
A SHRM Perspective on International Compensation and Reward Systems

Abstract

We re-examine the efficacy of the SHRM perspective from the vantage point of a specific HRM system, international compensation and rewards, to gain new insights into existing conceptual models. Looking at SHRM from the ground up suggests that, to continue informing our understanding of the HRM-organizational effectiveness (OE) relationship, research will need to adopt richer theory and measures of specific HRM systems and extrapolate important contextual factors that influence relationships between OE and specific HRM systems.

Keywords

human resource, SHRM, research, theory, organization, work, compensation, China, system

Disciplines

Human Resources Management

Comments

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those competing in global and less protected market which reported using more performance- and ability-based schemes (Morishima, 1992, 1995; Sano, 1993). Lee, Scarpello, and Rockman (1995) found that factors such as labor market conditions, customer and supplier relations, economic conditions and technology accounted for differences in compensation strategies among Korean chaebols. Pearce, Branyiczki, & Bakacsi's (1994) study of compensation systems in Hungarian and US companies suggests that political, economic, and institutional forces, rather than national cultures, explain differences in compensation practices. Yeung and Wong (1990) assert that organizational goals, political forces, labor market conditions, and demographic factors explain differences in pay and other HRM systems in Japan and the People's Republic of China. Recent surveys in Central European countries such as Slovenia and Slovakia also report differences in the use of variable performance-based pay schemes, allowances and services, and even in the ratios of top managing directors' salaries to the average workforce (Bajzikova, 1996; Zupan, 1995). Although the recent evidence does not suggest national boundaries (national pay systems) can be ignored or overlooked, it does suggest that sufficient discretion for individual organizations exists within these national systems to allow organizations to adopt compensation and reward systems to align them with the organization's business strategies. We believe that from a strategic perspective, organization and markets are more appropriate units of analysis for understanding changes in international compensation and rewards.

The Significance of National Cultures for Compensation and Reward Systems

The assumption that HRM systems must fit national cultures is based on the belief that "most of a country's inhabitants share a national character..." that is "...the collective programming of the mind which distinguishes one category of people from another...the category of people is the nation (Hofstede, 1993: 89)." This belief leads to a search for distinct national cultures whose influence is critical, if not the most important, for understanding international compensation systems (Earley & Erez, 1997; Hofstede, 1993; Rousseau & Tinsley, 1997). Typical of the national culture model is Gomez-Mejia and Welbourne's (1996) work in which they caution scholars and managers about exporting theories and practices derived from U.S.-based research and experience. Their strategic model relies on national cultural attributes such as those proposed by Hofstede (1980; power distance, individualism-collectivism, uncertainty avoidance, and masculinity/femininity) or Trompenaars (1994; individualism versus collectivism, achievement versus ascription, universalism versus

structure compensations systems that help create a culture, and thus a work force, that possesses the values, knowledge, skills, and abilities that support its strategic goals and objectives. By aligning total value of returns and including non-economic elements, the compensation system could bind this strategically aligned human capital to the firm and extract its unique, inimitable, value-adding capacity to further the organization's goals and objectives.

ACHIEVING AND SUSTAINING COMPETITIVE ADVANTAGE THROUGH COMPENSATION PORTFOLIOS

A strategic perspective to understanding global compensation and reward systems focuses on organizational context. This perspective is based on the premise that managing total compensation in a global context is significantly more complex than simply relying on stereotypic notions of national culture systems. Rather, it is based on transforming employment relationships, regardless of the country, in response to the changing product and financial markets, manufacturing and distribution processes, technological innovations, the revolution underway in information networks, and other relevant factors. The SHRM perspective asserts that to achieve a competitive advantage with international contingencies requires HRM practices that focus on acquiring, retaining, and extracting unique, value-adding, firm-specific assets rather than HRM policies that align predominantly with national cultural contingencies. That is, developing compensation and reward policies that are consistent with organizational goals rather than those that match global competitors; policies that create a unique, value-adding organizational culture rather than those that mesh with national cultural norms; policies that meet public policies but first support organizational goals rather than those that are simply most efficient in meeting legislated rules. According to the strategic view, responses to external contingencies should be directed by how such responses support or interfere with the organizations' goals and context rather than responding externally first, and then trying to adopt the system into the organization's contextual uniqueness.

This perspective flows from the dominant models in current strategic management thought which assert that firms achieve competitive advantage by capitalizing on their unique, inimitable (difficult to copy or substitute for), value-adding assets (Barney, 1991; Rumelt, 1984; Wernerfelt, 1984). The assets which meet these criteria are organizational knowledge, processes, alliances, know-how, and the relationships among resources, all of which are possessed or controlled by people (Black & Boal, 1994; Teece, Pisano, & Shuen, 1997). When prescribing optimal management practices, these models turn attention inside the organization first, seeking to understand how to draw out and utilize unique, inimitable, value-adding

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