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Context, market economies and MNEs: The example of financial incentivization

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A R T I C L E I N F O

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A B S T R A C T

This is a study of the relative utilization of reward systems within and between capitalist archetypes: the study includes not only a closer focus on diversity within and between coordinated market economies, but pays specific attention to the Japanese case, and a systematic comparison of the reward practices adopted by multinational enterprises vis-à-vis their local peers. The study uses the most recent (at the time of writing) wave of the Cranet international survey of HRM. We found clear, firm-level evidence that share schemes and performance related pay exhibit significant differences both within and between varieties of capitalism, highlighting the extent to which key features of reward system continue to vary according to institutional setting, and whether an organization is multinational or not.

1. Introduction

This is a study of the impact of institutional variety on the relative utilization of reward systems within and between capitalist archetypes. A central theme within the extensive literature on comparative capitalisms has been the distinction between liberal market economies (LMEs) and coordinated market economies (CMEs), and how defining institutional arrangements in each are associated with distinct patterns of firm level practice (Hall & Soskice, 2001; Hancké, Rhodes, & Thatcher, 2007; Jackson & Deeg, 2008; Wood, Brewster, & Brookes, 2014; Wood, Dibben, & Ogden,2014). We explore not only the variations between market economies, but also how different manifestations of the CMEs can yield quite different results at firm level. We explore the interaction of multinational enterprizes with these market economies.

A key distinction between types of capitalism is the relative influence of shareholder rights, which are dominant in LMEs but which, within CMEs, are mediated by other stakeholder concerns. Controversy remains as to whether the CME category, encompassing such cases as Germany, the Nordic states and Japan, is so diverse as to be meaningless, and whether this category should itself be broken up into distinct sub-archetypes (Amable, 2003). The comparative capitalisms literature has also been critiqued (Whitley, 2001; Whitley, 2010; Wood and Lane, 2011) for the limited attention it gives to the role of multinational enterprises (MNEs). We examine the extent to which variations in national institutional regime and in geographical footprint are reflected in employee share ownership schemes and performance related pay aiming to promote a focus on short term profits and align employees with the shareholder value agenda. We use comparative surveys of human resource management (HRM) across a number of countries and compare the findings with previous research.

The international business literature on institutions has focused more on the implications for firms of entering and operating in a particular context, rather than the defining features of national institutional frameworks and upon which specific sets of organizational practices are clustered where (Jackson & Deeg, 2008). Although the literature on comparative capitalisms has identified a range of institutional archetypes, it has tended to be light on detail when it comes to intra-organizational practices (Thompson & Vincent, 2010; Wood, Brewster, et al., 2014; Wood, Dibben, et al.,2014). Existing comparative work has focused on the degree of interdependence of employers and employees, and the extent of delegation to the latter (Morgan & Whitley, 2012; Thelen, 2014; Whitley, 1999). Within both the international business and comparative institutionalist literatures, and indeed, the international HRM literature, comparative analysis has neglected reward systems (Festing, Eagle, Dowling, & Sahakiants, 2012).

What comparative literature there is has focused on macro-economic trends or selective case study evidence (Thomhttp://10.10.23.110:8080/TDXPSLIVELATEX02/gateway/elsevierjournal/index.jsppson & Vincent, 2010; Wood, Brewster, et al., 2014) with a

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nascent stream of work using survey evidence that has focused on, and encountered, variations in rewards between states, with some studies also looking at the cases of Eastern Europe and the Mediterranean world (Brewster, Demirbag, Li, & Wood, 2013; Croucher, Wood, Brewster, & Brookes, 2012; Pendleton, Poutsma, van Ommeren, & Brewster, 2003; Poutsma & de Nijs, 2003). A recent paper by Gooderham, Fenton-O'Creavy, Croucher, and Brookes (2015) deploys multi-level analysis to explore variations in reward systems, using the same Cranet dataset as this paper. They find that institutional and cultural effects directly impact on the relative utilization of pay for performance systems, with such systems being most prevalent in the USA (Gooderham et al., 2015).

The distinctive contrihttp://10.10.23.110:8080/TDXPSLIVELATEX02/gateway/elsevierjournal/index.jspbution of this article is that it is more closely rooted in the literature on comparative capitalisms, with a particular focus on variety within the CME category. In particular, we seek to evaluate what sets Japan apart; we also explore more closely the distinct features of the Nordic states.

Further, as noted above, much of the literature on comparative capitalism tends to neglect MNEs: notably, there is not a single reference to them in the landmark (Hall & Soskice, 2001) collection. This study aims to build linkages between this undeniably important body of work and mainstream international business research by placing the distinctions between MNEs and other firms at the heart of the analysis. As such, the study seeks to provide applied evidence as to variation within broad capitalist archetypes, how firms that span national boundaries differ in key aspects of reward systems, and the relative extent to which the latter may serve to align different categories toward particular agendas that may be at least partially driven by context (e.g. shareholder value optimization).

Hence, we build on the literature through using trans-national survey evidence to explore not only variations in reward systems within and between firms, but also the extent to which they may vary according to national setting, and what this tells us about different taxonomies of capitalist archetypes, according particular attention to variation and sub-clusters within the CME camp, following on increased theoretical interest in that issue (Amable, 2003; Jackson & Deeg, 2008; Wood, Brewster, et al., 2014; Wood, Dibben, et al., 2014). We find that dichotomous approaches to comparative capitalisms were of weaker explanatory power than multi-archetype approaches that unpack the CME category. Most notably, we find that both the Nordic Social Democracies on the one hand, and Japan on the other, differ significantly in their financial incentivization practices from Continental European economies. We also note and discuss the distinctive position of MNEs, a firm type that has rather been neglected in the literature on comparative capitalisms. It is only in recent extensions of Business Systems Theory that the MNE has received significant theoretical attention (Morgan, 2012; Whitley, 2007): we seek to apply these relatively recent theoretical insights to firm level evidence.

The paper is structured as follows. First, we introduce alternative institutional archetypes for categorizing national settings. Second, we review general trends in reward systems, explore likely variations in the utilization of share options and performance based pay systems according to different national setting, and identify a set of hypotheses. Third, we examine the role of MNEs. After explaining the survey method and data analysis, we outline and discuss our findings, before presenting our conclusions and drawing implications.

2. Literature review

2.1. National institutional archetypes

The most cited literature on comparative capitalisms holds that the key distinction is between LMEs (the Anglo Saxon countries) and CMEs (the Rhineland economies, Japan and the Nordic states) (Dore, 2000; Hall & Soskice, 2001). The former are distinguished by strong shareholder rights, the latter by strong stakeholder rights. Only these two models were believed to confer particular competitive advantage on firms. Other economies, it was held, are less successful and would tend to converge to one or other of these alternative models. Wood, Brewster, et al. (2014), Wood, Dibben, et al. (2014) found much variation between national varieties of capitalism, highlighting the need for a closer evaluation as to what sets different constituent national economies apart.

Recent developments of the literature on comparative capitalisms have indicated much variation within and between capitalist archetypes (Lane & Wood, 2014; Walker, Brewster, & Wood, 2014). In an early contribution, Whitley (1999) distinguishes between European CMEs and Japan, based on the relatively greater role of large firms in the latter, and the impact of historical ties such firms have with the state in regulating work and employment. Analyzing an eclectic range of empirical evidence, from labour market features through training to product market competition, Amable (2003) derives five categories, rather than two. Apart from the LMEs (which he calls market based systems) he splits the CME category into 'meso-corporatist' Japan, the Nordic social democratic economies (SDEs)[1] and the Rhineland economies ('continental European economies'). He also identifies a distinct Mediterranean category that falls beyond the scope of this study.

2.2. Defining features of national systems: in-firm practices

Whitley (1999) argues that key differences between national contexts include the degree of interdependence between employer and employee and the extent to which firms delegate decision making to the latter. While encompassing large areas of work and employment relations, and providing a basis for detailed empirical differentiation between capitalisms (Croucher et al., 2012; Goergen, Brewster, Wood, & Wilkinson,2012), this approach neglects perhaps the most basic issue of all – the relative proportion of value generated that is allocated to employees in return for work performed, and the manner in which it is done (Hyman, 1989; Wood, Brewster, et al., 2014; Wood, Dibben, et al., 2014). Indeed, a defining feature of LMEs is their focus on shareholder value, and on incentivizing managers to maximize short-term performance in this area (Dore, 2000), facilitating the firm in transferring much of the risk of market volatility to employees. Such risks may encompass, with weaker organizational performance, the possibility of reduced pay and/or the loss of employment completely.

But, how do different types of capitalism differ in terms of firm practices? There is only a limited literature on the comparative capitalisms and reward systems. However, there are many excellent country studies on national trends in the practice of reward as well as comparative frameworks typically using inductive country categorizations, which we summarize in Table 1.

2.3. Types of variable pay

In relation to equity-based pay, there are considerable differences between managers and other stakeholders. Managers are likely to possess better information as to the actual capabilities, performance and prospects of their organization than either workers or outside investors (Aoki, 2010). In contexts where shareholder rights are stronger, outside investors are likely to respond by seeking to tie managerial rewards to share price (Dore, 2000; Hall & Soskice, 2001) and there are strong inherent pressures toward incorporating stock options in managerial reward packages (Folkman, Froud, Johal, & Williams, 2007).[2] In

[1] In fact Amable refers to Scandinavian, rather than Nordic, countries. But as he includes Finland in this group it is more accurately characterized as Nordic.

[2] There is a theoretical distinction between the two main types of equity pay: share ownership schemes (a commitment of shares to managers and/or employees), and stock options (where the employee has a right to buy shares at a specific price) – these may be