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Gaining competitive advantage through performance related pay: Does country of origin matter?

by *Ruby Ranjan* (Monash University; Australia)

Ron Edwards (Asia Pacific University; Malaysia)

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Corresponding author: ruby.ranjan@monash.edu

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ABSTRACT

Performance-related pay (PRP) is an integral part of Reward Management (RM) and is considered to have beneficial effects on organisational performance and employee motivation. Drawing on 14 case studies, this paper examines the Reward Management practices of local and multinational companies in Australia with specific consideration to PRP within the debate over the applicability of the transfer of the Human Resource Management (HRM) practices between nations through subsidiary-parent company relationships. After reviewing the relevant literature(s), the study concentrates on finding whether multinational corporations (MNC) in Australia pursue similar or different RM practices compared to their domestically owned Australian counterparts with special reference to PRP. It also investigates whether there are national variations between multinational companies in terms of the nature and character of their practices. The findings reveal country of origin differences in the way PRP practices are applied in subsidiaries of foreign-owned companies in Australia and local Australian firms. The case studies are used to examine and explain the practices.

Keywords: *competitive advantage, country of origin, MNCs, performance related pay, subsidiaries*

1. Introduction

Managing people in organisations is always challenging but crucial for firms to gain competitive advantage (Ibrahim & Zayed, 2018). The Covid- 19 pandemic has disrupted

many aspects of the international economy, erecting new borders and increasing the importance of human capital to manage the difficult environment (Guedhami, Knill, Megginson & Senbet, 2021; Caligiuri, De Cieri, Minbaeva, Verbeke, & Zimmermann., 2020). With firms of any size now able to operate as a Multinational Corporation (MNC), a key challenge is how to establish mechanisms for knowledge transfer to share knowledge of how to manage Covid and thereby gain competitive advantage. Minbaeva, Pedersen, Bjorkman, Fey & Parks' (2003 & 2014) studies have been seminal in identifying how the transfer of knowledge occurs. The transfer of knowledge and practices is increasingly important in the HRM domain where worldwide competition for skilled and talented employees make it necessary for companies to devise and implement policies to attract, retain and motivate talented people (Beletskiy & Fey, 2021; Tekieli, Festing, & Baeten, 2018; Duarte, 2012; Tarique & Schuler, 2010). While there is extensive literature on the role of HRM in talent management, the focus of this paper is to examine the suggestion by Minbaeva et al. (2003) that parent company HRM practices affect subsidiary company employee motivation – which in turn will impact their knowledge transfer behaviours. For example, the design and deployment of the compensation system play a major role in realizing competitive advantage for an MNC (see for example Allen, Lee & Reiche, 2015; Beechler & Taylor, 2013; Kostova, Marano & Tallman, 2016). In particular, performance-related pay (PRP) has become one of the critical components of this competition (Gerhart and Fang, 2014; Gooderham, Fenton-O'Creevy, Croucher & Brookes, 2015; McDonnell, Gunnigle, Lavelle & Lamare, 2016).

The benefits of PRP are well documented in HRM literature (Gerhart & Fang, 2014; Morris, Daisley, Wheeler & Boyer, 2015). The dilemma of PRP systems also emerge consistently – on one hand, employees will be motivated to perform at a higher level, if the pay is linked to some measure of performance (Larkin, Pierce & Gino, 2012) while on the other, if such practices are not used properly, can be demotivating, unattractive and even question the efficacy of PRP in giving a strategic direction to compensation system (Gerhart and Fang, 2014; Larkin et al., 2012; Saridakis, Lai & Cooper, 2016). From a management perspective, PRP is a way of identifying high-performing employees and rewarding them for being more productive. At the same time, it identifies employees with lower productivity (Gerhart and Fang, 2014). PRP thus requires a set of objectives, ways to appraise performance and finally the linking of accomplishment to pay (Maley, 2013). In a cross-border context, having clarity on the purpose of performance appraisal and effective communication channels between an appraiser and the appraised are crucial, but at the same time challenging for MNCs operating in different countries (Caligiuri, 2014; Chiang and Birtch, 2010).

The literature also identifies the wide variety of types of PRP schemes, ranging from piecework, payment by results in the form of bonus earnings, merit pay, individual performance-related pay, profit-related pay, employee share incentive schemes, to name just a few. These schemes incorporate various ways by which pay is linked to individual,

group or organisational performance (Gerhart & Fang, 2014; Shields et al., 2015). Understanding such choices is important as it offers MNCs insight into how they may benefit from their core managerial capabilities when applying them to their subsidiaries (Bartlett & Ghoshal, 1989; Caligiuri, 2014; Cooper & Ezzamel, 2013). For example, individual pay-for-performance practices have been widely adopted in the United States and US MNCs have been shown to prefer to continue operating such schemes when crossing national boundaries (Colling and Clark, 2002; Ferner, Edwards & Tempel, 2012; Vo & Stanton, 2011).

Building on the work of Caligiuri (2014) and in response to the call by Minbaeva et al. (2014) call for studies to take a broader cultural and comparative focus, the objective of this paper is to investigate whether there are differences between foreign-owned companies operating in Australia and locally owned companies. Given the importance of MNCs in bringing innovative work practices to their subsidiaries in foreign locations and the critical role, PRP plays in the reward system to motivate and reward employees, basing this comparative focus within the one country, may provide insights both MNCs operate in Australia and their home countries.

2. Research question

Scholars debate the extent to which subsidiary management practices reflect the characteristics of the national business system in which they originate (see for example Almond, 2011; Ferner et al., 2001 & 2014). The ‘best practice approach’ perceives MNCs as applying a uniform management style globally (Al Ariss, Cascio & Paauwe, 2014; Bartlett and Goshal, 1989; Caligiuri, 2014; Edwards et al., 2013). Pudelko and Harzing (2008) note that HRM practices in MNC subsidiaries are converging towards “global best practices” which is essentially an American model.

Another viewpoint is that there is a divergence in management style and this arises from country-of-origin differences (Almond, 2011; Noorderhaven & Harzing, 2003). These differences are shaped by the cultural (Hofstede, 2001; 2010) and institutional (Ferner et al., 201, Kaufman, 2016; Tempel & Walgenbach, 2007) environment of the subsidiary’s home country which is mediated by the host country culture and institutions (Al Ariss & Sidani, 2016; Ferner et al., 2012).

The study of the country of origin influences in subsidiaries has gained importance because this transferability can form a special competitive capability for an MNC that may be difficult for competitors to imitate (Flood, Ramamoorthy & Liu, 2003). As Figure 1 below shows, there is a significant presence of multinational corporations (MNCs) in Australia (ABS, 2021). The current study focuses on the transfer of PRP practices from the country of origin to Australia. In particular, subsidiaries of the US (accounting for 28% of foreign investment), the UK (17%) and Japan (7%) were chosen because of their significant presence in Australia (ABS, 2021).

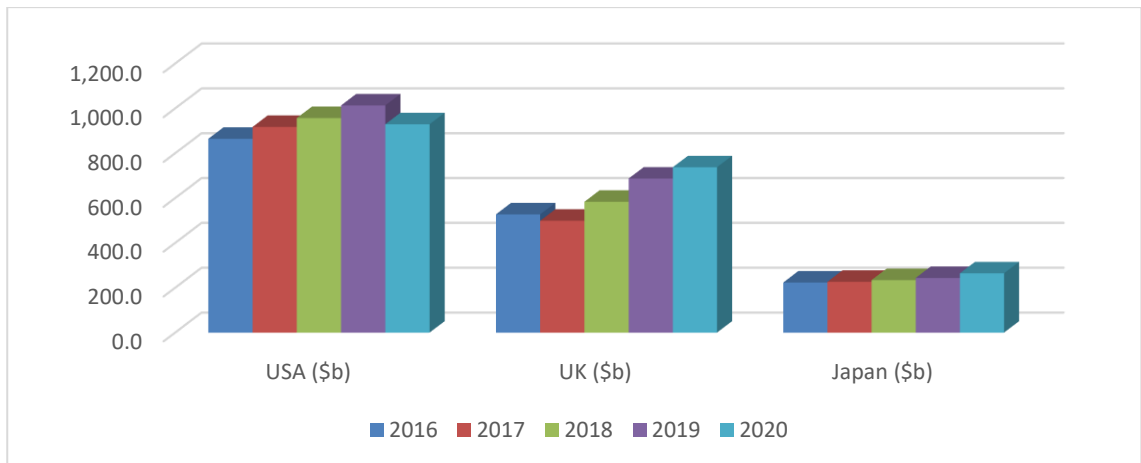


Figure 1. FDI in Australia by US, UK and Japan source – ABS data released 5/5/2021
 Although researchers from Rosenzweig and Nohria (1994) to Al Ariss and Sidani (2016) have questioned whether parent nationality alone is enough to determine the parent’s influence on a subsidiary’s HRM practices, the purpose for the current study, parent country origin is examined, in conjunction with several other key variables. The following section highlights some of the key features of Australian, The US, the UK and Japanese styles of management with references to PRP.

Studies have indicated that Australian employees and executives typically have a lower variable component in their salaries than employees in North America (Boyd, Franco & Shen, 2012; Weber, Festing & Dowling, 2013). However, individual PRP practices are becoming popular in Australia, as Australians are coming to appreciate the opportunity to be rewarded for their contribution (Patel et al., 2018; Scott et al., 2015; Sparrow, 2013). This notion of individualism resonates with the well-known scales developed by Hofstede (2001) to provide international comparisons and these will be used to anchor the study.

As shown in Figure 2, Australia, the US and the UK emerge as more individualistic countries and this implies rewards are designed and focussed on individuals (Dalton & Druker, 2011; Vo & Stanton, 2011). Vo and Stanton (2011) found that countries with individualistic orientations espouse a pay-for-performance work ethic. Returning to the notion that PRP is associated with American derived notions of best practice, it is perhaps not surprising that research supports that US MNCs are pioneers in the use of productivity bargaining, performance-related-pay, job-evaluation, employee share schemes and appraisal techniques (Gunnigle et al., 1994; Ferner et al., 2011).

The UK approach to HRM is characterized as being similar to the US and this is supported in Figure 2 where the UK ranks high on individualism and masculinity and low on power distance and uncertainty avoidance. However, Hofstede (2001) also suggests that values in the UK emphasise egalitarianism and individualistic management styles, consistent with adaptation rather than standardization (which is found more in the US HRM approach). Research by Gunnigle et al. (1994), and Schmitt

and Sadowski (2003) support this for the UK with results finding that in the UK companies, country of origin effects were more pronounced in the use of variable compensation, employee ownership and vocational training. UK employees attached importance to performance-based reward systems. They also attached importance to non-performance based rewards, such as cost of living adjustments (COLA) and are more likely to pursue a mixed approach to compensation, comprising of seniority, performance and skill bases to compensate their employees (Chiang, 2005).

Where Figure 2 reveals a wide difference is the case of Japan. The literature on Japanese management consistently identifies that it (Boyd et al., 2012; Debroux, 2014) is based on four distinctive features, “pillars” or ‘sacred treasures’: life-time employment, seniority-based pay and promotion, enterprise or house unions and consensual decision-making. In terms of pay and promotion, although seniority-based pay and promotion is culturally entrenched in Japan, studies have indicated that from the late 1980s, there has been a growing trend whereby the traditional Japanese reward practices are being replaced by newer, more Western forms, and there is a shift towards pay for performance (Debroux, 2014; Carr and Pudelko, 2006; Weber et al., 2013). These developments are due to the changes of view occurring in the younger population. However, long-term employment is pursued where possible, and differential pay is discouraged (Debroux, 2014). Performance appraisals are downplayed. Feedback is normally not given in order to save face. Group or team-based incentives represent the traditional approach to rewards, and bonuses based on the company’s performance constitute a major component in Japanese pay systems (Debroux, 2014; Walsh & Zhu, 2007).

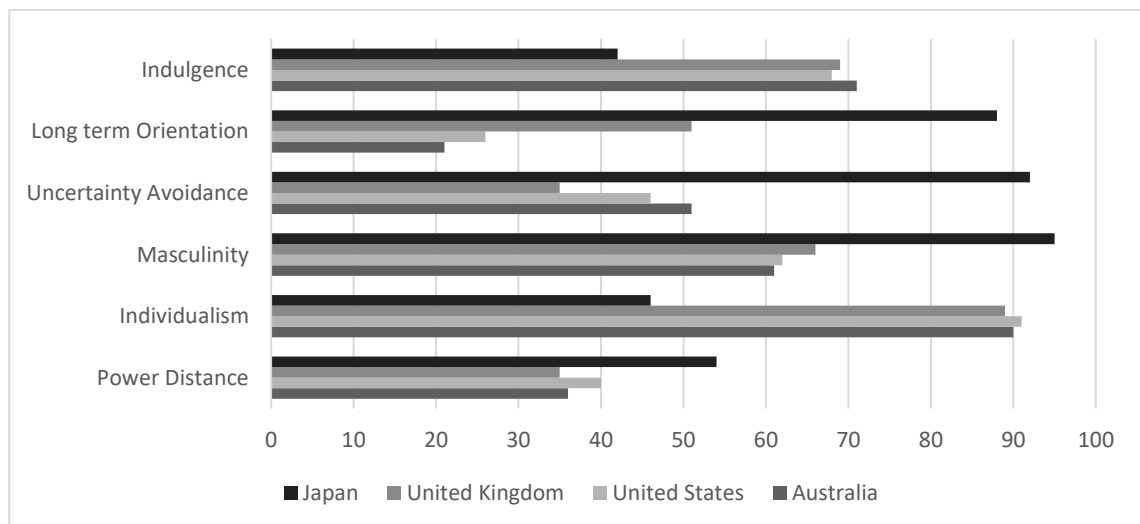


Figure 2. Scores of Hofstede’s National Dimensions for the 4 Case Study Countries

The literature on management styles, therefore, clearly indicates that in order to gain competitive advantages, irrespective of the impact of globalisation, country of origin continues to be embedded in the business systems of MNCs and is reflected in HR policies and practices, including reward practices such as PRP in their subsidiaries.

Despite the prominent role of MNCs in transferring innovative management practices to their subsidiaries in Australia and the importance of reward management in enabling MNCs to realize a competitive advantage, to date there has been little research on the reward management practices of multinationals in Australia. Although a substantial body of research on the transfer of HRM practices in multinational corporations can be found in the international human resource management (IHRM) literature (McGraw, 2014), there is limited research on PRP which is the focus of the current study.

Having considered the above-mentioned gaps in the literature and in order to explore how competitive advantages are gained through the transfer of the parent's capabilities, this study seeks to answer the following research question:

Are there country of origin differences in policies related to performance related pay between MNC subsidiaries and Australian companies operating in Australia?

3. Methodology

In order to obtain information from a number of different perspectives across a range of companies, a multiple case study approach was chosen. Yin (1994) identifies two major advantages in this approach. The first is that it provides a more compelling body of evidence and a more robust study overall. The second is described as “replication logic”, where each case is treated as if it were a separate experiment. If each case provides similar results, then replication is said to have been achieved. Single case studies by contrast are useful where there is a “singular” or special case to be examined.

The multiple case approach was therefore chosen in order to provide robust findings across a group or similar sites with the possibility of replicated and comparative results providing extra clarity and insight. Although there is no ideal number of cases, Eisenhardt (1989) advocates a minimum of four. For the purpose of this study, fourteen case studies across four groups were conducted. The four groups were firms from the US, the UK, and Japan and private Australian companies. The research design is exploratory in nature because this is an area that has been relatively neglected by management researchers to date. Previous studies relating to country of origin differences in subsidiaries of different nationalities in the Australian context have addressed broad HRM issues. The studies have been either quantitative or qualitative in nature (McGraw, 2004; McGraw 2014). The current study seeks to contribute to the existing body of knowledge by focussing on subsidiaries trying to gain competitive advantage through the transfer of parents' (country of origin) PRP practices. The fourteen case studies helped in understanding how effective such practices were in the Australian context.

3.1. Case Study and cross-case analysis

A case-study design was used for analysis. 14 case studies were conducted in Australian firms and multinational subsidiaries located in Australia. The four groups were firms

from the US, the UK, and Japan and private Australian companies. The multiple case approach was chosen to provide robust findings across a group or similar sites with the possibility of replicated and comparative results providing extra clarity and insight. Case study data were collected over a period of three years (2015-2018).

Although the initial intention was to construct four case studies for each of the country of origin groups (Japan, USA, UK and Australia), limitations arose in collecting data from the Japanese firms due to their small presence in Australia compared to the US and UK subsidiaries. Recognising this, the Japanese sample was limited to two case studies - one from the manufacturing sector and the other from the service sector, making a total of fourteen case studies. Previous studies of country of origin differences have considered it sufficient to conduct research on a sector basis or on related industries (Ferner et al., 2001). To analyse the qualitative data, content analysis, also called textual data analysis, was used through NVivo. Permission to conduct the case studies was given on the condition that the names of the companies and people participating in interviews would not be identified. To maintain the confidentiality of the firms, it became important not to cite any references and the names of the companies were also coded (renamed) as shown in Table 1.

TABLE 1. Characteristics of case study companies according to country of origin

Country of Origin Groups	Case Study Companies	Sector/Industry	Number of Employees in Australia	Year of Establishment in Australia
The US Subsidiaries	<i>Ten Mills (acquired)</i>	Manufacturing/food and beverage	550	1996
	<i>Canned Foods (greenfield)</i>	Manufacturing/food and beverage	650	1935
	<i>TB consulting (acquired)</i>	Services/engineering	1500	1968
The UK Subsidiaries	<i>TRS (acquired)</i>	Services/engineering	850	1995
	<i>TSK (greenfield)</i>	Manufacturing/food and beverage	1200	1961
	<i>Sweet Foods (merger)</i>	Manufacturing/food and beverage	6500	1922
The Japanese Subsidiaries	<i>Nyder (acquired)</i>	Services/engineering	900	1985
	<i>Nrups (acquired)</i>	Services/engineering	800	1963
	<i>Tilubishico (acquired)</i>	Manufacturing/cars	3500	1981
Australian Companies	<i>LMBC (greenfield)</i>	Services/banking	500	1987
	<i>Palzo Foods (greenfield)</i>	Manufacturing/food and beverage	450	1977

<i>Best Beer Co</i> (<i>greenfield</i>)	Manufacturing/food and beverage	200	1966
<i>Ardno</i> (<i>greenfield</i>)	Services/engineering	1150	1945
<i>Water Works</i> (<i>greenfield</i>)	Services/engineering	2500	1928

3.2. Findings and discussion of the research question based on cross-case analysis of country of origin differences on PRP

Discussion

As far as bonuses are concerned, the research revealed considerable differences across the country of origin groups. The US case study firms had payment systems based on bonus schemes dependent on individual and company performance. The emphasis on individual bonuses was attributed to country of origin influences:

It (compensation) does have strong American components to it – the incentivised bonus component which the Americans are very much driven by. [HR Director, Canned Foods (US subsidiary)]

You can say the bonus system is very much an American thing because it is quite in line with the headquarters approach to compensation. [Senior Manager, TB (US subsidiary)]

The US subsidiaries were distinctive in using non-standardized, bonus payments. This finding is consistent with earlier studies (Gunnigle et al., 1994). That is, payment received depends on individual performance. The case studies revealed that bonuses were available for both management and non-managerial salaried staff:

All salaried people here are on a bonus system and that bonus system falls in line with a global bonus approach. So there is influence in that we have adopted a number of their (country of origin) remuneration practices... [HR Director, Ten Mills (US subsidiary)]

Previous studies (Vo & Stanton, 2011) have also found that, due to the individualistic orientation (Hofstede, 2001) in US firms, performance-related pay (PRP) and individualised pay is more common than in subsidiaries of other countries.

The UK subsidiaries were similar to the US firms in using bonuses, again consistent with previous studies (Chiang, 2005). The case studies showed that, unlike US subsidiaries, bonuses were limited to senior management in UK firms, possibly explaining the less frequent references in the survey. The case studies also revealed that bonuses were given to senior management in UK firms, not only for their individual contributions but also for team effort. For example, the Senior Manager of Nyder (UK subsidiary) stated:

The financial performance is sometimes contingent on the actual group which is a team of senior people working together in achieving the financial outcomes and then that's when rewards are paid on sort of a group basis.

On a similar note, the Senior Manager of TSK (UK subsidiary) stated:

There is a small segment of our senior executive group which is actually able to be bonused based on the overall group result.

This insight into bonus schemes suggests that the UK firms are less individualistic than the US firms, a characteristic shared with Australian firms. Previous studies have found that, culturally, UK firms are similar to US firms in emphasising individual performance. However, they are more inclined to adapt to host country practices rather than apply standardized home country practices than US MNC management practice (Parry et al., 2008). Adaptation was apparent in the case study firms. However, its application was limited to senior staff. For the non-managerial employees, pay and conditions were similar to the Australian firms with standard pay and less emphasis on bonuses.

The Japanese case study firms were similar to the US firms. Bonuses were given to all employees, as demonstrated by the following quote:

So all the staff gets bonuses and it is not just limited to the senior staff and depending on how well the company does and based on partly company's annual profit performance. [Manager, TC (Japanese subsidiary)]

However, while US, UK or Australian firms had bonuses based on individual or group performance, Japanese firms issued bonuses based on the company's overall performance. This finding is consistent with previous studies, in that bonuses based on a company's performance constitute a major component of the Japanese pay system (Debroux, 2014).

An interesting observation in relation to Japanese firms emerged from the case studies. Although they were applying their preferred country of origin practices, they were aware of the cultural differences between home and host country pertaining to the reward expectations of the local employees. Hence, in order to effectively integrate, respond to and cater to the local needs of their employees and remain competitive in the Australian market, the Japanese firms had introduced or were in the process of formulating individual performance-based pay for the local employees. This was in addition to the established Japanese norm of issuing bonuses based on company performance. The revelation also shows that firms not only have to develop capabilities but also they need to keep renewing them in order to respond to the changes in the environment to gain competitive advantage (Eisenhardt & Martin, 2000). For example, commenting on the introduction of individual performance-based pay, the HR Director of LMBC explained:

It's a reflection of an individual's performance, key performance and also Sydney Branch financial performance. [LMBC (Japanese Subsidiary)]

This finding was consistent with previous studies of Japanese reward practices which have highlighted the growing cultural shift in Japan, where the traditional Japanese reward practices are being replaced by newer, more western forms. For example, there is a shift towards pay for performance (Debroux, 2014). The shift is explained in the research as being due to changes occurring in the younger population in Japan where outstanding younger managers feel that the seniority system is hindering their

promotion (Chen, 1995). As a result, despite continued respect for job-security, job-hopping is becoming acceptable as there is a shift towards PRP (Debroux, 2014). This cultural shift was also found in the current case studies. However, it also became clear that individualised variable pay was not as developed in the Japanese case studies as in the US and UK firms. Some of the other interviewees of the Japanese case study firms indicated that although policies for recognising individual performance were in place, in reality, the bonus was based on the company's performance, as an employee stated:

I am not aware of performance-related pay. It is a flat salary plus bonus.[LMBC (Japanese Subsidiary)]

This quote indicates that although management was trying to formulate practices relating to individual performance-related pay, it had met with limited success. This feature was observed in the Japanese case study firms. For example, an employee stated:

They have tried to set the standards (that is, keeping pace with competitors in Australia). But the things that they have set the standards on and the measurements to performance – there is lot of inconsistencies which is also due to cultural differences. [LMBC (Japanese subsidiary)]

A possible explanation is that senior management in Australia are still heavily influenced by traditional Japanese reward practices. For example, although the Japanese firms had salaries and bonuses in order to suit the local staff, such structures were difficult for the Japanese management to understand:

The system that are there works for them and our system find it hard to understand theirs due to different culture. [Local Manager, TC (Japanese Subsidiary)]

Clearly, since traditional country of origin practices are still valued by the senior management, practices like individual performance-related pay do not hold much appeal for effective implementation due to cultural differences.

Furthermore, the Japanese management saw value in the traditional Japanese system of a common bonus for all rather than just the high performers. They also believed that the Japanese bonus system was an advanced form of reward, as evident from the following statement:

Take the Tokyo's bonus system itself – almost half portion is the bonus but in here only last portion is bonus- very very behind. [CFO, TC (Japanese subsidiary)]

It became clear that Japanese management was not able to totally replicate the preferred country of origin practices due to different local reward expectations. For example, when justifying the bonus system and comparing it with country of origin practices, the Chief Financial Officer (CFO) of TC stated:

Tokyo salary is very small proportion. The company is doing very well. The company's result is very good. The company's performance is very good. So the bonus will get very big. But if we implement it here- it is very problematic. [TC (Japanese Subsidiary)]

Clearly, the above quote also highlights the active and conscious role of subsidiary managers in determining the extent to which country of origin practices should be deployed for the benefit of the subsidiaries. That is, although management saw value in the bonus system, at the same time, in order to cater to local expectations, managers had to adapt the country of origin practices to suit local needs. Therefore, although the bonuses still constituted an important element of the Japanese case study firm's reward management and were in line with country of origin practice, the management could not issue bonuses on the same scale as at home. This feature sheds light on the nature of the reward system in Japanese subsidiaries. The reward system reflects a negotiated and adaptive process whereby local management take from their parents what they think will be valuable, adapt it and combine the result with practices taken from the local environment.

With regard to the Australian firms, they were more like the UK firms than their US counterparts in giving bonuses. It was found that in Palzo, Ardno and Water Works, bonuses were restricted to the management level. In Best Beer, a family-owned business, bonuses were not issued at all. The reasons for not issuing bonuses are explained in the following quote:

Where salaries are pitched at such a level that it sort of incorporates those things [i.e., bonuses]. [Senior Manager, Best Beer (Australian Firm)]

It is evident from the data on non-US case-study firms that PRP is not as fully established as in US subsidiaries. Previous studies have also pointed to PRP being a recent phenomenon in Australia (Hanley & Nguyen, 2005). Thus the case study helped in explaining this was the case. Variable pay does not apply at the non-management level in Australian firms. This finding supports previous studies of Australian firms in which employees and executives have a lower variable pay component than that enjoyed by US subsidiaries (Lowe et al., 2002).

With regard to bonuses and PRP therefore, the current research is consistent with the previous literature on management approaches across different countries of origin. This is especially reflected in the US and Japanese firms. The case studies, however, reveal some of the 'on the ground' issues for managers of subsidiaries. For example, the local employees sometimes resented the heavy importance attached to bonuses. Such resentment creates problems for the local managers who we assume want to develop effective reward management systems for their employees. This highlights the difficulties surrounding knowledge transfer (for details on knowledge transfer see, Minbaeva et al., 2014). The 'NIH' (not invented here) syndrome (Govindarajan & Gupta, 2001) was especially evident in the US and Japanese subsidiaries:

American is very much at risk pay- sort of an average base salary and a lot of bonuses. The Australian way is a higher base and less bonus. [HR Director, Canned Foods (US subsidiary)]

Basically the way Tokyo does its bonuses and salaries and things. It does not work here at all. For us, we want – to compete in Australian market. [HR Manager, TC (Japanese subsidiary)]

In terms of knowledge transfer, the imposition of country of origin practices works against developing effective reward management practices. While it seems that the US and Japanese firms are trying to formulate payment systems which best suit the local population, country of origin preferences must be managed. Hence, influences from and transfer of the parent's management practices contribute to differences in payment systems in subsidiaries of different countries of origin. As these influences are not necessarily helpful for local managers, they have to undertake a negotiated, adaptive process. The careful, negotiated utilisation of the parent's knowledge appears to help in diffusing country of origin practice, as is evident from the following quote:

Australia is tending to go towards American way. But if you have to have these changes then right mix is required. [HR Director, Canned Foods (US subsidiary)]

As noted previously, such sentiments of careful utilisation of country of origin practices by subsidiary managers' were also found in the Japanese firms. These observations also highlight the important role of managers in not only negotiating with the parent but also with the local employees in persuading them to see the relevance and fairness in hybrid practices. Hence the transfer of practices is a matter of degree and not of replication (Parry et al., 2008).

Linked to the individually-based pay issue is the issue of performance management. Research (Rehu et al., 2005) also suggests that among other factors, headquarters' national culture is an important factor in linking performance management to reward. Since variable pay and individual bonuses constitute important parts of the payment system in US firms (Chiang, 2005), it is not surprising that there is heavy emphasis on performance appraisal (Colling & Clark, 2002). This emphasis on performance appraisal in US firms was also found in the current study. The case studies revealed that US firms had more formal performance appraisal systems in place and employees' work performance was evaluated formally against established criteria. These assessments provided the basis of the differential salaries paid to the individuals as well as their bonuses.

With regards to performance appraisals, compared to other country of origin groups, the US subsidiaries had well-formed, structured and detailed performance appraisal systems which were influenced strongly by the home country. The US case study firms were found to be more successful in achieving this fit between the appraisal system and salary levels. That is, the US being high in individualism, US firms espouse a pay for performance work ethic (Colling & Clark, 2002) and hence the need for a comprehensive and reliable performance management system. In two of the US case study firms, Canned Foods and TB, formal performance management practice includes

360 degree feedback. Performance appraisal is conducted twice a year. The system includes an employee's self-appraisal component. The subsidiaries had received a strong message from the parent about the link between individual performance and individual rewards, as is evident from the following quote:

Our managers communicate to their respective staff on the key indicators on which they would be appraised. Both the managers and staff are aware of their respective expectations that are to be achieved. [HR Director, TRS (US Subsidiary)]

In comparison, while the UK case study firms had performance appraisal systems guided by the country of origin practice, they were not as structured and detailed as was the case in the US firms. In differentiating the UK performance appraisal systems from the US systems, an interviewee commented:

I think people here are more focussed on the content rather than whether it reads like a best-selling novel. [Senior Manager, Nyder (UK subsidiary)]

As expected and consistent with the country of origin literature (Walsh & Zhu, 2007) the Japanese firms were least formal, as an employee commented:

Although we are appraised, but generally it is the appraisal of the company. If the manager thinks we are not doing well, we are advised to take training to meet that level. [Employee, TC (Japanese Subsidiary)]

The focus on the company rather than the individual performance is consistent with previous studies on Japanese management approaches which are geared towards collectivist approaches (Walsh & Zhu, 2007).

A common finding across several cases was that employees were not satisfied with their performance appraisals. This finding is consistent with much of the literature (Chen & Fu, 2008). Dissatisfaction was evident in all the UK, Japanese and Australian case study firms and to a lesser extent in the US firms. The reasons ranged from performance appraisals having no correlation with salary review, to having no clear chain of command. Some of the employees also complained that the performance criteria on which they were measured changed without their prior knowledge. However, dissatisfaction in MNC subsidiaries also arose due to country of origin influence on performance appraisals, which made the system not suitable in the Australian context and highlighting difficulties in the knowledge transfer process (Gupta & Govindarajan, 2000). For example, the criteria for gaining promotions in Nrup (UK firm) were dependent on international experience. An interviewee commented:

Now that's okay if you're in England, you can go to Ireland to get international, you can drive to Scotland and get international experience, you can drive to France. Whereas to do it from Australia it is very difficult. If someone was going to pay for you to relocate overseas to do work, it is going to be for an extended period of time and all of that is just not taken into account in that sort of criteria. [Senior Employee, Nrup (UK Subsidiary)].

This case also revealed that the emphasis placed on individual performance and PRP in the US subsidiaries is not always suitable when projects are conducted on a team basis. For example, a senior manager stated:

So, previously we've rewarded on the basis of the performance of the office or individual but I think there's a case to be made for the people that are working on teams with good outcomes.[Senior Manager, TRS (US subsidiary)]

The above quote also sheds light on the importance of the learning capacities of the subsidiary managers. Managers' judgement is important on the extent to which country of origin practices could benefit subsidiaries and the incorporation of other measures which could enhance the reward system. At the same time, self-assessments prior to formal appraisals in the US case study firms made the local workforce uneasy as, culturally, they were not accustomed to such overt displays of self-appraisal. The study thus also highlights the problems associated with the effectiveness of the transfer of MNCs reward practices in Australia.

4. Conclusion

The study concludes that, although MNCs transfer their preferred reward management practices to benefit their subsidiaries, replication is not appropriate. That is, competitive advantages may only be gained when subsidiaries take the knowledge and interpret and integrate it effectively. Subsidiary managers must offer proactive leadership if the transfer of reward practices such as PRP is to be successful. Hence, it is important for managers to understand the difficulties surrounding knowledge transfer and formulate strategies to facilitate transfer and adaptation to suit the local workforce. Given the relative power of local and parent managers, such an approach requires strong negotiation and diplomatic skills on the part of local managers.

Even if there are cultural similarities between the home and host countries, the study reveals that country of origin differences may still give rise to dissatisfaction among the local workforce. Hence, it is the responsibility of managers of the subsidiaries to understand the reasons for such dissatisfaction and influence head-office decisions when transferring reward management strategies. The study highlights the dynamic capabilities approach in explaining the competitive strategy of firms (Eisenhardt & Martin, 2000). That is, firms have to not only develop capabilities but they need to keep renewing them in order to respond to changes in the environment. In this regard, the important role of local managers and their acumen in the careful utilisation and adaptation of their headquarters knowledge are core capabilities.

In the context of some elements of the academic literature, it is not the case that managers are unable to 'absorb' knowledge (Gupta & Govindarajan, 2000). Rather, they have a crucial role in assessing the applicability of the knowledge to the local context (Minbaeva

et al., 2014). In fact, they are active participants. Their role involves adapting, extending, changing and rejecting aspects of the parent's knowledge. The project thus implies that headquarters should give due acknowledgement to local managers and respond accordingly. In those cases where local managers have little say in the utilisation of transferred knowledge, or their inputs are not given adequate attention by their headquarters, feelings of disaffection are clear. The study reveals that the powerlessness of managers to take an active part in negotiating and adapting knowledge is an impediment to the development of the intellectual capital in the firm. The project has shown that those managers who recognise the value of the knowledge and the difficulties surrounding its transfer, and are able to negotiate with their headquarters, report a more satisfactory outcome than those that do not.

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