

The management of pay, wage classification and performance in the UK subsidiaries of US MNCs

Phil Almond¹

1. Introduction

Despite the existence of a substantial literature on the management of pay within multinational corporations (MNCs) (cf. for example, Bloom et al 2003; Gomez-Meija and Welbourne 1994; Schuler and Rogovsky 1998; Sparrow 1999), our knowledge of the nature of pay policy in the foreign subsidiaries of such firms remains very limited. The overwhelming majority of the existing literature, written from a management perspective, concentrates almost exclusively on reward management for international managers (cf., for example, Toh and Denisi 2003; Fenwick 2004), or senior subsidiary management (Tosi and Gomez-Meija 1989; Kosnik and Battenhausen 1992). Indeed, in spite of the evident significance of the subject, the management of pay of non-managerial workers is not explicitly mentioned at any point in several major textbooks on international HRM (cf., for example, Harzing and Van Ruysseveldt, eds., 2004; Dowling and Welch 2004). This not only influences the likely results of the research that is carried out – given the higher likelihood that senior managers will participate in an international internal labour market, one might deduce that systems at this level are relatively likely to be ‘global’ in nature - but more importantly it fails fully to tackle the issue of how MNCs deal with variation in the national employment systems they deal within. In other words, in order to examine the influences on how MNCs act in this central area of personnel policy, it is necessary to take account of the management of the full range of those employed by them.

¹ Phil Almond is at the Department of HRM, Leicester Business School, De Montfort University, Leicester, UK. This paper is part of an international project on HRM in US multinationals in Europe, coordinated by this department. The research was funded by the ESRC and the Anglo-German foundation. Other members of the UK research team who participated in the collection of the data used here were Ian Clark, Trevor Colling, Anthony Ferner and Len Holden (De Montfort University), Tony Edwards (King’s College London), Peter Butler (University of Leicester) and Michael Muller-Camen (International University, Germany). For correspondence please contact palmond@dmu.ac.uk

While the industrial relations literature in this area takes more account of non-managerial workers, it has tended to limit itself to specific pay *practices*, such as whether MNCs of a specific national origin are more likely than domestic firms to apply systems of performance-related pay (cf. Gunnigle 1995; Innes and Morris 1985; Turner et al 1997). Whilst such work is valuable, it nevertheless fails fully to cover the issue of how the pay of employees is determined. Pay is not simply determined by whether or not the firm adopts various forms of collective or individual pay based on some measure of performance, whether this be merit pay, performance-related bonuses, team-based pay, profit sharing, or any of the myriad other means by which firms might attempt to relate pay to an employee's perceived contribution to the firm. It is also necessary to consider the fundamentals of how basic pay is determined, including how the various tasks an employer wishes to be performed are divided into jobs, and how these relate to each other. Thus, although issues of job classification or grading are generally confined to "the twilight zone of research" (Marsden 1999: 98), they are fundamental to a broader understanding of the logic by which an individual's pay is determined within the organisation.

Consequently, in examining the management of pay and performance in the UK subsidiaries of US MNCs, the approach taken here attempts to analyse pay determination holistically. This implies that the analysis will cover the system(s) governing all hierarchical levels within the subsidiary, rather than only one group, and that the concept of *pay and performance management* will be taken to mean both the logic by which an individual's position in the wage hierarchy is determined, as well as the various means that firms use pay to relate pay to collective and/or individual performance.

2. Pay determination within US MNCs operating in the UK: some general propositions

Having established the scope of the investigation, this section relates the issue of pay determination to the broader literature on MNCs. Within broadly institutionalist approaches to personnel policy in MNCs, a range of influences have been identified. One useful heuristic here is provided by Edwards and Ferner's (2002) four influences model, which identifies country of origin effects, dominance effects, pressures for international integration, and host country effects.

There are perhaps strong reasons to expect country of origin effects over pay determination systems. The strongest theoretical argument in this area is developed by Marsden (1999), who

argues that wage classifications and the relationship between pay and performance are intimately related to the means by which tasks are allocated into jobs, and that this in turn reflects the basic principles of work organisation which predominate in any given society. The same author also argues that both for theoretical reasons, namely the reduction of uncertainty for both employers and employees, and institutional/historical reasons, there is likely to be a high degree of isomorphism between firms operating in the same society. As will be examined in more detail below, Marsden, along with a range of other authors, argue that the predominant 'employment system' in the USA has been based on grades being assigned to individuals on a 'work post' system, based on the principles of Taylorism and the consequent notion that, at the words of one engineer interviewed by Piore in the 1950s, employers should "mould men to jobs, not jobs to men" (Piore 1968: 619). The consequent employment system, it is argued, was reinforced, in both unionised and large non-union firms, by the internal labour market system arising as a result of the New Deal settlement; its contemporary relevance will be discussed below. To the extent that this system (or an adapted version of it) remains in place in home country operations, and that firms seek to apply similar work organisation principles across different national operations, one might expect to see this as an influence on operations overseas.

Dominance effects (cf. Smith and Meiksins 1995) are taken to mean pressures resulting from the dominance of a given state, either over the international political economy, or in economic competitiveness, such that firms in other countries imitate the practices of those in dominant states. For the purposes of this paper, two sources of dominance effects are significant. First, the pressures resulting from the 1980s economic success of Japan were strongly felt in the American management literature, leading to exhortations on firms to adopt practices more closely related to those of a 'competence-based' employment system (Marsden 1999; see also below), than the embedded 'work post' system, as part of a move towards 'high performance work systems'. If this message has been accepted by senior managers in major US MNCs, one might expect to see 'mimetic isomorphism' on elements of the Japanese system either reducing the extent of any embedded country of origin effect, or, perhaps more likely, changing its nature.

Second, one ought not to neglect American hegemony, both over the international political economy and over business education. Much, for example, has been made of a tendency towards 'Anglo-Saxonisation' of both corporate finance and human resource management, particularly in

continental Europe. While the societal-specific forms this phenomenon takes are sometimes neglected (for exceptions see Lane 2000; Ferner and Quintanilla 1998; Almond et al 2003), one visible manifestation has been in the form of increasingly formalised systems of merit pay in continental European firms, particularly but not only for senior managers. Equally, as powerful actors in foreign employment systems, the policies of US MNCs themselves have often been seen as innovative or challenging in a host context. Where these innovations have diffused more widely among indigenous firms, what could once readily be identified as an American country of origin effect has become less apparent or distinctive (cf. Faulkner et al (2002) on the diffusion of merit pay among MNCs of various national origins operating in Britain). However, survey results indicating trends in the use of certain practices may mask significant cross-national differences in the means of their utilisation, and their interpretation by local actors – in other words, an ostensibly similar practice may have different meanings in different national employment systems. While the current study is not strictly comparative, in that only US MNCs are examined, our results nevertheless appear to point to performance management systems of a form which is traceable back to the features of the American employment system (see below).

Turning to pressures for international integration, a number of sources may be proposed. Pressures towards commonality of practice may well be stronger in more globalised operations. Firms operating similar units in different countries may well seek to employ similar systems across units in order to advance uniformity in, and control over, work organisation. Equally, where there is a global internal labour market (ILM) for managerial and high-level technical staff, it may be seen as necessary to align grading and performance systems across operations in order to permit the smooth functioning of such ILMs. Alongside these functional issues, it has been argued that systems of performance management adopted by MNCs (Mueller and Purcell 1992; Marginson et al 1995; Ferner 2000) provide a powerful mechanism by which to monitor and control foreign operations (Marginson and Sisson 1996). Such systems enable corporate management to compare labour performance across sites and in some cases to persuade local workforces to accept changes in HR practices through the reward of future investment or the threat of divestment (cf. for example, Mueller and Purcell 1992; Muller-Camen et al 2001; Muller-Camen et al 2003).

Finally, in the area of pay determination and performance management one might expect host country effects to be relatively weak in the UK. The US and UK are generally grouped together in

comparative analysis as ‘liberal market economies’ (Hall and Soskice 2001), or “compartmentalised” business systems (Whitley 1999). Of particular significance here are the virtual absence of institutions of wage determination above the firm level within the private sector, and the relative ease of dismissal of employees compared with other EU countries. Significant differences do exist, however. Firstly, the predominant historical form of job allocation/grading system is different; the UK is sometimes argued to have (or at least have had) a “job territory”, or “tools of the trade” based employment system, based on job allocation, and hence wage structures, being determined by tasks being identified by the kind of tools used, or the type of materials handled (for further explanation see Marsden 1999: 42-3), with jobs being defined by the skills available on the labour market, and occupational labour markets predominating over internal labour markets. Empirically, however, the changes of the last two decades, such as the decline of apprenticeship-based initial training and the decline in collective bargaining, have strongly reduced the institutional effects of this system, and large UK firms, like their American counterparts, have witnessed significant normative pressures to subscribe to elements of (or rather, interpretations of) the Japanese system, quite apart from the influence of any American dominance effects.

Probably a more significant point is that while it remains relatively easy for firms to dismiss employees in the UK when compared to other EU countries, some comparative institutionalist frameworks (Whitley 1999; Hall and Soskice 2001) underplay significant institutional and societal differences in the ideological construction of the employment relationship between the UK and USA. Specifically, the UK employment system does not operate under the assumption of ‘employment at will’ – the notion that the employment relationship can be terminated at any moment by either party for any reason - as the American system does (Lichtenstein 2002: 2-3; Orren 1991: 176-82).

This brief introduction to the pressures potentially affecting pay and performance management systems of US MNCs operating in the UK should highlight the fact that none of the ‘influences’ cited here are necessarily stable. Thus we need to take account of the interrelated dynamics of such pressures, rather than assuming they are stable across time. Equally, ‘pressures’ should not be interpreted as ‘determinants’; firm level actors, including corporate-level managers, subsidiary and business unit managers and trade unions all have some autonomy in interpreting these pressures within their own contingent and socialised rationalities. The remainder of this paper, therefore,

examines the dynamic nature of these pressures, and how they translate into outcomes at the micro-level.

3 Pay and performance management in the USA: historical patterns and recent challenges

Most serious empirical research on pay determination systems in the USA supports Marsden's (1999) characterisation of a 'work post' based employment system. Pay for both white and blue-collar workers has been based on the characteristics of the job, rather than of the individual performing it (Shibata 2002). Many analysts would also support Marsden's contention that this form of employment relation has been a central characteristic of the American productive system. For example, Brown and Reich (n.d.) argue that narrowly-defined job classification systems, along with adversarial collective industrial relations and minimal training, were *the* central features of the post New Deal employment system. Manual workers would have strictly defined specialised tasks and, over the course of their career, move up a ladder of job titles differentiated by relatively small increments of pay, and by more desirable job characteristics (*ibid.*: 3). The preferences of employees would largely determine job assignment through a 'post and bid' system in which seniority was used as the basis for assigning jobs between internal applications (Brown and Reich, 3; Cappelli 1995; Mills 1985). As Brown and Reich reflect,

(T)he result is often a hodgepodge of possible job paths, which reflect improved working conditions (eg. less physical effort, off the line, or no toxic materials), overtime availability, or individual preferences regarding supervisors of teammates (*ibid.*: 3).

In this system, the relationship between pay levels and skill development is both weak and unorganised.

The institutionalisation of this system is often ascribed to union pressure (Cappelli 1995), although one should note that this union pressure occurred within a strongly Tayloristic production regime². The extent to which this system applied in large non-union firms is to some extent controversial. Osterman (1988), for instance, has argued that many such firms followed the 'salaried model',

² In other words, the institutionalisation of complex job classification schemes can be seen as a response to Taylorism, rather than as a union goal *per se*. In this light, one should note that France, the other major economy that rigidly

which was less rigid in design and gave firms a greater degree of functional flexibility in return for employment security. However, there is some evidence that there was considerable overspill from the New Deal model to the non-union “welfare capitalist” model (Jacoby 1997), such that the distinctiveness of the latter did not generally lie in the principles of job organisation or classification. For instance Mills (1984) demonstrates that although seniority was a less decisive factor in job allocation in large non-union firms, ‘post and bid’ systems in which seniority was a significant were also common in such firms. More recently, the 1991 National Organizations Study showed that personnel control practices were broadly similar between unionised and non-unionised bureaucracies (Kalleberg et al 1996), which together covered 90 per cent of the employees in the sample. (see Marsden 1999: Table 5.4).

It has frequently been argued that the system outlined by Brown and Reich is outdated. From the 1980s onwards, managerialist academics, inspired by interpretations of Japanese practice, have regularly contended that the introduction of work re-design programmes such as JIT and TQM should be accompanied by innovation in compensation systems (Ettlie 1988; Gomez-Meija and Balkin 1992; Majchrzak 1988). More recently, attention has been focussed on the claim that existing practices are being, or should be, replaced by one form or other of high performance work practices (Pfeffer 1998; Kochan and Osterman 1994; MacDuffie 1995; Huselid 1995; Arthur 1994; Delery and Doty 1996). There is, famously, some controversy as to what entails a high performance work system, and indeed what the implications for the management of pay and performance are. There is, though, some degree of consensus among such authors that the desirable new system encompasses flexible job assignment and continuous skill development, leading to a focus on motivational rewards for company performance, team performance, or skill acquisition, even if the role of individual performance-related pay within this schema remains controversial (cf. Barton and Delbridge 2004).

Brown and Reich (*ibid*) posit a high performance model³ with two major variants within the USA. First, a ‘Japanese’ model is posited, with one complex pay schedule covering all the company’s

adhered to the scientific management ethos, also developed extremely complex job classification structures based on the job post, albeit determined at sectoral rather than firm level.

³ This is referred to as the “SET” model (Security, Employee Involvement, Intensive Training). This formulation is not used here, partly because our interest is limited to its implications for the management of pay and performance, partly because of the lack of contemporary empirical evidence of an American employment model based on security.

managerial and non-managerial employees, governed by seniority, skills and performance. This 'single-status' model approximates to what Marsden would term a "competence-rank" model (Marsden 1999: 44-5), in which pay and hierarchical position depends on the range and depth of competencies developed by *individual workers*, rather than the competencies required to perform a specific job. Thus, the work post is not, in this system, the main determinant of basic pay. Production work, moreover, is not divided (at least within the job classification system) into 'craft' and 'assembly' jobs, thus marking a significant divergence from Taylorism.

Brown and Reich contrast this model with an 'American' "high performance model". Under the latter model, innovation is mainly in the areas of employee involvement and training. Unlike the Japanese model, skills acquisition is still not necessarily linked to reward, and workers still have input into job assignment through the post and bid system, albeit that management have more control in this area than in the post-war employment system. The number of job classifications is typically reduced, in order to give management more flexibility in the deployment of workers. This often means that the potential for climbing job ladders is reduced radically, as intermediate levels in pay hierarchies are amalgamated (Cappelli 1995; 1999; Katz and Krueger 1991; Osterman 1996). In spite of this, there is evidence that the division between craft and production workers remains, at least in unionised firms (Shibata 1998: 196-8). Brown and Reich also claim that American firms adopting this form of system often remove individual pay incentives, in order to facilitate teamwork and cooperation (p. 4).

Finally, this paper also considers the linking of pay to collective and individual performance. Collective performance pay covers all those elements of pay relating to the performance of the workgroup/team, plant, business unit or corporation. Our main interest here, however, is in forms of collective performance pay at a relatively local level (the team, or plant) with clear "strategic" intentions to affect worker behaviours and/or workplace 'culture', rather than more distant rewards for corporate success such as profit-sharing or share ownership. The rather thin comparative evidence available suggests that these are significantly more common among indigenous US firms than indigenous UK firms (Barton and Delbridge 2004), leading to the question as to whether 'strategic' forms of collective pay are transferred to the foreign subsidiaries of US MNCs.

Individual performance-related pay is commonly seen as an American import on which MNCs of other national origins have converged (Faulkner et al), and sometimes as part of the American ‘challenge’ to other national industrial relations systems (cf., for example Muller). The implicit assumption here is that notions of pay for performance in the USA reflect the strongly market-based norms of American society and hence the American employment relationship. While this may well be true, it may mask changes in the form of merit pay, both within indigenous US firms and more broadly internationally. First, merit pay, and hence formal performance appraisals, were not widely used for blue-collar employees until relatively recently (Shibata 2002). Equally, although management education in the US has long argued that pay should be related to performance (Greller and Parsons 1995) there was until recently a strong tendency to compress rankings or evaluate employees generously (Shibata 2002: 642; Capelli 1995: 566; Foulkes 1980). There has been a recent tendency, however, towards “pushing managers to strictly evaluate white collar employees based on their work results or performance” (Capelli 1995: 567). The notion of ‘performance’ has also been expanded to encompass more qualitative assessments of individual competency, teamwork, or accordance with corporate cultural goals.

One means of ensuring that performance evaluation distinguishes more obviously between better and poorer performers is the use of “forced distributions”, in which line managers are instructed to rank their subordinates in relation to each other, rather than objectively in terms of attaining pre-set criteria. Hence, the proportion of employees achieving each level of performance ranking is set in advance, with a requirement to identify a given percentage of ‘highest’ and ‘lowest’ performers. Although this practice is not entirely new (cf. Klores 1966), its inherent problem (that line managers may have to place subordinates with objectively adequate performance in the lowest performing group) is significantly magnified if the results of such evaluation become used to determine the employment security of the individual. In the USA, this process was (in)famously initiated by General Electric (Lawler 2002), where, following a forced distribution, the 10 per cent with the poorest results are dismissed. It should be noted that this practice is technically illegal in the UK, and virtually all other developed countries, as it would be interpreted as unfair dismissal, given that under the General Electric model the criteria for continued employment – i.e. what constitutes acceptable fulfilment of the employment contract - are relative rather than absolute. This practice is hence founded on the specifically American notion of “employment at will”, which theoretically permits the termination of the employment contract by either party for any reason. It should also be

noted that the relatively common practice of using performance rankings to influence decisions about which employees are made redundant in the event of downsizing is also legally questionable in Europe, including in the UK, as it in effect conflates different legitimate reasons for dismissal.

Overall, it is necessary to place undoubted pressures for, and interest in, change within the context of the American employment system. The changing nature of competition, the decline of trade unions, and the 'high performance' orthodoxy have clearly led many firms to rethink work organisation, and consequently pay determination, but the extent to which this represents a sharp discontinuity with embedded patterns of pay determination remains far from clear. The primary research reported below into the UK subsidiaries of a number of large MNCs may offer some clues as to the extent of innovation in this area, albeit complicated by the fact that our findings are complicated by the fact that 'American' initiatives must in this case transmit through the host business system.

4 Methodology

The arguments of this paper are based on empirical data from a study of HRM in US MNCs in the UK, financed by the UK Economic and Social Research Council. This is part of a wider comparative study of US MNCs in Europe. The overall objectives of the research are to identify the influence of the US business system on the employment relations of US MNCs and their subsidiaries in different host environments. In order to establish linkages, understand processes and to comprehend the differential meaning of practices in different host environments a qualitative method was used, based on in-depth case studies.

Fieldwork on the British part of the project began in the spring of 1999. Detailed case studies (see table 1) were carried out in five British subsidiaries of US companies, in IT, chemically-based consumer and industrial products, engineering contracting, and mechanical engineering (two firms). We refer to these as the 'core' case studies. The companies were chosen in order to cover a range of industries with varying degrees of international integration of operations. They also encompass major differences in HR and employment relations traditions in the USA, particularly between traditionally unionized (or partly unionized) firms in mass production industries such as engineering, and sophisticated non-union companies. The core cases are supported by a number of

others where more limited access was granted. In some of these cases, insufficient data was collected on the pay and performance issue to include them in this analysis. However, two companies from this group are included here. Pseudonyms are used since access was granted on condition of anonymity. For the same reason, description of particular incidents, individuals or policies is kept vague in some places to avoid identification.

Interviews were conducted with senior HR, finance and operations managers in UK subsidiaries; and 5-10 non-managerial employees were interviewed in each of the five core companies. Where relevant, interviews were also undertaken with trade union officials. A major feature of the research design is the gathering of data at both headquarters and subsidiary levels. Thus some three dozen respondents were interviewed at US corporate and/or European and international business unit HQs. Interviews were taped, transcribed, and coded using QSR N5 data analysis software.

Table 1: Case study firms and interviews undertaken

Case studies			
<i>firm</i>	<i>sector</i>	<i>number of respondents</i>	
		<i>UK subsidiary</i>	<i>HQ*</i>
EngCo1	mechanical engineering	20	4
EngCo2	mechanical engineering	18	11
Eng Servs	civil engineering contracting	18	1
CPGco	chemical-based consumer and professional goods	15	5
ITco	IT services	14	8
Household	chemicals & household products	4	2
Business Services	consultancy & IT services	2	4
Total		91	35

* 'HQ' refers to interviewees based US corporate headquarters, at international business unit headquarters (e.g. product divisions), or regional headquarters (e.g. European region); of the 36 respondents in this column, 22 were in US-based corporate or business unit HQs, the remainder in European-based regional or business unit headquarters

5 Patterns in the case study companies

The findings are presented in Table 2 below⁴.

There are substantial variations in practice between the firms. In some ways this is to be expected. Firstly, one might argue, given the relative lack of extra-firm wage determination and job classification institutions, at least when compared to continental European employment systems, that, notwithstanding the isomorphism arguments of the likes of Marsden, neither the USA or the UK employment systems are particularly deterministic with regard to this area of personnel policy. Equally, some of the differences between the case study firms are in part explicable in terms of sectoral differences, or in terms of the occupational composition of the workforce. Nevertheless, a number of general observations can be made.

a) the centralisation of pay determination systems

The first observation to make is of a procedural rather than substantive nature, concerning the extent to which pay determination systems are iterated at, and disseminated from, the global headquarters of our case study firms. A separate paper based on the fieldwork for this project has examined the degree of centralisation of HR policies and processes of US MNCs (Ferner et al 2004), and reinforces the existing view that US MNCs are more centralised than those of other national origin (eg. Child et al 2000; Negandhi 1983; Young et al 1985), with head offices exerting a direct forceful influence on subsidiaries, albeit that the degree of centralisation varies across time and is subject to negotiation at the subsidiary level (Ferner et al 2004). For Dunning, as long ago as the 1950s, it was this degree of centralisation, rather than the nature of policies *per se*, that emerged as the most distinctive finding in his analysis of US firms operating in Britain;

While the personnel and wages procedures of US subsidiaries and Anglo-American firms are not particularly unique, most of the larger fully-owned subsidiaries try to assimilate US procedures where possible (Dunning 1998: 201)

⁴ See end of document

Even within this broad pattern of centralising US firms, though, the general findings of the current research project indicate that there is no other element of personnel policy on which the pressures for centralisation and broad commonality of policy are as consistently strong across the case study companies as for the management of pay and performance. With the exception of EngServs, where the UK subsidiary has in general been extremely autonomous, in part due to its very high international market share, and much greater degree of business success than its US parent, all the firms exhibited strong tendencies to control, and, where possible, have very similar mechanisms for managing pay and performance across their various national subsidiaries. Notably, in every case, with the exception of EngServs, HQ has attempted to impose a common system of individual performance pay for those groups of employees covered by it (albeit that in some cases there has been resistance to the nature of this system at the subsidiary level – see below). Equally, in every case where there is a bonus system for manual workers, this too is centrally ordained. On job grading systems, the picture is more mitigated; although nearly all of the firms have attempted to use a common system of defining jobs internationally, the way in which this relates to salary structures does in reality reflect the national realities of occupational labour markets and industrial relations structures. However, even here, the strong aim of most companies has been towards uniformity.

While difference in the detail of how individuals are allocated to grades may be permissible, in order to accommodate local pressures, the requirement to established common job descriptions across the global corporation was widespread. This seems to be the case even where there has otherwise been a degree of relative autonomy, either for national subsidiaries or, in the case of EngCo1, international business units;

The pay practices are probably the most closely controlled out of the corporation on a salary grade structure. That is probably the one thing that even in the loudest days of the business units, there was enforced consistency on. So that it was a meaningful job to job description across the company (Senior Expatriate UK HR Manager, Engco1).

Indeed, in this case, from supervisory level upwards, corporate HQ allocated individuals to grades, with individual promotions requiring specific authorisation. Furthermore, individuals at a relatively low hierarchical level are fully aware of this;

And grade... if my manager wanted me to be another grade higher, he would have to get it to be sanctioned by the US, without a doubt. It's not something he could just OK through the UK (Supervisory Employee, EngCo1)

Although it should be noted that subsidiary managers maintained some room for manoeuvre by attempting frame job specifications in such a way that HQ would award individuals the grade level that the subsidiary manager desired, the corporate-level attempt at control at such a granular level remains notable in the context of a firm that is otherwise not among the firms most prone to centralisation at the level of detail of policy.

Linkages between pay and performance, whether individual or collective, are even more overwhelmingly the result of central dictat. Although in some cases British and/or European level managers may have had some say in the formulation of policy, what emerges is a 'global' policy that must, where possible, be universally applied. There does, therefore, seem to be a fairly general perception that the means by which pay and performance are linked is of strategic importance, and must follow a corporate-wide logic. The following quotation is fairly typical of this.

Engco2 has a culture of it wasn't invented here so therefore I'm not going to use it and I'm going to tweak it to fit my culture. And we have encouraged some of that behaviour...but on some things we don't want people to do that, like on our performance management system (Engco2 HQ HR Director)

In other cases, certain elements of the pay and performance package are, at least in principle offered to the subsidiary as options, rather than as mandated policy. In other words, there is a centrally coordinated policy, which the subsidiary can choose whether or not to utilise. However, this apparent scope for autonomy can in reality be limited due to the existence of compulsory policies for high-level subsidiary employees. This tends to mean that the pragmatic decision for subsidiary managers is simply to apply the 'optional' policy;

There are very few (elements of general HR policy) that are mandated. There are lots of things that you're given as an option. Bonus schemes are coordinated from the centre. You either run those or you don't. Most people do. Why? Because all executives at a certain level have to be paid that way. All international service employees are on those sorts of terms and conditions. And therefore they apply to people like me that are at the executive level. And in fact they apply all the way down the chain here as well. So there are certain percentages of pay at risk that apply all over the corporation. That's one of the few things that is mandated. (Senior subsidiary manager, EngCo1)

The constraints under which subsidiary choice operates, even for 'optional' practices, are reinforced by the frequent need for subsidiary managers to explain and justify deviations from central policy;

(If (the country HR manager) wanted to say 'I don't want this central bonus scheme, I want this bonus scheme', then he'd have to agree that with his vice-president, and his vice-president would say 'What's wrong with the Engco1 scheme?', and that would be quite difficult to do. So it's not 100% mandated, but it's not far off! (Senior subsidiary manager, EngCo1)

Commonality of policy, both in terms of job classification and in pay for performance, is often justified in relation to the economies of scale which flow from a common system as a result of the minimisation of transaction costs. This fairly obvious argument can be used to defeat the arguments of subsidiary managers for pursuing independent strategies.

They thought (the global performance management system) was better than what I was offering, because it was Engco1-wide and the software was there; and I can't argue with that (Senior UK manager, EngCo1)

With regard to grading, the argument that uniformity aids cost control acts in a more fundamental way. Complex MNCs in an era of tight cost control under the ideology of shareholder value require a fairly precise idea of how many individuals work on which grades in order to identify whether operations are sufficiently lean. Of particular controversy in an era of downsizing is the identification of number of managers and non-productive or customer-facing individuals working within departments. One aid to identifying the roles of employees would be to have uniformity of job and grade descriptions across countries and business units. Possession of data as to the responsibilities of individuals has become critical to corporations attempting to reduce costs; in the case of ITco, this led to the establishment of a global data repository in order to make more direct comparisons between countries. This is easier said than done, due to differences between countries in who is defined, for example, as a 'manager', and attempts by national operations and business units to camouflage this number. The reduction of this opportunistic behaviour in itself represents a strong driver both to the commonality of grading systems, and the tight form of monitoring of promotions as mentioned above in the case of EngCo1.

b) the continuing segmentation of manual and non-manual systems in manufacturing environments

The HR literature sometimes makes the assumption that normative “HRM”, as an American ‘invention’, closely follows notions of single status and performance-related pay for all employees, with similar performance management mechanisms and elements of strategic pay applying across the workforce. The results presented in Table 2 strongly mitigate this picture. In fact, practice in the manufacturing firms studied in this research is much closer to Brown and Reich’s (*ibid*) empirically informed construction of an ‘American high performance model’ (see above), rather than to the more normative messages emanating from some parts of the American and British HR literatures.

With the exception of EngServs (which follows a model very typical of British companies in its sector, in which the occupational labour market predominates), and two of the non-union companies which have historically followed a variant of what Osterman (*ibid.*) would term as the “salaried model” (ITco and Household), the central elements of pay determination generally differ between managerial and non-managerial employees.

In the three firms studied in which there is both a substantial manufacturing workforce and collective bargaining in the UK (CPGco, EngCo1⁵ and Engco2), there remain separate systems of job classification for manual workers and managers, with merit pay only operating for the latter. Thus, the internal labour market within the subsidiaries is constructed in such a way that there are very definite barriers between different sections of the workforce. As was mentioned above, US authorisation is frequently required for promotion between these groups.

Further comparative research on MNCs would be necessary to determine the extent to which this practice can be described as a home or host country effect, as internal labour markets in both countries are generally constructed on relatively firm barriers between different groups within the workforce. One indication that host country influences, and particularly the nature of British collective bargaining, may be of significance, is the fact that CPGco, which despite being fully unionised in the UK is a classic welfare capitalist non-union firm in the USA, does practice a form of merit pay for all employees in its home country.

⁵ In the case of EngCo1, the division is more accurately between manual and non-manual employees, rather than between non-managerial and managerial workers. This is largely the result of a decision to derecognise the union representing white-collar non-managerial employees a decade ago. Policies for the latter group are thus similar to those for managerial workers.

In spite of this uncertainty, one can nevertheless conclude that the widespread image of US MNCs as practising a single status, performance driven model, is based on an adaptation of the ‘salaried model’ (see below), which does not seem likely to be majority practice, at least in long-established US subsidiaries in the UK. As we will now go on to examine, the practices of job grading for manual workers in the unionised firms are not particularly innovative in a UK context. This “negative finding” is, we argue, of some significance, given that our sample is constituted of some of the largest US MNCs, which should in principle be capable of creating firm-based employment systems within the notion of the “institutional firm”, with some autonomy from its societal settings (Crouch and Streeck 1998; Boyer 1998)

c) change to manual grading systems has principally meant a simplification of pre-existing systems, not a move to a competence-based employment system

The previous section argues that practice, in the majority of our cases, remains relatively segmented between managerial and non-managerial groups, and that this mitigates the picture of the single status enterprise. This does not, of course, mean that there is no innovation or change in the systems used to classify the jobs of non-managerial workers; this must now be examined in closer detail.

For each of the unionised manufacturing subsidiaries (CPGco, Engco1, Engco2), significant changes to manual grading structures occurred at around the same time as the formal introduction of some form of teamworking (for an analysis of teamworking in some of our case study firms, see Colling). It is therefore probable that the new systems were introduced as part of an attempt to achieve some degree of polyvalence among manual workers, through the reduction of demarcations between different groups.

In each of these three firms, the form the new system has taken has been remarkably similar. There has been a marked compression of grades, with the number of manual grades being reduced to an absolute minimum (ie., only three or four grades being used in practice). Given the continuing distinction, in all three firms, between “craft workers” and “assembly/production line” workers, this means that the possibility of promotion between grades, or any sort of incremental progression, for the majority of the manual workforce, is very low, except in the case where former manual workers leave direct production jobs to take on supervisory roles. Equally, in each case, there is very little

possibility for intra-grade promotion, with the firms merely having a “training” and “established” rate for each of their very low number of grades.

This is interesting on several levels. First, there is a lack, in these firms, of any form of competence-related “job ladders” or any form ‘strategic’ pay aimed at encouraging skills acquisition among the manual workforce, despite the fact that this practice is eminently possible within the UK, and is used, in one form or other, by a significant minority of large firms in the UK (Almond 1999). This is confirmation of the concept of a “work post” based system based on the skills requirements of jobs, rather than a system rewarding individuals for expanding their capabilities, as would occur under the ‘Japanese’ interpretation of a high performance work system (Brown and Reich, *ibid.*). The limitations of the policy introduced are reflected upon by one senior manager in CPGco.

I think that’s a disappointment, I think that’s an area where we’ve missed. What we have at the moment there’s only two, it’s basically there’s only two, and I think this is an opportunity that we need to work on. There’s two rates for the job. If you are an emulsion operator, you’d be S4, you’d either be established rate, or starting rate, training rate. And what it is, training rate, there is a matrix of tasks and activities that you have to learn how to do, there’s certain behaviours there with an objective, sort of matrix. Once you’re above that certain level, you then become established rate. So there’s only two bands, now I think that’s an opportunity for us because one of the things I think we now realise is, ...if you’re in that established rate, what is there in there to encourage you to do more than just you need to. (UK manufacturing manager, CPGco)

The very simple, non-progressive systems adopted in these three firms can probably be related to issues of work organisation, in particular the form of teamworking adopted. Teamworking in its more radical sense (ie. representing a strong break with Taylorism by moving towards a multi-skilled workforce) would tend to imply either a move away from a work-post based system to a competence-based system, or a broadening in capabilities-based classifications within the work-post system. In these firms, however, the form teamworking has taken has been somewhat more limited, consisting mainly of an attempt to reduce demarcation problems rather than to move towards the regular use of workers’ multi-functionality. In other words, the form of teamworking adopted in all three of these firms is relatively “neo-Tayloristic” (Pruijt 2003), with implications on the form of job grading practice pursued (for a preliminary discussion of teamworking based on the current project, see Colling and Clark 2003). Indeed, in CPGco, the move towards teamworking is basically a cultural artefact rather than a reorganisation of work or hierarchy – the team leader, for instance,

is difficult to distinguish from a traditional supervisor, as team leaders do not generally engage in production work, are at a higher hierarchical level and are stationed in offices. Teams in the two engineering manufacturing firms are constructed somewhat differently, in that the team leader is not on a higher level of classification; respondents in both these firms reflect that consultancy advice at the point where teamworking was introduced appears to have steered this decision.

d) salaried models

The remaining firms use various forms of salaried models. In two cases, these closely follow established sectoral models. Hence, BusServs uses a model widely used among consultancy firms, with salary points within fairly broad categories of employee being determined by appraisal ratings and labour market conditions, while EngServs uses a fairly informal model with very wide grade descriptors and a loosely constructed system of wage progression. Our respondents claimed that the latter model was very similar to that used in the wider engineering contracting industry in the UK. Given the strength of the external occupational labour market in this industry, this pattern of (very) broad banding, with considerable room for management initiative regarding the pay package of individuals, can be seen as a form of protection against the external labour market.

The one firm with a predominantly manual, but non-union, workforce in the UK (Household1) uses what it describes as “broadbanding”. This simply means, in this case, that there a small number of grades, although the system here can be distinguished from those of the three unionised manufacturing firms in that there is one single pay spine for the entire manual and non-manual workforce (ie. the strong version of single status). However, once again, there is no evidence of reward for skill acquisition. Wages are “independently priced”; in other words, a consultancy is used to match the *job post* with a “market rate”. Therefore, although this system differs to those outlined in the previous section, it still falls squarely into the category of “work post” related job classification and wage determination.

Finally, the most sophisticated, and complex, system among our sample was that of ITco. This is essentially a globally uniform system, and fits into the salaried model as all work posts are, in principle, evaluated according to the same criteria. Once again, there has been a process of broadbanding, in that the company moved in the mid 1990s from a complex system of a very large

number of official job titles being allocated to over twenty salary grades, to a system with 10 broad bands covering the entire managerial and non-managerial workforces. The position of jobs into and within bands is allocated according to three factors – namely skills, leadership requirement and job scope. It should be noted that what is being thus classified is still the job, not the individual, thus in principle the job classification system itself is still not being used to reward skill acquisition. Rather, the flexible system of grading used here is used to allow new types of job (which emerge relatively frequently in the IT industry) to be allocated easily to grades by line managers. Although this remains, in principle, a work post based system, the company does seek actively to reward individual development through the high proportion of pay which is related to the results of performance appraisal, for which once again there is a common system for all employees.

e) US-directed, complex bonus schemes are in operation in some firms

The unionised manufacturing firms all operated some form of collective bonus to manual workers. These were all centrally ordained, and are thus intended to operate throughout the MNC. Consequently, it is necessary briefly to analyse these, as they can potentially be seen as another form of ‘strategic’ pay which attempts to influence employee behaviours.

In CPGco the system is very simple, based on corporate performance, moderated by seniority. However, in both Engco1 and Engco2, the systems are complex and clearly strategically oriented, aiming to support cultural goals such as teamworking. The aim of the bonus structure in Engco1 is explained by a line manager.

there’s a possible payout of about £90 per quarter...Part of it’s quality, part of it’s built on time, but part of it is literally teamwork. Within that teamwork structure the teams have got to demonstrate on a daily basis that they are working within the cultural values. They have to demonstrate empowerment, they have to demonstrate that there are daily meetings, quality improvements, and so on and so forth. There is a folder that they have to put together and submit once a quarter. They have got to demonstrate one empowerment activity, one quality, and once safety or employee satisfaction (line manager, Engco1)

This structure, then, clearly has strategic goals (empowerment, teamworking, etc.), and interviews with team leaders and other employees confirm that conforming to the requirements of ‘demonstration’ represents a considerable amount of work, often done outside working time.

However, employees complained that the bonus payments were affected by things outside the teams' direct control. Equally, the fact that defects measurement is performed on a team-by-team basis may have the effect of mitigating against functional flexibility, leading employees to tend to stick to tasks that they are familiar with. Team members also complain that their (compulsory) suggestions are generally not taken account of either by supervisors or more senior production managers. Finally, the size of the bonus, compared with the basic pay package, may be insufficiently large to affect behaviours strongly.

f) the nature of performance-related pay is increasingly "strategic", and increasingly "hard"

On the basic question of whether individual performance-related pay is used or not, there does appear to be a fairly clear pattern. Unsurprisingly, it is utilised in all firms for managers, while it is also used for non-managerial groups where these are not represented by a trade union. Thus, for example, in the fully unionised CPGco, clerical employees are not covered by the system, but in Engco1, where only the manual union is recognised, clerical employees do fall under merit pay.

The widespread use of merit pay is of course hardly surprising, as it is fairly common practice in the UK among managerial groups and in large non-union operations. What is more interesting is that the nature of performance measurement and its consequences does appear to have changed, away from a system which affords most covered employees a form of annual bonus payment, to one which fits more comfortably with "hard" visions of HRM. Equally, it should be noted that the nature of performance criteria has in some cases altered, such that objective criteria based on performance within the job have been supplemented by measures of more "cultural", harder to quantify goals such as cooperation within the team, valuing diversity, etc.

Five out of the seven firms have made some attempt to resolve the perceived problem of assessors' tendency to award all their subordinates similar or average ratings. They had all made some attempt to manage performance evaluation so as to create 'forced distributions'. In other words, a certain percentage of workers had to be placed in the highest and lowest performing categories.

How much we can afford is a big factor in the performance appraisal because we've only got a certain pot of money that we have. Corporate have brought out a, or there's talk of it being scrapped now, mmm, let's go back a bit. The way

that we used to do performance appraisals were that you grade people, you say 1 is excellent, 3 is not so good. And there were also 4s and 5s, but 4 would be okay you really need to do something, 5 would be you might just pack up your desk and go. Some managers didn't use anything below 3 so they would give 3 to everybody and they would reward people by giving them a 2 or a 1. The problem there was that you can have any number of, you can have like a grading of 3, you can have a 3 which was genuinely a 3, or you could have a 3 which was well, really, it probably should have been 4 or 5 but the managers weren't going to do that. So what corporate did was they brought in a normal distribution that says you have to give 10/15% of your workforce 4 and 5. You can only give 10 to whatever percent of your workforce 1 or 2, therefore the bulk of it is going to be 3. But you have to force people down into the 4s and 5s, and you have to reward the 1s and 2s. (white collar employee, Engco1)

If applied literally, this would obviously imply that a line manager would have to place some employees in the lowest-performing category even if all were in fact performing adequately. Business Services, Engco2 and ITco currently practise this form of performance evaluation. Engco1 experimented with it but appears to have abandoned the policy, while in CPGco the issue of whether the distribution is forced appears to be something of a moot point.

One difficulty with normal distributions, apart from the obvious equity problem, is that those responsible for assessment (ie line managers) often resist having to place a proportion of their subordinates in the lowest performing category. This leads to attempts to 'play the system', which tends to undermine its logic.

The problem that happened is that with a normal distribution, although corporately you had to get to the normal distribution, each of the departments depending on who shouted the loudest, may well have said there's no way, I can't find anybody in my group to give a 4 or 5. Then it would be up to somebody else in another department to give somebody a 4 or 5, who perhaps if you compared the two people, (the result might be different) ... (white collar employee, Engco1)

Because of these problems, some companies appear to have moved away from a strictly forced distribution, towards what might perhaps be termed a 'managed' distribution, as explained by one senior manager at CPGco

because it's a hierarchical system of evaluation, what I would tend to do for instance on an annual basis is to collect that data and look at the distribution and inevitably it comes out skewed towards better than average. Now, I won't force back, I won't change the numbers, but what I will do is to force back the criteria. I will point out to a manager who has perhaps done 10 and it's heavily skewed to above average, I'll say look, those are the measurement criteria, I want you to re-evaluate your expectations, were they high enough,

given the circumstances? I would force them to re-look at those numbers. If they give me a strong enough argument and came back and said look, this is a skewed distribution, I genuinely have done a better than average group of people, and this is benchmark data I'm using this is why, I'll accept it. (European HR manager, CPGco)

The issue of forced distributions is particularly important when the data gathered are not only used to determine pay increases, but also affect the job security of the individual. The dismissal of those individuals with poor performance rankings may occur in one of two ways. The stricter means is the General Electric model (Lawler 2002). Here, following a forced distribution, the 10 per cent with the poorest results are dismissed, on an annual basis. There was an explicit attempt to introduce such a system for managerial employees in Engco2, as part of a drive by a new CEO to make the organisation more focussed on performance. This policy is of dubious legal validity in the UK, and UK managers made sustained attempts to change the policy, including commissioning an HR academic to discuss how this breached the 'psychological contract'. Although these attempts failed, there is substantial evidence that in practice local managers successfully resisted the policy, partly by refusing to place individuals in the bottom category where the groups of employees to be assessed were small, and partly by classifying employees who had already left the firm in the lowest performing category. Business Services also has a policy of "counselling out" the lowest performers in its consulting workforce, but the implications of this are somewhat different for a consulting workforce, where it forms part of the "up or out" internal labour market expectations of this occupational group. Elsewhere, while there is no explicit policy of "culling" the lowest performers in a forced distribution, it is clear that those in the bottom groups are, all things being equal, the most likely candidates to be victims of downsizing. This, too, is legally questionable in the UK and continental Europe, as it conflates different valid reasons for dismissal, and has led to legal challenges, for instance, to ITco's performance appraisal system in some European countries.

6 Discussion

Reaching firm conclusions on this conclusion is difficult given the lack of existing comparative evidence, or, for the USA and UK, systematic empirical work on some elements of pay determination systems, particularly job grading. However, certain tentative conclusions can be drawn.

Firstly, job classification remains fairly strongly wedded to the notion of the “work post”; in all firms, the basic classificatory principle was the “job”, not the skills or competencies of the individual. Perhaps more surprisingly, there was little attempt to supplement this basic work post related system through the creation of job ladders relating to skill and/or “competencies”. Given the lack of systematic comparative evidence on practice among non-US MNCs in the UK, any conclusions here are somewhat speculative, but one plausible explanation would be that US firms appeared to be more concerned with removing the complications of the internal labour market systems developed in the home country under the Fordist/New Deal era than in moving towards a competence-based, “Japanised” version of a high-performance model. The simplification of the classification system into a small number of grades, not permitting intra-grade promotion, seems on the whole to represent an attempt to modify the form of grading system one would expect to find under Taylorism, rather than any fundamental break with it. However, more work on the job grading systems utilised by MNCs of other national provenance operating in the UK, perhaps particularly those from countries where the logic of sectoral job classifications has led to more systematic rethinking of classification criteria, such as France or Germany, is needed to reach a firmer conclusion on this matter.

However, we can certainly say that, leaving aside individual merit pay, the notion of “strategic pay”, that is pay seeking to achieve specific HRM and cultural objectives, appears to have gone much less far than some of the more enthusiastic “new pay” literature would suggest. The corporate centres of these firms have clearly, in general, considered the pay policies they utilise for all employees, including non-managerial employees, to be of significant importance, as is evidenced by the insistence on relatively uniform grading policies, similar procedures for bonus payments, (and identical criteria for individual performance pay), but the extent to which the new policies appear likely to drive individual employee behaviour appears relatively weak, and confined, to those not subjected to individual performance pay, to relatively marginal elements of the overall reward package, such as bonus payments. Thus, while there clearly are US MNCs such as ITco that develop strong firm-based systems, the evidence here tends to indicate that this is the exception rather than the rule.

Country of origin effects appear to be strongest in the area of individual performance pay, and particularly in its increasingly hard edge, in terms of forced distribution and the relationship to employment security. It is important to note that the stricter varieties of these systems are firmly anchored in assumptions derived from the American business system, which do not have parallels even in other liberal market economies such as the UK. The “culling” model outlined above does not fit within British interpretations of the employment relationship, depending as it does on the notion of “employment at will”, derived from a legal judgement in the late 19th Century that

Men (sic) must be left, without interference, to buy and sell where they please, and to discharge or retain employees at will for good cause or for no cause, or even for bad cause without thereby being guilty of an unlawful act *per se* (*Payne vs. Western & Atlantic Railroad*, Tenn. 1884)

Despite some modifications in recent years (see R. Edwards 1995), this remains a strong institutional and ideological norm in the USA that does not find parallels in other capitalist democracies.

Further research is needed on many aspects of pay and performance management as broadly defined within this paper. Indeed, the degree of attempted centralisation and uniformity of this practice underlines the fact that, even from a managerialist perspective, concern with pay policy in foreign subsidiaries goes well beyond mere cost control. This makes it all the more odd that the existing IHRM literature in this area concentrates almost exclusively on the management of managerial pay. Of particular interest would be research on the relationships between home and host pressures in cases where the latter is stronger, such as Japan, Germany or other continental European countries. Comparative research on US MNCs operating in different host environments would be fruitful in this regard. Equally, as implied above, the broad picture of US firms choosing primarily to simplify, rather than change the basic concepts behind, their job classification systems, at least in the relatively open host environment of the UK, may lead one to suspect that the nature of HR innovation emanating from MNCs of different national origin may be closely related to the nature of institutional/societal pressures in the home country. In other words, do constraints of more densely institutionalised home country environments such as those of France and Germany provoke moves towards more or different types of innovation in pay systems in their MNCs than in the American case? In order to answer these questions, much more research taking a holistic approach

to pay determination, examining the full range of pay related practices for the entire workforce, remains sorely lacking.

References

- Almond, P, Edwards, T. and Clark, I. (2003) Multinationals and changing national business systems in Europe: towards the 'shareholder value' model?, *Industrial Relations Journal*, 32, 5, 430-445.
- Arthur, J. (1994) Effects of human resource systems on manufacturing performance and turnover, *Academy of Management Journal*, 37, 3, 670-687.
- Bloom, M., Milkovich, G., and Mitra, A. (2003) International compensation: learning from how managers respond to variations in local host contexts, *International Journal of Human Resource Management*, 14, 8, 1350-67.
- Barton and Delbridge (2004) HRM in support of the learning factory: evidence from the US and UK automotive components industries, *International Journal of Human Resource Management*, 15,2, 331-345.
- Boyer, R. (1998) French statism at the crossroads, in Crouch, C. and Streeck, W., eds. *Political economy of modern capitalism: mapping convergence and diversity*. Sage.
- Brown, C. and Reich, M. (no date) Company HR policies and compensation systems: implications for income inequality, NCW Working Paper No. 14, Insitute of Industrial Relations, Berkeley. University of California.
- Cappelli, P. (1995) Rethinking employment, *British Journal of Industrial Relations*, 33, 4, 563-602.
- Cappelli, P. (1999) *The new deal at work: managing the market driven workforce*. Boston, MA. Harvard Business School Press.
- Child, J., Faulkner, D., and Pitkethly, R. (2000) Foreign direct investment in the UK 1985-1994: the impact on domestic management practice, *Journal of Management Studies* 37,1: 141-166.
- Colling, T. and Clark, I. (2003) 'The Character and Diffusion of Teamworking Programmes in the British Subsidiaries of Two American Multinational Companies', Paper presented at IHRM conference, Limerick, 4th – 6th June.
- Crouch, C. and Streeck, W. (1998) Introduction: the future of capitalist diversity, in Crouch, C. and Streeck, W., eds. *Political economy of modern capitalism: mapping convergence and diversity*. Sage.
- Delery, J. and Doty, H. (1996) Modes of theorizing in strategic human resource management, *Academy of Management Journal*, 39, 4, 802-835.
- Dowling, P. and Welch, D. (2004) *International human resource management*, 4th edn. London: Thomson.

Dunning, J. (1998) *American Investment In British Manufacturing Industry*. London: Routledge.

Edwards, R. (1995) New Prospects for American labor: a proposal, *Organization* 2, 3, 375-391.

Edwards, T. and Ferner, A. (2002) 'The Renewed 'American Challenge': A Review of Employment Practice in US Multinationals', *Industrial Relations Journal*, 33, 2, 94-111.

Ettlie, J (1988) *Taking Charge of Manufacturing*. San Francisco, CA. Jossey Bass.

Faulkner, D., PitKethley, R. and Child, J. (2002) 'International Mergers and Acquisitions in the UK 1985-1994: A Comparison of National HRM Practices', *International Journal of Human Resource Management*, 13, 1, 106-122

Ferner, A. (2000) 'The Embeddedness of US Multinational Companies in the US Business System: Implications for HR/IR'. De Montfort University Business School Occasional Paper No. 61.

Ferner, A., Almond, P., Clark, I., Colling, T., Edwards, T., Holden, L. and Muller-Camen, M. (2004) The dynamics of central control and subsidiary autonomy in the management of human resources: case study evidence from US MNCs in the UK, *Organisation Studies*, 25, 3, 363-91.

Ferner and Quintanilla (1998) Multinationals, national business systems and HRM: the enduring influence of national identity or a process of Anglosaxonisation, *International Journal of Human Resource Management*, 9, 4, 710-31.

Foulkes, F. 1980 *Personnel Policies in Large Nonunion Companies*. Englewood Cliffs, NJ: Prentice Hall

Gomez-Meija and Balkin (1989) Effectiveness of individual and aggregate compensation strategies, *Industrial Relations*, 28, 3, 431-446

Gomez-Meija, L. and Welbourne, M. (1994) Compensation strategy: an overview and future steps, *Human Resource Planning*, 11, 3, 173-90.

Greller, M. and Parsons, C. (1995) Contingent pay systems and job performance feedback, *Group and Organization Management*, 20, 1, 90-108.

Gunnigle, P. 1995 'Collectivism and the management of industrial relations in greenfield sites', *Human Resource Management Journal*, 5, 3, 1995, 24-40.

Hall, P. and Soskice, D. (2001) *Varieties of Capitalism*. Oxford: Oxford University Press.

Harzing, A.-W. and van Ruysseveldt, J. eds. (2004) *International Human Resource Management*. 2nd edn. London: Sage.

Hogarty, D. (1994) New ways to pay, *Management Review*, 83, 1, 34-7.

Huselid, M. (1995) The impact of human resource management practices on turnover, productivity and corporate financial performance, *Academy of Management Journal*, 38/3, pp. 635-672.

- Innes, E. and Morris, J. (1985) "Multinational Corporations and Employee Relations. Continuity and Change in a Mature Industrial Region", *Employee Relations*, 17, 6, 25-42.
- Jacoby, S. (1997) *Modern Manors: Welfare Capitalism Since the New Deal* Princeton, NJ.
- Kalleberg, A., Knoke, D., Marsden, P. and Spaeth, J. (1996) *Organizations in America: Analyzing their structures and human resource practices*. Thousand Oaks, CA. : Sage
- Klores, M. 1966, *Rater Bias in Forced Distribution Performance Ratings, personnel psychology* 19/4, 411-422)
- Kochan, T. and Osterman, P. (1994) *The Mutual Gains Enterprise*. Boston, MA.: Harvard Business School Press.
- Kosnik, R. and Battenhausen, K. (1992) Agency theory and the motivational effect of managerial compensation, *Group and Organizational Management*, 17,3, 309-331.
- Lane, C. (2000) "Understanding the globalization strategies of German and British multinational companies: is a 'societal effects' approach still useful?" in Maurice, M. and Sorge, A., eds., *Embedding Organizations*: Amsterdam: John Benjamins.
- Lawler, E. (2002) 'The folly of forced ranking', *Strategy and Business*, 28, 28-32.
- Lichtenstein, N. (2002) *State Of The Union: A Century of American Labor*. Princeton: Princeton University Press.
- MacDuffie, J. (1995) Human resource bundles and manufacturing performance: organisational logic and flexible production systems in the world auto industry, *Industrial and Labor Relations Review*, 48/2, pp. 197-221.
- Marginson, P., Armstrong, P., Edwards, P. and Purcell, J. (1995) 'Managing Labour in the Global Corporation: a Survey-based Analysis of Multinationals Operating in the UK', *International Journal of Human Resource Management*, 6, 3, 702-719.
- Marginson, P. and Sisson, K. (1996) 'Multinational Companies and the Future of Collective Bargaining: A Review of the Research Issues', *European Journal of Industrial Relations*, 2, 2, 173-97.
- Marsden, D. (1999) *A Theory of Employment Systems: Micro-Foundations of Societal Diversity*. Oxford: Oxford University Press.
- Mills, D. (1985) Seniority versus ability in promotion decisions, *Industrial and Labor Relations Review*, 38/3, 421-426

- Mueller, F. and Purcell, J. (1992) 'The Europeanisation of Manufacturing and the Decentralisation of Bargaining: Multinational Management Strategies in the European Automobile Industry', *International Journal of Human Resource Management*, 3, 1,15-34.
- Muller-Camen, M. (1998) 'Human Resource and Industrial Relations Practices of UK and US Multinationals in Germany', *International Journal of Human Resource Management*, Vol. 9, No. 4, 732-49.
- Muller-Camen, M., Almond, P., Gunnigle, P., Quintanilla, J. and Tempel, A. (2001) 'Between Home and Host Country – Multinationals and Employment Relations in Europe', *Industrial Relations Journal*, 32, 4, 435-48.
- Muller-Camen, M., Tempel, A. Peters, R. and Waechter, H. (2003) 'Unravelling Home and Host Country Effects: An Investigation of Pay Policies of US MNCs Operating in Germany', unpublished working paper
- Negandhi, A. 1986 'Role and structure of German multinationals: a comparative profile' in *European Approaches to International Management*. K. Macharzina and W. Staehle (eds.), 51-66. Berlin/New York: Walter de Gruyter:.
- Orren, K. (1991) *Belated Feudalism: Labor, The Law and Liberal Development in the United States*. Cambridge: Cambridge University Press.
- Osterman, P. (1988) *Employment Futures*, New York, OUP.
- Osterman, P. (1996) *Broken Ladders: Managerial careers in the new economy*, New York, OUP.
- Piore, M. (1968) "The impact of the labour market on the design and selection of productive techniques within the manufacturing plant," *Quarterly Journal of Economics*, 82, 4, 550-72
- Pfeffer, J. (1998) *The human equation; building profits by putting people first*. Boston, Harvard Business School Press.
- Pruijt, H. (2003) Teams between Taylorism and neo-Taylorism, *Economic and Industrial Democracy*, 24, 1, 77-102.
- Schuler, R. and Rogovsky, N. (1998) Understanding compensation practice variations across firms: the impact of national culture, *Journal of International Business Studies*, 29,1, 159-78.
- Shibata, H. (1999) 'A comparison of American and Japanese work practices: skill formation, communications, and conflict resolution', *Industrial Relations*, 38,2, 192-214.
- Shibata, H. (2002) Wage and performance appraisal in flux: a Japan-United States comparison, *Industrial Relations*, 41/4, 629-653.

- Smith, C. and Meiskins, P. (1995) 'System, Society and Dominance Effects in Cross-National Organizational Analysis' *Work, Employment and Society* 9(2) pp. 241-267.
- Toh, S. and Denisi, O. (2003) Host country national reactions to expatriate pay policies: a model and implications, *Academy of Management Review*, 28, 4, 606-21.
- Tosi and Gomez-Meija (1989)
- Turner, T., D'Art, D. and Gunnigle, P. (1997) 'US Multinationals: Changing The Framework of Irish Industrial Relations', *Industrial Relations Journal*, Vol. 28, No. 2, 92-102.
- Welbourne and Gomez-Meija (1995) Gainsharing: a critical review and a future research agenda, *Journal of Management*, 21/3, 559-609.
- Whitley, R. (1999) *Divergent Capitalisms: The Social Structuring and Change of Business Systems*. Oxford: Oxford University Press.
- Young, S, Hood, N. and Hamill, J. (1985) "Decision-Making in Foreign-Owned Multinational Subsidiaries in the United Kingdom", *ILO Working Paper*, No. 35. Geneva: ILO.

Table 2: Summary of pay determination policies, case study firms

<i>firm</i>	<i>main locus of wage determination</i>	<i>single system for managers/non-managers?</i>	<i>bonuses</i>	<i>criteria for merit pay</i>	<i>management of performance distribution</i>	<i>consequences of low ranking</i>	<i>degree of US influence/control</i>
BusServs	Salary points within bands determined by market conditions and appraisal ratings	Separate systems for consulting and non-consulting workforces	none at time of research. Policy decision to move towards the greater use of individual variable pay not yet implemented at time of fieldwork	Combination of project-based and general goals. Behavioural goals focus on leadership competency	Forced 20/60/20 distribution in consulting workforce	Forced distribution used to remove poorest performers in “up or out” ILM system	High for consulting workforce; performance management system centralised, national variation in salary structures.
CPGco	For non-managers, move to ‘broadbanding’ in 1980s – very simple grading structure, low number of grades with “beginning” and “established” rates. For managers, grade progression an implicit expectation in quasi-incremental system	No. Systems completely separate.	Collective bonus based on corporate performance, modified by seniority. All employee stock options.	Individual PRP for managers, but 70/30 weighting to business, rather than individual personal criteria. Individual criteria currently focused on objectives rather than values-driven – managers measured on adherence to values, but this is not yet reflected in pay	Previous attempts at forced distribution for managers controversial and not always followed through. In reality, distribution is “managed” rather than forced.	Distribution would be used to identify candidates for redundancy in the event of downsizing. Forced distribution used in cutbacks at European level five years ago, following US instructions.	Global aim of uniformity not achieved Intermediate degree of centralisation of performance management – global system, but some latitude for subsidiaries and regions to refine performance criteria.
Engco1	Move to small number of manual grades	No. Systems completely	Highly structured quarterly team	Individual PRP for all non-manual	All white-collar employees.	Not used to dismiss employees	Strong emphasis on uniformity of job

	<p>following introduction of teamworking – all team members will generally be on same grade.</p> <p>For non-manuals, bands 50 per cent wide, progression based on appraisals.</p>	separate.	<p>bonus for manual employees linked to continuous improvement programme and following of teamworking culture, on team and site basis.</p> <p>Annual bonus for all employees based on divisional, corporate, and change-related targets.</p> <p>All employee share purchase scheme</p>	employees and managers, based on negotiation of objectives.	Forced distribution introduced, but considerable managerial resistance has led to its scrapping. Now “managed” distribution		<p>descriptions, but some local latitude.</p> <p>Global programmes on bonuses and individual merit pay</p>
Engco2	<p>Small number of grades. Team leaders receive higher salaries, but do not permanently switch grades.</p> <p>Proposed introduction of some intermediary levels within grades to reduce labour turnover.</p> <p>US system a ‘benchmark’ but with scope for variation, including at</p>	No.	<p>Corporate bonus scheme, modified by plant performance, criteria include...</p> <p>All employee share scheme introduced fairly recently.</p>	Individual PRP for managers.	Managers only. Forced 10/80/10 distribution introduced recently, but considerable local resistance	In principle, those in bottom 10 per cent in consecutive years are at risk of dismissal. In practice, local managers attempt to circumvent this problem.	<p>Bonuses and performance pay centrally ordained.</p> <p>Intermediate degree of centralisation on job grades</p>

	management levels						
EngServs	Very broad bands for similar jobs, perception that wages increase mainly with age/experience. Relatively informal system typical of the sector in UK.	Yes.	Annual bonus fund allocated to individuals at management discretion.	Merit-based increases for all employees.	Relatively informal system. Distribution not managed other than to assure wage increases fir within budget.	Policy of zero pay increases for poor performers, but no employment security implications reported.	Little or no US influence
Household Products	Broadbanding scheme introduced first in the UK. Grades redefined to “match markets”, with job descriptions independently “priced”	Yes	None	Merit pay for all employees, based on teamworking and technical targets. Some peer appraisal. Relatively small differentials between performance levels.	Distribution not forced.	Repeat low performers can expect to be dismissed.	Performance management system global. Job grading practice a “licensed” UK innovation which corporation seeks to export elsewhere
ITco	Move in 1990s from complex system with high number of grades, to sophisticated broadbanding scheme within job families, based on small number of criteria and linked to globally established career paths.	Yes.	Merit-based bonuses, using same system as for base pay increase, modified by business performance. All employee share scheme	Merit pay long established for all employees, based on achievement of partially self-defined goals	Forced distribution for all employees (some evidence of middle management resistance)	Forced distribution used to identify candidates for redundancy when downsizing, some evidence that repeat low performers are at risk of losing employment	Global system, albeit with some European input into system design.