

Getting subsidiaries to adopt foreign pay concepts

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The tension between globalization and localization is even more acute when MNCs try to transplant reward policies to subsidiaries.

Implementing consistent corporate policies across all global locations poses many challenges for MNCs, but particularly with regard to reward systems.

IESE Prof. [Javier Quintanilla](#), together with professors Thomas G. Drape, of the George C. Marshall European Center for Security Studies, and Steve G. Green, of the U.S. Air Force Academy, [conducted a study](#) of U.S. MNCs with operations in Spain.

They found that at least one concept — individual pay for performance — was not rejected by subsidiaries. They explore the various influences that led non-managerial staff to welcome this type of reward system more than their own managers did.

National culture and organizational heritage

One obvious influence on how employees react to new policies is the national culture, or the values and attitudes of the host country.

When transplanting human resource management (HRM) systems from the U.S. to Spain, the contrast in attitudes toward employment relationships becomes apparent.

In the U.S., there is a weaker tradition of trade unions and more managerial authority over labor.

In Spain, the opposite is true: When it comes to rewards and compensation, collective bargaining through work councils is implemented within a legalistic framework, with labor regulations permeating virtually all spheres of employment.

In such a context, implementing a pay system that differentiates between employees' contributions or achievements is bound to run into difficulty.

Moreover, the level of difficulty in implementing a new policy can vary between subsidiaries even within the same country, depending on the method by which each was founded.

A company that existed before an MNC acquired it already has a deeply rooted organizational heritage. Along with this heritage, there are attitudes and expectations shaped by the policies that have been in existence since the company's founding.

A subsidiary that was created by an MNC, known as a greenfield operation, does not have such a heritage. This type of subsidiary, therefore, may enjoy greater flexibility in implementing HRM practices, though still within the host country's legal framework for labor relations.

In their study, the authors considered both acquired and greenfield operations. At the acquired sites, the organizational heritage included strong work councils, with philosophies that ran against the implementation of pay for performance, whereas the greenfield ones avoided the presence of a work council altogether.

Managerial resistance vs. employee acceptance

Regardless of the method of founding, local managerial staff at all subsidiaries exercised politics of resistance to modify or block the implementation of individual pay for performance.

The general perception was that individual pay for performance was an American concept and not the norm in Spain.

Nevertheless, non-managerial staff welcomed this new type of compensation, and the new policy was eventually implemented.

Their finding is interesting because it is generally assumed that an employee joins a company and enters into employment relationships with a great deal of prior societal conditioning affecting his or her disposition toward certain practices.

If that's so, then why would employees be more open than managers to HR concepts

considered to run contrary to the prevailing culture?

Primary and secondary cognitive socialization

The authors acknowledge that our broader social environment does indeed condition our attitudes and behaviors — what is known as cognitive socialization.

But we also experience this conditioning on a secondary level, learning the thoughts and behaviors required of us in our occupations.

Because different job functions require different behaviors, not all employees will interpret a new policy in the same way, even if they belong to the same broader society.

It is precisely this secondary cognitive socialization that gave non-managerial employees a positive disposition toward individual pay for performance.

Across the subsidiaries studied, the authors found that employees had developed an unfavorable perception toward previous performance evaluation practices.

According to one interviewee, employees were starting to grumble that it didn't matter whether you worked a little or a lot, the end result was always the same, and this seemed unfair.

It was perhaps this prior negative experience that made employees open to the change proposed by the U.S. MNC.

From implementation to internalization

Given this situation, the new individual pay for performance policy was welcomed as a more objective way for workers to feel compensated for their efforts.

Crucially, it is precisely this positive disposition toward a new practice that moves the policy from implementation to internalization.

Implementation is concerned with objective behavior to follow certain rules, whereas internalization goes much deeper. As the authors explain, once employees internalize a practice, they assign greater meaning to it and infuse it with value.

In striving to establish common practices across international locations, MNCs need more than mere implementation, which can often amount to little more than subsidiaries paying lip

service to headquarters.

Through internalization, a foreign concept such as individual pay for performance can be readily adopted as one's own. Therefore, managers must move past the implementation stage and facilitate internalization if their attempts to globalize HRM systems are to be successful.

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