



Does cultural value exacerbate or mitigate the effect of perceived compensation gap between locals and expatriates in hotel industry?☆



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ABSTRACT

Within the expatriation system in the hospitality industry, a large compensation gap exists between expatriates and local employees. Drawing upon equity and social exchange theories, this paper examines the relationship between the perceived reasonableness of the expatriate–local compensation gap and workplace deviance behaviors (organizational and interpersonal). Moreover, the paper discusses the moderating effect of power distance and traditionality as important cultural boundaries in this relationship. Results of a survey among 46 expatriates and 297 local employees in the Chinese hotel industry indicated that the perceived compensation gap is positively related to the organizational and interpersonal deviance of local subordinates. High traditionality mitigates the effect of the compensation gap on deviance. However, contrary to our expectation, high power distance exacerbates such effect. The paper likewise discusses the theoretical and practical implications of the findings.

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The successful operation of the increasing number of multinational hotels relies heavily on the expatriation system, which facilitates the transference of technical, managerial, and cultural competencies from the host country to the target developing countries (Causin et al., 2011; Tan and Mahoney, 2006; Toh and Denisi, 2003). However, a typical phenomenon that accompanies this practice is the large compensation gap between expatriates and local employees; expatriates are paid in line with the expectations of their home labor market, whereas local employees are paid at local rates (Leung et al., 2009, 2011). An earlier investigation among joint venture hotels in China demonstrated that the compensation of expatriates had been as much as 20–50 times higher than that of their local counterparts (Leung et al., 1996). Although the compensation gap has been continuously closing, a large difference between the compensation of expatriates and local employees remains (Leung et al., 2009).

Research on two-tier wage systems, in which new employees are paid substantially less than the existing staff, indicates that members of the disadvantaged group typically regard their

compensation as unfair and unreasonable (Lee and Martin, 1991; Mitalcher, 2007). Similarly, the prominent compensation difference between expatriates and local employees in developing countries constitutes a source of perceived injustice for local employees (Chen et al., 2002); consequently, a wide range of detrimental effects on organizational outcomes (i.e., job attitudes, work performance, organizational citizenship behavior, withdrawal, conflict, and turnover intention) is induced (Choi and Chen, 2007; Colquitt et al., 2001; Leung et al., 2009).

A serious problem that frustrates managers in the hospitality industry is workplace deviance; workplace deviance refers to voluntary counter-normative workplace behaviors, frequently aiming at harming the organization or its members (Bryant and Higgins, 2010). Compared with their counterparts in other industries such as manufacturing, employees in the hotel industry have more opportunities to interact with the guests and their colleagues; consequently, their destructive behaviors tend to be easily observed, which adversely affect the organization and its employees and customers (Zoghbi-manrique-de-lara and Suárez-acosta, 2014). Harris and Ogbonna (2002) interviewed frontline employees in the service industry and revealed that 85% of the respondents reported they have performed deviance behaviors in the workplace. Previous studies indicate that deviance is an outlet of the negative emotion of employees toward the mistreatment they receive from the organization and authority (Tepper et al., 2008). Workplace deviance and counterproductive employee behaviors have significant costs for expatriates and organizations (Robinson and Greenberg, 1998). Given the income difference between expa-

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triate and local employees, the latter party may perceive this compensation gap as unreasonable, unacceptable, and unfair (Chen et al., 2002; Leung et al., 2009; Toh and Denisi, 2003). On the basis of equity theory (Adams, 1965) and the social exchange framework (Blau, 1964), we posit that the perceived reasonableness of the compensation gap between expatriates and local employees (denoted as “perceived compensation gap” hereinafter) could be one of the primary causes of workplace deviance. The related findings on the relationship between compensation gap and workplace deviance are scarce; thus, the first objective of this study is to address this issue.

A second, and even more important, objective of this study is to examine the contextual boundary of the relationship between perceived compensation difference and deviance. Compensation gap is a global but temporally a structural and insoluble problem; thus, the boundary of its effect, specifically, the factors that may contribute to the variance of its detrimental effect, is meaningful to investigate. Some researchers have determined that factors such as interpersonal trust, organizational inclusive climate, and company performance can moderate the negative effect of injustice that is incurred by compensation gap (Leung et al., 2009, 2011). The aspect that is missing from this body of literature is how cultural variables may contribute to the understanding of these consequences (Chen et al., 2002; Toh and Denisi, 2003). According to the reflection theory of pay (Thierry, 2001), employee perception of the pay system functions as a mirror that can reflect the status, power, value, and succession within the organization of the focal employee (Hakonen et al., 2011). A number of previous studies have indicated that cultural values, which function as the software of people’s minds (Hofstede, 1997), shape the reactions of individual employees in the workplace (e.g., Farh et al., 2007; Kirkman et al., 2009). Therefore, the examination of the role of cultural values can clarify the boundary of the compensation gap effect. Moreover, compared with the within-culture two-tier compensation problem (Lee and Martin, 1991; Mitlacher, 2007), the issue of the expatriate–local compensation gap examined in the current study is discussed in multinational corporations (MNCs) where the psychological reactions and practices of people are bound to be prominently influenced by social cultural variance (Markus and Kitayama, 1991); Western-rooted theories are not necessarily applicable in this case (Hon and Kim, 2007).

In line with the preceding reasoning, the current study examines the two cultural factors of traditionality and power distance as moderators of the relationship between compensation gap and workplace deviance. These constructs can be used in measuring individual level value differences. Power distance refers to “the degree to which the less powerful members of a society accept and expect that power is distributed unequally” (Hofstede, 1980, p. 98). Traditionality denotes the degree to which individuals of an organization defer to traditional values, such as fatalism, filial piety, ancestor worship, and male dominance (Yang et al., 1991). In studying the relationship between compensation gap and deviance, we respectively examined the authority and social norm deference tendency in power distance orientation and traditionality.

In sum, based on the reflection theory of pay (Thierry, 2001) as well as social exchange (Bandura, 1971) and equity theories (Adams, 1965), we examined the effect of the perceived expatriate–local compensation gap on workplace deviance and the moderating effect of power distance and traditionality.

1. Theoretical background and hypotheses

1.1. Compensation Gap and workplace deviance

Deviance in the workplace often takes the form of organizational and interpersonal deviance. The former threatens organizations

and includes actions such as employee theft, whereas the latter is detrimental to the wellbeing of individual members and is exemplified by behaviors such as lying and rudeness (Bennett and Robinson, 2003).

Organizational research has focused on why employees engage in workplace deviance because such deviance can have a destructive effect on organizations and other employees, specifically on morale, wellbeing, and job performance (Lawrence and Robinson, 2007; Mitchell and Ambrose, 2007). Perception of injustice, such as compensation difference, has been regarded as one of the common causes of workplace deviance (Ambrose et al., 2002). In the justice literature, differences in pay between expatriates and local employees can incur perceived injustice among the latter (Leung et al., 2009). Previous studies have reported that individuals who perceived injustice are more likely to have a significantly negative response to a wide range of organizational outcomes, such as less favorable attitudes toward the job and organization, higher turnover, and psychological distress (Blau, 1964; Choi and Chen, 2007). Even worse, this negative reaction can be related to workplace deviance that is directed at different sources, such as the organization and other members of the organization (Bennett and Robinson, 2000; Robinson and Bennett, 1995).

In this study, we refer to both equity theory (Adams, 1965) and the social exchange framework (Blau, 1964) to explain the relationship between perceived compensation gap and workplace deviance. Equity theory (Adams, 1965) states that employees tend to compare the ratio of their input and income with their counterparts at similar job positions, and the perceived equity, or inequity, predicts their reactions in the workplace. Justice studies relied on this theory to argue that when employees perceive that the ratio is imbalanced (i.e., they have more input and less income than their comparable subjects), they will react negatively to regain the balance, hence demonstrate deviance behaviors (Ambrose et al., 2002).

Social exchange theory (Blau, 1964) provides another framework for the relationship between compensation gap and workplace deviance. Core to social exchange theory is the reciprocity norm (Gouldner, 1960), which typically indicates a positive relational transaction between organizations and their employees. El-Akremiti et al. (2010) argued that injustice in organizations would incur a “negative” norm of reciprocity. They indicated that individuals who suffer from injustice are more likely to express negative reactions and to directly take revenge on their organizations or organizational representatives. Thus, workplace deviance can be understood as a means of “revenge” in return for unfair treatment from the organization. This argument is consistent with the justice approach in that the revenge or retaliatory actions arise in response to perceived harm initiated by organizations, and such actions are motivated by the desire of the victim to restore fairness (Bradfield and Aquino, 1999).

We extend the idea from the preceding justice and social exchange explanations to argue that the perceived compensation difference that has been initiated by the organizational expatriation practice is likely to be perceived as a major source of injustice. Local employees who perceive the pay gap as unreasonable or unacceptable may directly take revenge on their organizations (Mitchell and Ambrose, 2007). Thus, in reaction to the unreasonable, unacceptable, or unfair treatment, employees are likely to engage in deviant behaviors that are intended to harm the organization, such as theft, fraud, taking longer breaks, absenteeism, and working more slowly than usual (Tepper et al., 2008).

The negative perceptions of compensation differences among locals can spread via a wide range of behaviors—from threatening the organization to directing the behavior at individuals within the organization (Bennett and Robinson, 2000). In the workplace, indi-

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