INTERNATIONAL PAY-FOR-PERFORMANCE SYSTEMS

Research that will appear later this year in the *Journal of Management* shows that individual based pay-for-performance systems are implemented in systematic, but not deterministic ways across countries around the world. Contrary to the popular belief that country differences (e.g., regulation, culture) are likely to singularly drive pay-for-performance decisions, this research finds that there are substantial differences across companies within countries, showing that companies have much more say in how such plans are implemented across countries than many might assume. For example, the authors find that only about 19% of the explanation for why firms implement pay-for-performance is due directly to country specific factors.

Key Takeaways:

- Individual pay-for-performance plans differ widely across and within countries.
- Foreign owned firms are much more likely to introduce pay-for-performance plans than domestically owned firms are.
- Firms that place a higher value on strategic human resource management are more likely to implement pay-for-performance systems.

Using data collected from senior HR managers from 4,207 firms located in 26 different countries collected in 2009 and 2010, researchers found that country influences are important for determining pay-for-performance adoption. These country influences include both culture and the regulatory environment, particularly the regulatory environment regarding labor practices. However, while country influences matter, these influences are not as important as firm level influences. For example, firms that view strategic Human Resources as important are more likely to adopt pay-for-performance than firms that do not hold this perspective. Similarly, regardless of country origin, foreign owned firms are more likely to adopt pay-for-performance than are domestic owned firms.

The research team also found a clear negative relationship between labor regulation and labor influence on pay-for-performance implementation. In fact, the study found that all of the influence of a country's culture on pay-for-performance adoption worked through the role of labor influence.

Their analysis statistically controlled for aspects of the environment (like industry), the firm (like size and whether the firm was private or public), and the nations context (like per capita GDP, foreign direct investment), and cultural differences (i.e., Hofstede's four main dimensions of culture).

Source: Gooderham, P., Fenton-O'Creevy, M., Croucher, R., Brookes, M. (2015). Multilevel Analysis of the Use of Individual Pay-For-Performance Systems. *Journal of Management*, In Press.