a preliminary foundation for more rigorous research on whether there are differential or “best” international compensation practices.

Thus, as we explore between country “is now” differences, between country “should be” differences, and within country differences in what “is now” and “should be,” the analysis is confined to the item level. We have grouped these nine compensation items into four broad practices to facilitate results interpretation and discussion flow. These four groups are: (1) incentive-related items: importance of pay (items 1 and 6), pay based on group/organization goals (item 3), and pay based on job performance (item 9); (2) benefits (items 2 and 7); (3) long-term focus on pay (items 4 and 8) and seniority (item 5).

Analyzing data at the item level in a ten-country study results in a large number of potential mean comparisons. There are 45 ($9 + 8 + 7 + 6 + 5 + 4 + 3 + 2 + 1$) possible country combinations for each of the compensation items. Thus with nine items there are 405 (45×9) potential between-country comparisons for the “is now” item means, 405 potential between-country comparisons for the “should be” item means. There are also 90 (ten countries \times nine items) within-country comparisons between “is now” and “should be” item means. However, several authors caution that direct comparisons of mean differences *across* countries may be difficult to evaluate since respondents from different cultures may incorporate different frames of reference in assessing their work (Cox, Lobel, & McLeod, 1991; Meindel, Hunt, & Lee, 1989). For this reason we do not incorporate *t*-tests of the differences across countries into our discussion of the results, but instead make more general observations about overall trends in the data. Since *within*-country differences do share a common frame of reference, *t*-tests

were performed for differences in within-country “is now” and “should be” scores.

To facilitate our discussion, we have organized our discussion of the results around the threefold purpose of the study. First we report on “is now” means to better understand how practices currently vary across cultures. We use the following categorization in our discussion of “is now” means: less than 2.5 = “low” current emphasis, 2.5 to 3.0 = “moderate” current emphasis, and 3.0 or higher = a “relatively high” current emphasis. Second we report on what managers feel the state of practices “should be.” “Should be” scores serve as a useful tool for benchmarking current practice against employee preferences for practice. It is useful to look at the “should be” means by themselves because a country could have a large gap between “is now” and “should be” but still have a comparatively low “should be” mean. Thus, “should be” mean scores “should be” considered on their own as well compared to the “is now” score. We use the following categorization to discuss the “should be” means: 3.0 to 3.5 indicates a “moderate” desired emphasis, 3.5 to 4.0 indicates a “moderately high” desired emphasis, and 4.0 or higher indicates a “high” emphasis. We “raised the bar” to 4.0 or higher for a “high” “should be” categorization (compared to a 3.0 for a “high” “is now” categorization) because respondents typically score these items higher since the question is asking for ideal practice.

Third, we discuss the within-country change score between the “is now” and “should be” means to identify what we will refer to as the *ideological gap* between compensation practice and the level of usage desired by its employees. Since within-country reports of “is now” and “should be” scores do not share the frame of reference concern, it is appropriate to conduct within country *t*-tests to determine if the ideological gap is statistically significant. However, statistical significance is a function of both sample size and sample standard deviation. Given the exploratory nature of this research, we were interested in differences that were not only statistically significant but were also practically significant. Since all sample combinations with mean differences of 1.0 or greater were statistically significant, and we

Since within-country differences do share a common frame of reference, t-tests were performed for differences in within country “is now” and “should be” scores.

believe that differences of this magnitude are also practically different, we chose a mean difference of 1.0 as an indication of both large statistical and practical differences.² As with the categorization methods described above for “is now” and “should be” means, our attempt is to make more general observations and sense out of this large group of data. We refer to mean differences of 1.0 or greater as “large,” differences of .99 to .90 as “moderate,” and differences of .90 or less as “small.” Readers concerned only with statistical significance are referred to the Appendix.

Results

The mean of country responses as to the current state (“is now”) and desired state (“should be”) of the nine compensation practice items are discussed below. The results are organized in a manner consistent with the threefold purpose of the study. First, we report what the current state of practice is for the compensation item. Second, we report what current practice “should be” from the perspective of managers. Third, we report the ideological gap between “is now” and “should be” scores. The results are organized into four groups to facilitate the reporting of results: (1) pay incentives (items 1, 3, 6, 9); (2) benefits (items 2, 7); (3) long-term focus in pay (items 4, 8); and (4) seniority (item 5).

Pay Incentives

Pay Incentives Are Important (Item #1). The current state of practice related to pay incentives seems relatively low. Only three countries (PRC, Japan, and Taiwan) had “is now” mean scores above 3.0 (high). The recent growth in performance-related pay in PRC, for example, has been detailed in other research (Zhu, De Cieri, & Dowling, 1998). Australia in particular had a very low mean score (2.39). This is quite surprising, given other studies suggesting a trend toward use of performance-based pay in Australia (O’Neill, 1995). It is also surprising that the U.S. was so relatively low (moderate at 2.77, tied for second lowest), given the pay-for-performance ethic in the U.S. (Milliman, et al., 1998).

For the “should be” means, four countries, U.S., Taiwan, Mexico, and Latin America, indicated that they should ideally have a high (means greater than 4.0) emphasis on pay incentives. The other countries indicated a moderately high (3.5 to 3.99) emphasis on pay incentives. For all countries, the “should be” scores were greater than the “is now” scores identifying that the ideological gap was in the direction of a greater need for pay incentives than is currently in place. These differences were large: (mean difference greater than 1.0) for Mexico (1.64), Latin America (1.49),

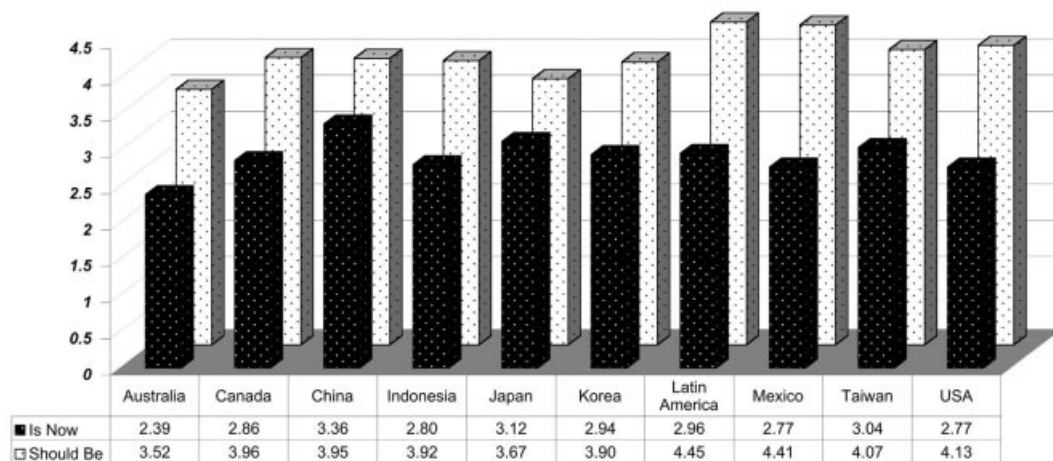


Figure 1. Pay Incentives Are Important

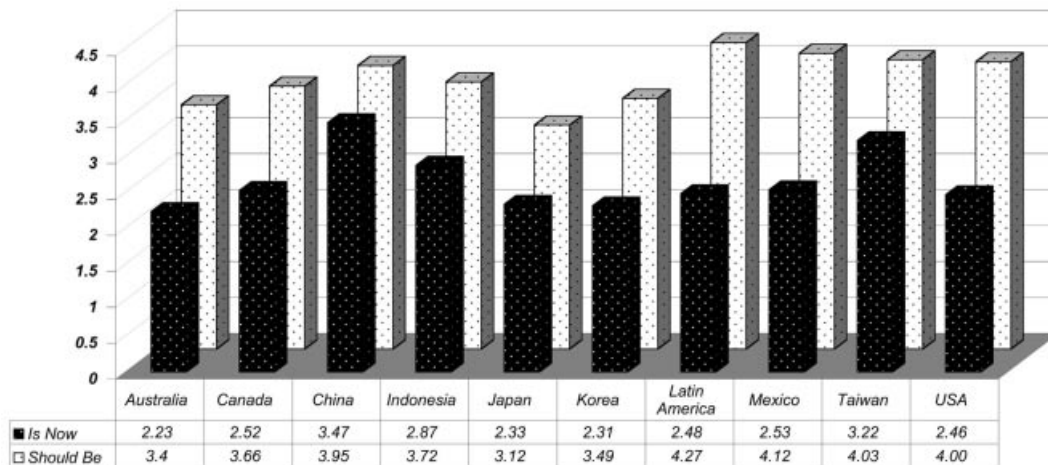


Figure 2. Pay Is Contingent on Group Performance

United States (1.49), Australia (1.13), Canada (1.10), and Taiwan (1.03). The mean difference for Korea (.96) was moderate.

Pay Is Contingent on Group/Organizational Performance (Item #3). The current state of practice (“is now”) is relatively low with all mean scores below 3.0, except Taiwan (3.22) and the PRC (3.47). Interestingly, the mean scores were low for both individualistic countries such as the U.S., Canada, and Australia (2.23 to 2.52) as well as a number of the collectivistic countries such as Japan, Korea, Latin America, Mexico, and Indonesia (2.31 to 2.87). Individualistic cultures typically emphasize individual orientation, achievement, and identity. In contrast, collectivistic cultures emphasize groups and place a high value on maintaining harmony and close interpersonal relationships among the group members. For this item, we would have expected the lowest scores to be in the individualistic countries and the highest scores in the collectivistic countries. Our expectation was based on previous research that has shown a relationship between individualistic cultures and individual incentive compensation practices (Schuler & Rogovsky, 1998).

For “should be” scores, only four countries had relatively high means (4.0 or above): the U.S. (4.00), Taiwan (4.00), Mexico (4.12), and Latin America (4.27). Again, these results are surprising, as the result patterns are inconsistent with the respective individualistic/collectivistic orientations. Instead, there were

individualistic and collectivistic countries having both low and high mean scores. Australia (3.40) and Japan (3.12) were again among the countries with the lowest “should be” mean scores. The “should be” means were higher than the “is now” means for all countries and these differences were large for six of the countries: Latin America (1.79), Mexico (1.59), U.S. (1.54), Korea (1.18), Australia (1.17), and Canada (1.14). The smallest observed difference was in the PRC (.40). These results suggest that this is a complex issue. For the PRC, Zhu, De Cieri, and Dowling (1998) found that emphasis on “group performance” varied across enterprises with different ownership types. Perhaps future within-country studies will add to our understanding of this issue in other countries and regions.

Incentives Are a Significant Amount of Pay (Item #6). The “is now” scores again indicate that few organizations are currently highly emphasizing pay incentives. Only one country (Korea: 3.26) had a mean score above 3.0. In particular, the following countries had low “is now” means: Australia (1.8), Canada (2.15), and the U.S. (2.20). It is interesting that the three countries with the higher individualistic orientations, which allegedly espouse a pay-for-performance work ethic (Milliman et al., 1998), have the lowest current emphasis on incentives as a significant amount of total pay. The difference shown between these “Anglo” countries supports previous research that indicates that Australian

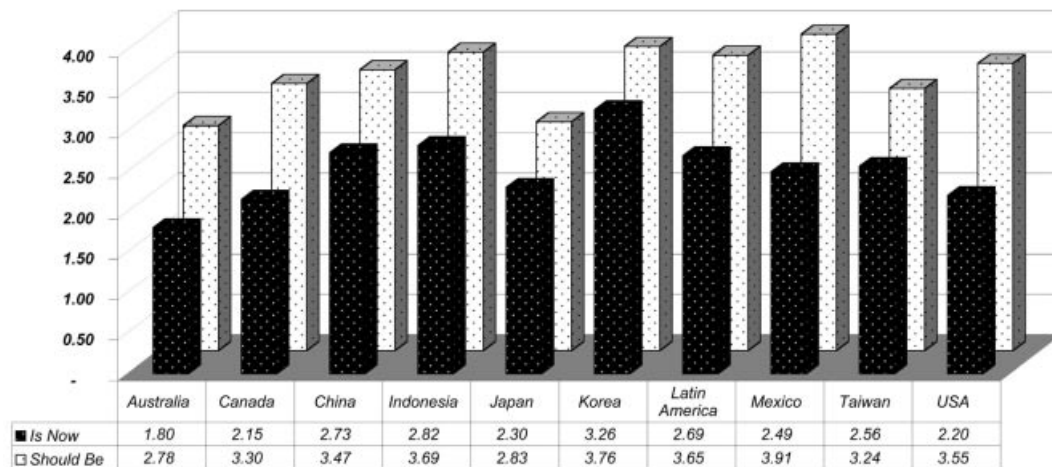


Figure 3. Incentives Are a Significant Amount of Pay

employees and executives typically have a lower variable component of total compensation than do employees in North America (O'Neill, 1995).

For the "should be" scores, no countries placed a high emphasis (mean above 4.0) on pay incentives as a significant amount of an employee's total pay. These data suggest that to some degree it may be a worldwide phenomenon that employees don't want to have a large portion of their pay at risk (e.g., based on incentives, rather than base pay). The "should be" means were in a relatively narrow range from a low of 3.24 (Taiwan) to a high of 3.76 (Korea) with the exception of two low scores for Australia (2.78) and Japan (2.83).

For all countries the "should be" means were higher than the "is now" means. The ideological gap was large in the three NAFTA countries, Mexico (1.42), U.S. (1.35), and Canada (1.15), and moderate in Australia (.98) and Latin America (.96).

Job Performance Is the Basis for Pay Raises (Item #9). Taiwan (3.14) had the highest "is now" mean and again was the only country with a mean score above 3.0. Most of the countries had moderate mean scores between 2.55 and 2.93. The exceptions to this were the U.S. (2.42), Mexico (2.31), and the exceptionally low Korea (1.83). For the "should be" means, a moderate score for Korea (3.27) was the lowest mean. All of the other countries scored 3.58 or higher and one-half of the countries had

"should be" mean scores above 4.0: PRC (4.03), Latin America (4.36), Mexico (4.19), Taiwan (4.21), and the U.S. (4.22). For all countries the "should be" means were higher than the "is now" means. These differences were large for nine countries: Mexico (1.88), Latin America (1.77), U.S. (1.80), Korea (1.44), Canada (1.28), Australia (1.21), PRC (1.10), Taiwan (1.07), and Indonesia (1.04). Japan (.86) was the only country that did not have a large ideological gap on this item. The ideological gaps from "is now" to "should be" were much larger for this item on performance-based pay than for pay contingent on group/organization performance. It would appear that employees in general want their pay based more on individual-level job performance (however defined) rather than on some type of group or organizational performance. Perhaps this is because employees do want incentive-based pay but not to the extent it is a significant amount of total pay. This phenomenon should prove to be an interesting point to investigate in future research.

Benefits

Benefits Are Important (Item #2). The current state of practice with regard to the importance of benefits is relatively high. Six of the countries had high "is now" means (above 3.0). The highest mean scores were in the U.S. (3.72) and Canada (3.78). Japan's moderate (2.57) was the lowest "is now" mean followed by

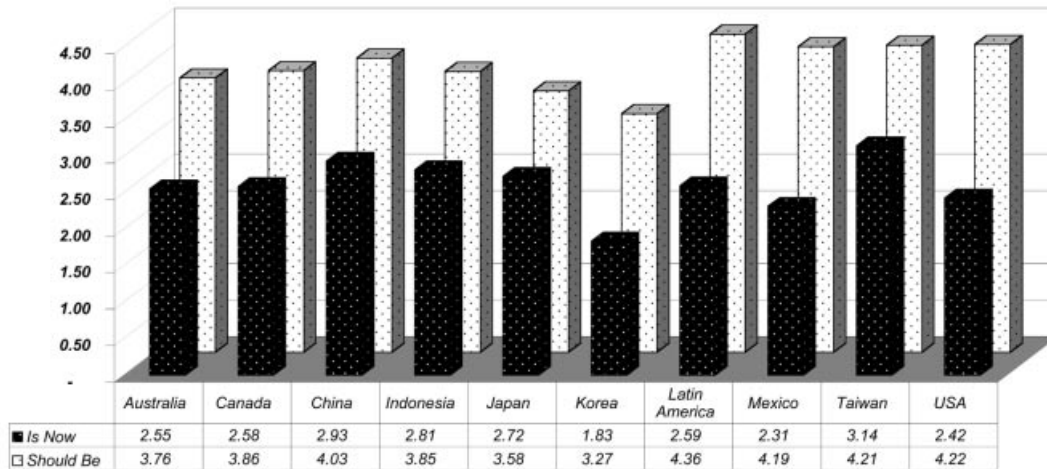


Figure 4. Job Performance Is the Basis for Pay Raises

Australia (2.77). With the exception of Taiwan (3.04) and Indonesia (3.09), the Asian countries had “is now” means below 3.0. In contrast, the countries in Latin and North America all had mean scores above 3.0. For the “should be” means, the countries in Latin and North America continued to have high scores on this item, with “should be” means of 3.97 (Canada) to 4.41 (Mexico). With the exception of Japan (3.21), the countries in Asia had mean scores in a relatively narrow and moderately high range from 3.55 to 3.91. These data indicate that benefits (at least as they are defined in the eyes of the respondents) are valued (or at least desired) to a larger degree in Latin and North America than they

are in Asia. For all countries, “should be” means were higher than “is now” means but only Mexico (1.24) had a large difference. Canada (.19) had a markedly smaller difference than the other countries for the ideological gap between what “is now” and what “should be” for benefits.

Benefits Are Considered to Be Generous (Item #7). Four of the countries had high “is now” means (above 3.0) on this item ranging from 3.16 to 3.36 (U.S., Canada, Latin America, and Taiwan). The other countries were clustered in the moderate range from 2.56 to 2.68, with the exception of Australia (2.35) and Indonesia (2.32). For “should be” means, three

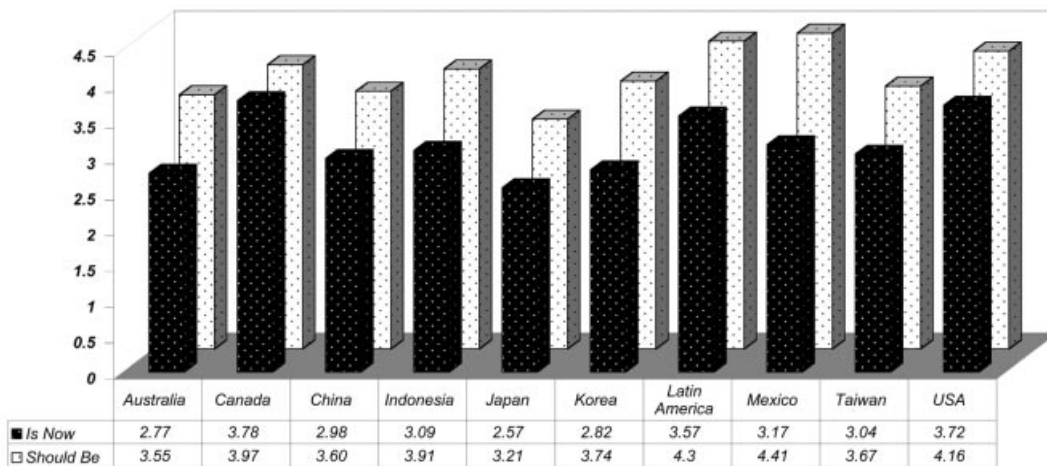


Figure 5. Benefits Are Important

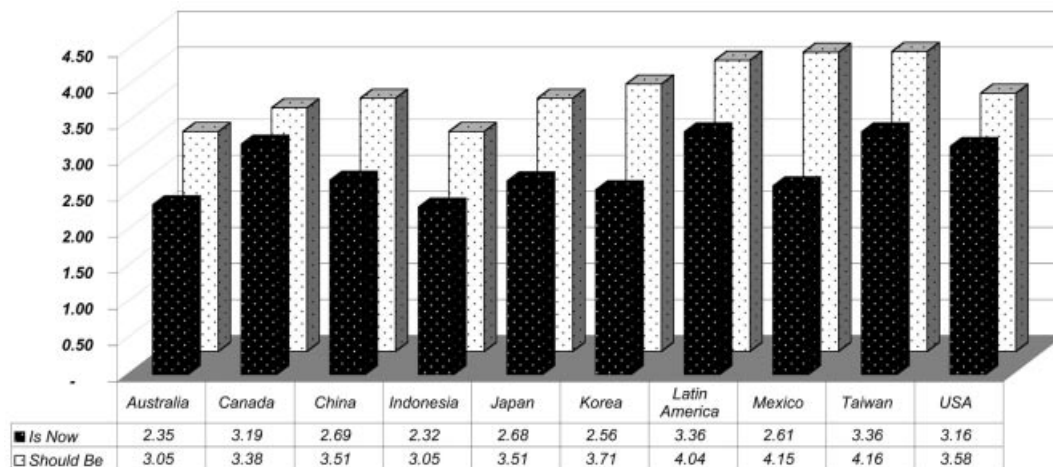


Figure 6. Benefits Are Considered to Be Generous

countries had means above 4.0: Taiwan (4.16), Mexico (4.15), and Latin America (4.04). Moderately high “should be” means were found in Korea (3.71), U.S. (3.58), Japan (3.51), and the PRC (3.51). Canada, Indonesia, and Australia had moderate “should be” means with scores of 3.38, 3.05, and 3.05 respectively. Most of the remaining countries had moderately high means clustered in a relatively narrow band from 3.38 to 3.71, with the exception of the PRC (3.05). Overall, the “is now” and “should be” scores indicate that the highest current and projected interest in generous benefits appears to be in Latin America, Mexico, Korea, and the PRC. For all countries the “should be” means were higher than the “is now” means. These ideological differences were large in Mexico (1.54) and Korea (1.15).

Long-Term Emphasis in Pay

Pay Based on Long-Term Results (Item #4). The three individualistic countries, namely the U.S. (2.01), Australia (2.23), and Canada (2.41), had the lowest “is now” mean scores. Latin America (2.43) and Mexico (2.53) also had relatively low means. With the exception of Korea (2.39), all of the countries in the collectivistic portion of Asia (2.81 to 3.47) had higher “is now” mean scores than the countries in the American continents and Australia. The “should be” scores were in a relatively high and narrow range from 3.46 in Japan to

4.12 in Latin America. For the ideological gap, large differences were found in Australia (1.38) and the American continent countries: U.S. (1.99), Latin America (1.69), Mexico (1.37), and Canada (1.19). In contrast, these differences were generally smaller for the Asian countries with the exception of a large gap in Korea (1.25) and the moderate gap for Indonesia (.91).

Futuristic Pay Orientation (Item #8). “Is now” mean scores for this item were among the lowest of the nine compensation items. The highest means, which were in the moderate range, were in Taiwan (2.87) and the PRC (2.82). The lowest means by far were in the U.S. (1.74), Australia (1.76), and Canada (2.02). In contrast to the lower “is now” scores, the “should be” scores were in a narrow range of 3.34 to 3.95 for nine of the ten countries, with a relatively high mean of 4.11 for Taiwan. The low “is now” scores in comparison to the moderately high “should be” scores produced a large ideological gap in eight of the ten countries: United States (2.12), Latin America (1.74), Australia (1.58), Mexico (1.56), Korea (1.57), Canada (1.39), Taiwan (1.24), and Indonesia (1.08). A moderate ideological difference was found for Japan (.98). The ideological gap in the PRC (.88) approached our criterion for a moderate difference and was statistically significant. The clear pattern across all ten countries is that managers feel

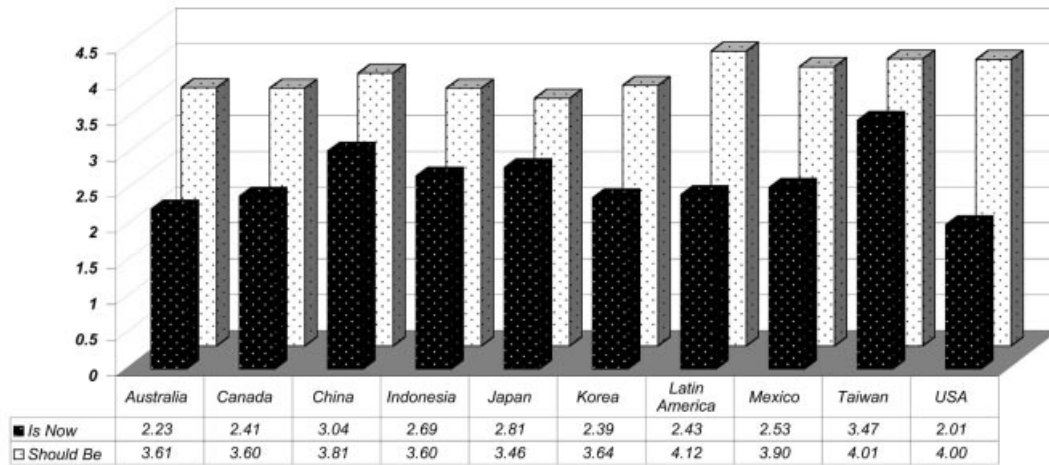


Figure 7. Pay Based on Long-Term Results

compensation systems should have a more futuristic orientation.

Seniority

Seniority Enters into Pay Decisions (Item #5). Collectivistic cultures have been hypothesized to focus much more on the use of seniority in HRM policies than individualistic cultures (Milliman et al., 1998). In this sample only three countries with “is now” means above 3.0 (high) are generally considered collectivistic: Taiwan (3.56), Japan (3.32), and Indonesia (3.01). However, beyond these three countries there was a mix of “is now” scores (high and low) across the

individualistic and collectivistic countries. For example, individualistic countries such as Australia (2.52) and Canada (2.61) had low scores on this item. In contrast, the U.S. (2.96) had a relatively high “is now” score, which is surprising not only because of its individualistic cultural orientation, but also because it has a lower portion of unionized employees (which traditionally value seniority) than Australia or Canada. Furthermore, some of the other collectivistic countries had low means scores here: the PRC (2.82), Latin America (2.78), and Mexico (2.66).

The pattern of results on the “should be” means is more consistent with what we would have anticipated in the individualistic coun-

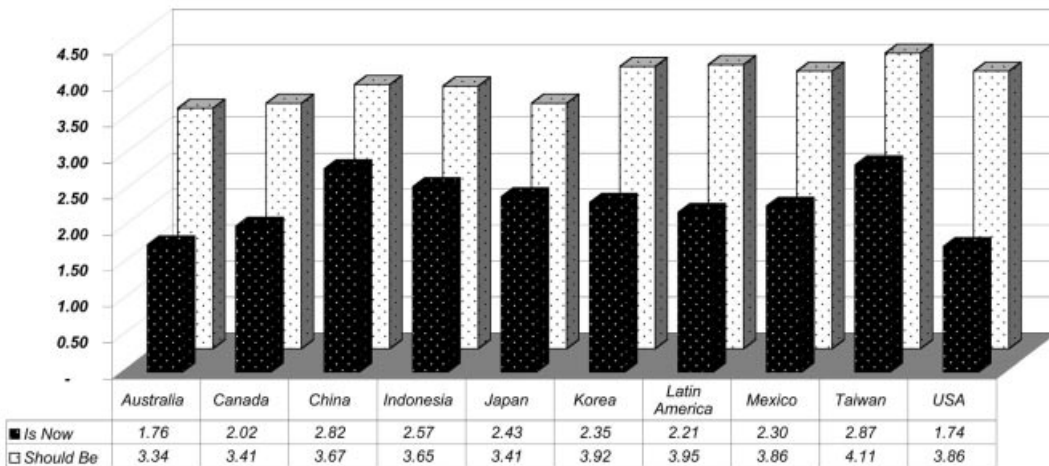


Figure 8. Futuristic Pay Orientation

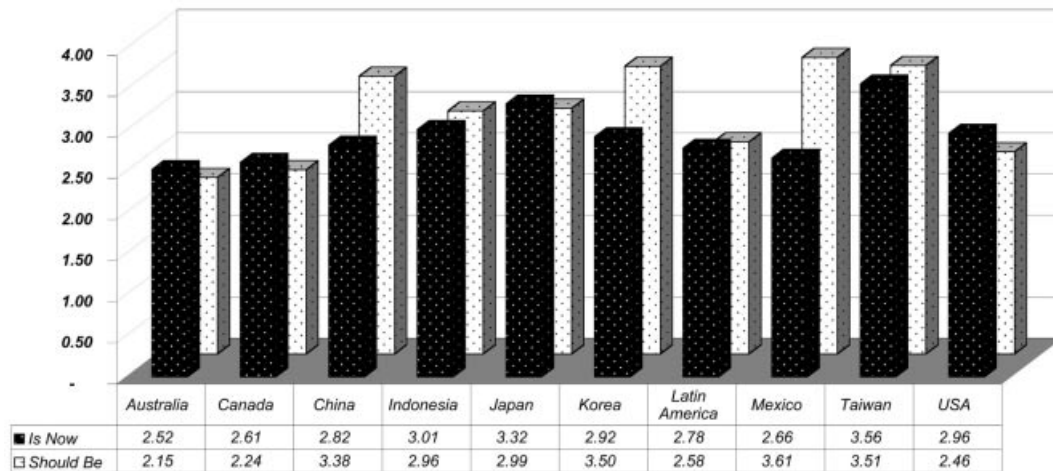


Figure 9. Seniority Is Important

tries. The three individualistic countries (U.S., Australia, and Canada) all had “should be” means below 2.46 and these means were all lower than the “is now” means. Where “is now” means were higher than “should be” means, not one country had a positive ideological gap above 1.0. The greatest differences were found in Mexico (.95), Korea (.58), and the PRC (.56). The other countries had small ideological gaps. The absence of any large positive ideological gaps and a negative ideological gap for seven of the ten countries stands in sharp relief against the other eight compensation items where ideological gaps were positive for all countries. Overall, these data suggest that regardless of cultural orientation, pay based on seniority is not viewed as being highly valuable, and “should be” de-emphasized.

Compensation Practices Are Related to Organizational Outcomes. Manager perceptions of the extent to which compensation practices were related to having high performing employees, satisfied employees, and an effective organization overall had a remarkably consistent set of means and patterns across the ten countries. Means for the impact of compensation practices on “having high performing employees” ranged from a moderate 2.51 in Korea to a high 3.20 in Taiwan. For “having satisfied employees” means ranged from a moderate 2.65 in Korea to a high 3.30 in the PRC. A similar pattern was found for

“having effective organizations” with means ranging from a moderate 2.70 in the U.S. and to a high 3.23 in Indonesia. Korean, U.S., and Mexican managers were generally the most pessimistic about the potential for compensation practices to impact effectiveness whereas Taiwan, Indonesia, and PRC managers were the most optimistic. Collectively these findings suggest that there is a high degree of cross-cultural consistency in the perceived utility of compensation plans as a method for achieving organizational effectiveness. However, the mix of appropriate compensation practices is likely to vary across these same countries.

The variety of findings for the nine compensation practices and three compensation outcomes should overcome any concerns that our findings can be explained by country-specific response patterns. No one country consistently had the lowest or highest means on the “is now” items. Similarly, no country consistently had the lowest or lowest mean on the “should be” items. Finally, the greater variability in responses to compensation practice items as compared to those measuring the perceived role of compensation in achieving organizational outcomes suggest that respondents gave thoughtful responses to items rather than exhibiting within-country scale-anchor preferences. To sum, in each country, managers felt that the nine compensation practices investigated here “should be” used more than “is now” with the exception of se-

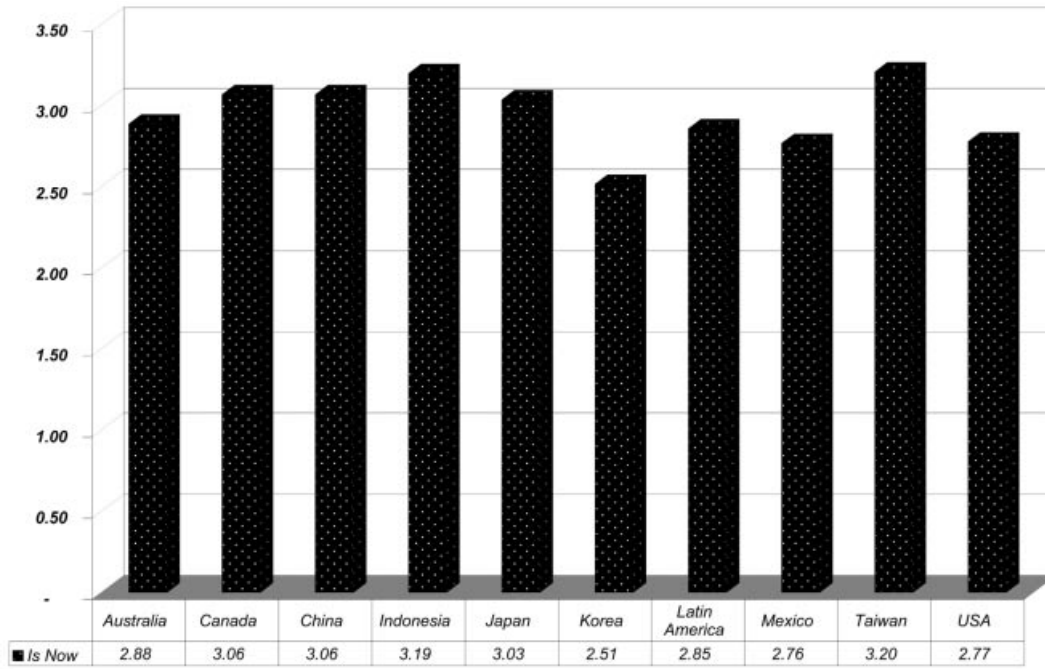


Figure 10. Compensation Policies Are Important to High-Performance Employees

niority as a basis for pay. Seniority as a basis for pay provides a sharp contrast with seven of the ten countries reporting “is now” means greater than “should be” means. A summary of large and moderate differences in “is now”

and “should be” means is provided in Table I. The empirical results of our analyses provide both supporting and contradictory findings with respect to how culture might be expected to impact employee preferences for HRM

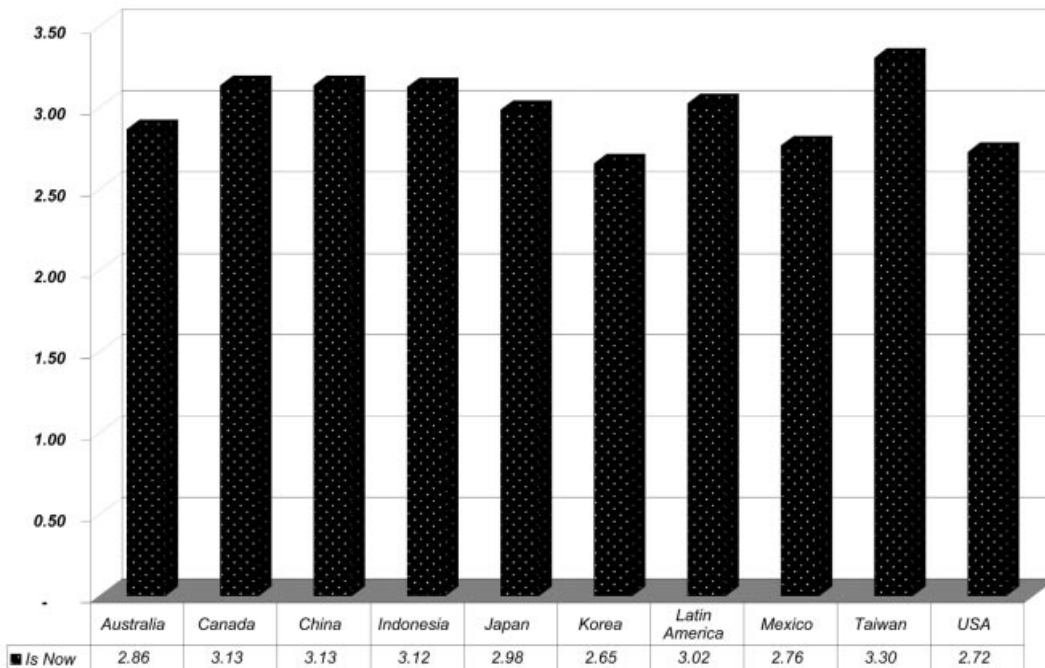


Figure 11. Compensation Policies Contribute to Employee Satisfaction

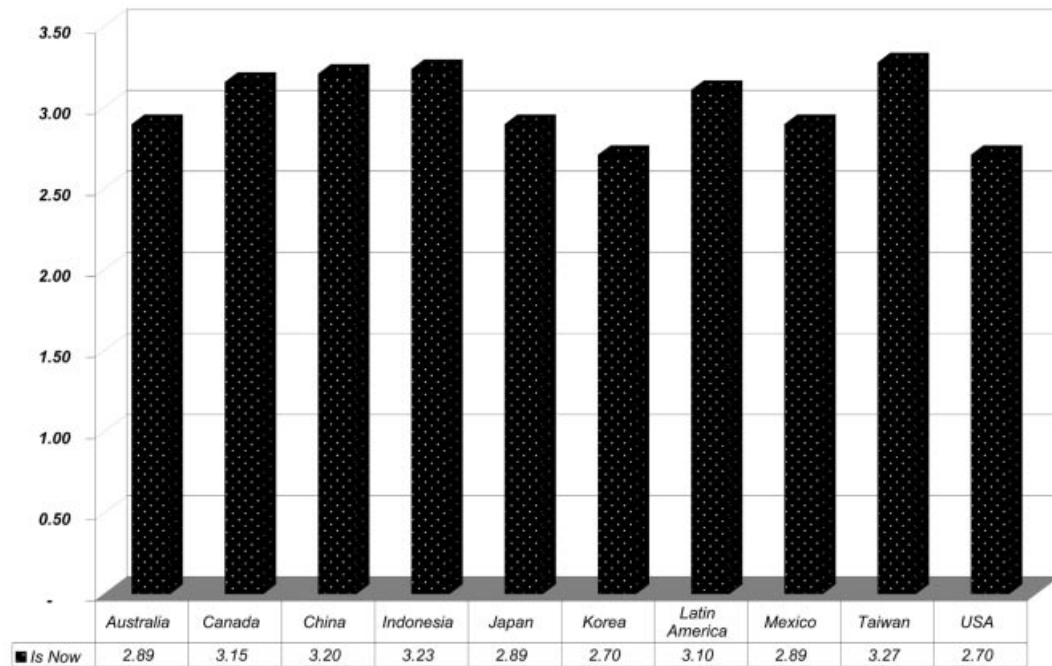


Figure 12. Compensation Policies Make Positive Contribution to Effectiveness

practices. Though our discussion includes observations regarding these supporting/conflicting findings, it is important to note that we reference no rigorous theory of international compensation management. Rather, our comments are broad extensions of the more general IHRM literature to a specific international practice, herein compensation. We have organized our discussion around the compensation themes identified: pay incentives, pay based on the long term, benefits, and seniority. We review what managers report the current state of practice to be, what managers believe the state of practice “should be,” and then discuss the ideological gap (difference) between the two.

Pay Incentives

There were four items that related in some manner to pay incentives: the degree that incentives “should be” an important part of the overall pay (#1 and #6), the degree that incentives “should be” based on group or organizational performance (#3), and the extent that pay “should be” based on job performance (#9). The data indicate that many countries are not currently using pay incentives to a large

degree. Out of the 40 mean scores here (four questions \times ten countries) there are only seven “is now” mean scores above 3.0 (moderate) and none of these were above 3.47. The only countries with multiple scores above 3.0 (moderate) on these four items were Taiwan (3) and the PRC (2).

There were some additional interesting findings here. First, it is surprising that the U.S. had a low means on these items given that it has frequently espoused a strong pay-for-performance work ethic (Kerr, 1975, 1988; Von Glinow & Chung, 1989). Based on our sample, it appears that there is a gap between “is now” and the prevailing wisdom regarding the U.S. Furthermore, the other two countries in our sample that are associated with an individualistic cultural orientation (Australia and Canada) also had low “is now” mean scores along with the U.S. In general, we would have thought that the individualistic countries would place a higher emphasis on incentive pay as a way to differentiate employees from one another, while collectivistic cultures would tend to deemphasize pay differences in order to preserve group harmony (Milliman et al., 1998; Schuler & Rogovsky, 1998).

TABLE 1 Ideological Gap Between *Is Now* and *Should Be* Means.

Country	Australia	Canada	PRC	Indonesia	Japan	Korea	Latin America	Mexico	Taiwan	USA
Item										
1	×	×				▼	×	×	×	×
2								×		
3	×	×				×	×	×		×
4	×	×		▼		×	×	×		×
5								▼		
6	▼	×					▼	×		×
7						×		×		
8	×	×		×	▼	×	×	×	×	×
9	×	×	×	×		×	×	×	×	×
Count	6	6	1	3	1	6	6	9	3	6

× Denotes mean difference of 1.0 or larger between “is now” and “should be” item means.

▼ Denotes mean difference of .90 to .99 between “is now” and “should be” item means.

Survey Instructions and Items

PAY PRACTICES

How accurately do the following statements describe the purposes of your company's pay practices? For each statement provide two responses.

First, use the left column to indicate the extent to which the statements below describe the way Pay Practices are currently conducted (“IS NOW”).

Second, use the right column to indicate to what extent the statements below describe the way Pay Practices ought to be conducted to promote organizational effectiveness (“SHOULD BE”).

Item 1: Pay incentives such as bonus or profit sharing are an important part of the compensation strategy in this organization.

Item 2: The benefits are an important part of the total pay package.

Item 3: In this organization a portion of an employee's earnings is contingent on group or organization performance goals being achieved.

Item 4: Our pay policies recognize that long-term results are more important than short-term results.

Item 5: An employee's seniority does enter into pay decisions.

Item 6: Pay incentives are designed to provide a significant amount of an employee's total earnings in this organization.

Item 7: The employee benefits package is very generous compared to what it could be.

Item 8: The pay system in this organization is a futuristic orientation. It focuses employee's attention on long-term (2 or more years) goals.

Item 9: In this organization pay raises are determined mainly by an employee's job performance.

Second, it was interesting to find that in general the lowest “should be” scores were for item #6—incentives are a significant amount of pay. This was the only item out of the four pay-incentive items in which there were no “should be” means greater than 4.0 (high) among the ten countries in our sample (the other three questions each had at least four “should be” means above 4.0). The low scores may be in part due to the stronger wording in this item (incentives are a “significant” amount). Nevertheless, the highly consistent results suggest there is nearly universal agreement in our sample that while

incentives are important they should not comprise too much of an employee's total pay. Perhaps this is because most employees are risk averse, with cultural differences explaining degrees of risk aversion.

Third, we would have expected the collectivistic countries to have much higher “is now” mean scores on item #3—pay is contingent on group or organizational performance—than the individualistic countries. This is because collectivistic cultures have a strong belief in interdependence among people and thus are more likely to emphasize group or team-based achievement than individualistic

Because of their strong respect for elders and the need to maintain harmony and cohesion among all employees, collectivistic cultures are generally thought to emphasize seniority in human resource decisions to a much larger degree than individualistic cultures

cultures (Abdullah & Gallagher, 1995). To our surprise, the mean “is now” scores for many of the collectivistic countries were only slightly higher. Furthermore, it was the countries in the Americas (regardless of individualistic or collectivistic orientation) which had the highest “should be” mean scores on this item. Again, we would have anticipated that the countries in Asia, which are more associated with teams and an organizational wide emphasis (e.g., Japan, Korea), would have had higher “should be” scores.

It is also interesting that the “should be” mean scores for the ten countries were generally higher on item #9—pay raises are determined by job performance—than on item #3—pay is contingent upon group or organizational performance. These data indicate that there is some agreement among employees across the diverse countries in our sample that there “should be” a larger emphasis placed on job-performance goals (however that is defined) than specifically on group or organizational measures. This may also reflect risk aversion to some extent given that most employees see individual performance as more controllable than group performance.

Seniority

The item for seniority—seniority influences pay decisions (#5)—might be viewed as a form of pay incentives in many cultures. If seniority enters into pay decisions, then it is an incentive to continue employment with that organization. However, we maintain the seniority item as distinct from pay incentives here because it is consistent with the design of Balkin and Gomez-Meija (1990) and because the other pay-incentive items relate more to either individual or collective performance rather than time in rank. Because of their strong respect for elders and the need to maintain harmony and cohesion among all employees, collectivistic cultures are generally thought to emphasize seniority in human resource decisions to a much larger degree than individualistic cultures (Milliman et al., 1998). For this reason we would have expected that the countries with a collectivistic culture in our sample would have the highest means on this item. However, the

results were mixed with about one-half of the collectivistic countries having higher “is now” means and the other one-half similar “is now” means as the three countries with an individualistic orientation (Australia, Canada, and the U.S.). Further, only three of the countries with a collectivistic background (Mexico, Korea, and the PRC) indicated that seniority “should be” emphasized more in the future (e.g., had “should be” means higher than “is now” means). These findings may suggest social changes including a reduced emphasis on seniority in societies that traditionally have honored their elders (Stening & Ngan, 1997; Zhu, De Cieri, & Dowling, 1998). Overall, these data indicate that there may not be as many differences in how countries emphasize seniority in making pay decisions as we would have anticipated.

Benefits

There were two items that related to benefits: benefits are an important part of total pay (#2) and benefits are generous (#7). For item #2, “is now” and “should be” means were generally higher for the American continents countries than the countries in Asia. However, there were fewer differences between these two geographic areas on the second item. Thus, it is difficult to derive many conclusions from an examination of these two items based on geographic locations or other anticipated patterns. Overall, the mean scores on both “is now” and “should be” questions were higher for the item “benefits are important” than the item “benefits are generous.” It may be that the wording of the latter item is stronger (generous versus important) and this is why the pattern of scores was only marginally different between the two items.

Long-Term Focus in Pay

There were two items that dealt with having a longer-term perspective on pay: Long-term performance is emphasized over short-term results (#4) and pay system has a futuristic orientation (#8). Australia, Canada, and the U.S. had the lowest “is now” mean scores on both of these long-term pay items. This finding is consistent with the literature on the

cultural dimensions of orientation to time (Kluckhohn & Strodtbeck, 1961). This literature suggests that countries that share a heritage with Europe or North America tend to emphasize short-term results (Laurent, 1983). In contrast, countries in Asia tend to place a stronger emphasis on the past and have a more a holistic view of time, which places a lesser focus on short-term, quantifiable goals (Milliman et al.; 1998; Stening & Ngan, 1997).

While the current emphasis in Australia, Canada, and the U.S. is low on a long-term pay orientation, some different results emerged in the “should be” items. Specifically, there was a large increase in “should be” means over “is now” means in all three countries. For example, the U.S. “should be” mean scores were higher by 1.99 and 2.12 than the “is now” means on these two items. These data indicate that employees in all three countries believe that a greater emphasis “should be” placed on tying pay to longer-term results in the future. Further, the “should be” means of these three countries were similar to the means of the countries in Asia and Latin America, indicating that a similar level of emphasis “should be” placed on relating pay to longer term results for all of the countries in our sample.

When we collected the data we assumed that there would be some rather large differences in pay practices between a number of the countries in our sample. For example, the literature indicates that the dominant view of pay systems in the U.S. is an individualistic orientation toward pay for performance with a focus on short-term goals (Abdullah & Gallagher, 1995; Milliman et al., 1998; Von Glinow & Chung, 1989). In contrast, the literature indicates that Japan is more collectivistic and thus more oriented toward pay based on seniority and longer-term goals (Von Glinow, 1993; Von Glinow & Chung, 1989). However, the data indicate that the U.S. (and other individualistic countries such as Canada and Australia) emphasizes pay incentives less than we would have anticipated. Furthermore, the countries in Asia which tend to share a collectivistic background have only a slight to moderately higher emphasis than the three individualistic countries on seniority-based pay,

pay based on group or organizational performance, and pay based on future results. Thus, though the pay systems between these various countries do have a number of important differences, they seem to share more similarities than we had anticipated.

Ideological Difference Analysis

Clearly the “is now” and “should be” means are important sources of information for both benchmarking of current practices and gaining an absolute sense of employee compensation preferences. However, from a motivational standpoint, the greatest opportunities for improvement may be found where the largest gaps exist. It is important to consider the implications of a large difference between “is now” and “should be” scores for the motivating potential. Tailoring compensation plans to narrow the gap may be one way to increase employee performance and satisfaction. Overall, the countries in the Americas had the largest gap between current practice and desired future practice on pay policies. In particular, Mexico had mean score differences of 1.0 or greater (large) on eight of the nine pay items. In addition, the U.S. and Canada had large differences on six of the pay items, with five large differences for Australia, Korea, and Latin America. The Asian countries had only one to three large difference scores. It is interesting to speculate on why these ideological gaps were greater in the Westernized countries than in the Asian countries. One possible explanation for these differences is Kluckhohn and Strodtbeck’s (1961) cultural dimension of orientation toward time. It is generally assumed that most countries in Asia tend to share a past time cultural orientation which tends to emphasize the status quo, stability, and slow change. In contrast, countries such as the U.S. tend to have a future time orientation that tends to emphasize being flexible and making changes as soon as they are deemed positive from past practices (Milliman et al., 1998). It will be interesting for future research to investigate whether changing pay systems rapidly versus slowly is linked to profitability further since many scholars (cf. Bishko, 1990; Milkovich & Bloom, 1998; Milliman, Von Glinow, & Nathan, 1991) argue that rapid

It is generally assumed that most countries in Asia tend to share a past time cultural orientation which tends to emphasize the status quo, stability, and slow change.

TABLE II "High" *Should Be* Means.

Country	Australia	Canada	PRC	Indonesia	Japan	Korea	Latin America	Mexico	Taiwan	USA
Item										
1							×	×	×	×
2								×		×
3							×	×	×	×
4							×		×	×
5										
6										
7								×	×	×
8									×	
9			×				×	×	×	×
Count			1				5	5	6	6

"High" "should be" means are those equal to or greater than 4.0.

change and flexibility is important for all organizations to compete successfully.

Study Limitations

As with all empirical investigations, several design variables in this study constrain the generalizability of the findings and thus warrant caution in interpreting results. First, though great care was taken to try to achieve survey item functional equivalence across cultures, the samples receiving the surveys were not equivalent across the countries. Thus across-country differences in industry characteristics and sample depth and breadth may account for some of the variation observed herein. Second, we chose not to compare means directly due to differences in rater frame of reference across countries. Thus, given the exploratory nature of this study, results interpretation relies more on author interpretation of trends than on a dogmatic reliance on statistical tests. Third, we did not control for firm size, industry, or strategic positioning, which some authors (Festing, 1997; Milkovich & Bloom, 1998) have suggested are required before the appropriateness of organizational practices can meaningfully scrutinized.

Best Practice and Research Implications

Due to the limitations discussed above, it is difficult to draw many final conclusions about

best practices in compensation systems. Nonetheless, the observations made here may usefully inform practices in at least four ways. First, the data do allow us to make some observations about what might work best in some countries in the future. We have summarized the pay items that have received "should be" mean scores higher than 4.0 in Table II. These data reflect which practices the respondents in each country believe ideally ought to be emphasized to a high extent. Examining the summary results in Table II along with the significant "is now" to "should be" means in Table I provide a number of insights into how compensation practices "should be" designed in the future for both individual countries as well as patterns across countries in our sample.

Second, they may challenge ethnocentric exportation of compensation practices by enhancing understanding of "best practices" in other countries. Third, they may challenge the notion that "adopting the status quo" in a given locale is being locally responsive. Fourth, they may challenge organizations to place more emphasis on understanding what employees want ("should be"), rather than what they have ("is now") in a compensation policy. Thus, adopting a lens focused on what employees in a given culture want from a compensation system rather than replicating current cultural norms may help motivate employees to engage in high-performance behaviors that are consistent with business direction and goals (Lawton, 1997). Answering each of these chal-

lenges may aid MNCs in their quest to strike a global integration-local responsiveness balance, and to manage an increasingly diverse domestic work force (Von Glinow, 1993).

The observations here also provide fruitful directions for future researchers. The counterintuitive findings here warrant replication studies to determine if these findings are unique to this sample or an addition to our cumulative knowledge. These counterintuitive findings also highlight the need for a comprehensive theory of international compensation (see Milkovich & Bloom, 1998; Milliman et al., 1998 for general notions). It may be that a rigorous theoretical treatment would predict the findings that we have observed here but we are currently “working without a net” in extending general theories of culture’s consequences to a specific set of HRM practices. The role of industry and firm strategy on compensation practices was not investigated here and

is a fruitful area for international compensation research. Finally, we have indirectly proposed an empirical question by suggesting that closing what we have labeled the ideological gap could be expected to increase motivation around business goals and direction. Future research might seek to validate or refute this argument and suggest at what point diminishing returns to closing the gap occur. Future research might also explore the impact of not only meeting employee “should be” expectations for compensation practices but also exceeding those expectations.

Clearly, there are considerable opportunities for scholars to develop better theoretical and empirical foundations for international compensation research. The utility of such research to inform practice is likely to continue increasing as the growth of MNCs and more general globalization of business practice continues for the foreseeable future.

APPENDIX I Within-Country *t*-Values for “Is Now” and “Should Be” Mean Comparisons.

Country	Australia	Canada	PRC	Indonesia	Japan	Korea	Latin America	Mexico	Taiwan	USA
Item										
1	19.16	10.54	9.87	15.90	8.70	11.43	10.74	27.81	10.96	12.60
2	14.49	2.67	10.83	13.23	11.18	12.38	6.80	24.32	9.13	5.08
3	19.22	11.68	8.39	11.71	12.37	14.82	14.46	27.14	9.63	14.76
4	25.58	10.76	11.71	12.57	10.68	15.19	13.85	21.09	6.43	19.09
5	-8.46	-4.07	7.51	-5.51	-5.76	6.22	-1.68	14.34	-4.45	-5.30
6	19.30	11.21	10.93	13.61	8.45	6.83	8.03	23.66	8.41	12.31
7	12.87	2.16	12.05	10.59	13.92	14.56	5.90	28.02	9.94	4.11
8	28.60	14.04	12.75	15.34	16.19	19.67	14.25	23.34	12.41	20.95
9	20.84	13.25	13.97	14.18	14.25	17.51	14.35	28.86	10.12	18.20

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ENDNOTES

1. Item #5 was reversed scored from the original Balkin and Gomez-Mejia (1990) measure. We felt the item “should be” positively worded (rather than the original negative wording) so as not to confuse employees in other countries and because the use of seniority as a basis for compensation is so prevalent in non-U.S. HRM systems.
2. Mean differences of less than 1.0 are statistically significant for most comparisons as a function of sample size and sample standard deviation. Given the exploratory nature of this research, we have chosen the mean difference of 1.0 criteria as an indication of both large statistical and practical differences. For readers interested in only statistical significance, *t*-values are provided in Appendix 1. Sample standard deviations may be obtained by contacting the first author.