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**AN INTEGRATIVE APPROACH TO INTERNATIONAL  
COMPENSATION:  
MEETING EMERGING CHALLENGES**

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**Abstract**

This paper is a response to several recent developments; the emergence of SIHRM; indications that Australian organizations are entering cooperative or collaborative international arrangements with international organizations; evidence of enduring traditional models of compensation for expatriate management in Australian organizations (Arthur Andersen, 1992, 1994, 1995) and anecdotal and empirical evidence of enduring problems with international compensation management (Harvey, 1993a). As organizations move from traditional to new forms of internationalization, SIHRM policies and activities, including compensation, will need to reflect these new forms (Hendry, 1994). Are these changes occurring in Australian organizations? Existing evidence suggests SIHRM policies and activities may be lagging. The paper attempts to integrate secondary data and previous research, and represents the preliminary stage of our research agenda. The focus is on the implications of international collaborative organizational forms for compensation management. A conceptual framework is presented, which aims to facilitate understanding and application of international compensation policy and practice in the context of factors endogenous and exogenous to the MNE.

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## **AN INTEGRATIVE APPROACH TO INTERNATIONAL COMPENSATION: MEETING EMERGING CHALLENGES**

### **1. INTRODUCTION**

The focus of this paper is on emerging challenges for current international compensation practices of Australian-based multinational enterprises (MNEs) operating in the European region. From the perspective of employees, compensation is one of the most visible aspects of strategic international human resource management (SIHRM). SIHRM has been defined as the philosophies, policies and practices which, aligned with MNE strategic activities, enable the achievement of organizational goals (Schuler, Dowling & De Cieri, 1993). Compensation has been defined as "the activity by which organizations evaluate the contributions of employees in order to fairly distribute direct and indirect, monetary and non-monetary rewards, within the organization's ability to pay and legal constraints" (Schuler, Dowling, Smart and Huber, 1992, p. 255).

Several recent developments have prompted this paper; the emergence of SIHRM; the release of a report from the Australian Bureau of Industry Economics (ABIE, 1995a) highlighting the emergence of cooperative or collaborative international arrangements between Australian and international organizations; evidence of traditional models of compensation for expatriate management in Australian organizations (Arthur Andersen, 1992, 1994, 1995) and anecdotal and - empirical evidence of enduring problems with international compensation management (Harvey, 1993a). In recognition of the need for parsimony in research, this paper is an attempt to integrate secondary data and previous research, and represents the preliminary stage of our research agenda. As organizations move from traditional to new forms of internationalization, SIHRM policies and activities, including compensation, will need to reflect these new forms (Hendry, 1994). Recognition of the challenges to organizations presented by international compensation has prompted the question, "how will new cooperative international forms affect, and in turn be affected by, international compensation policy and practice?"

The emergent challenges relate to the transition of SIHRM activities, such as international compensation, from first and second generation, into third generation philosophies, policies and practices. Our focus is on the implications of international collaborative organizational forms for compensation management. A conceptual framework is presented, which aims to facilitate understanding and application of international compensation policy and practice in the context of factors endogenous and exogenous to the MNE. Using the extant literature, qualitative and quantitative data are analysed and related to the international compensation policies and practices of Australian-based MNEs.

### **2. BACKGROUND: THE INTERNATIONALIZATION OF AUSTRALIAN BUSINESS**

Imperatives of competitive advantage and a relatively small domestic market have resulted in increased international business by Australian firms. Since the second half of the 1980s, the Australian economy and industry has been characterised by a process of structural change, related to the adoption of more outward-looking trade policies. While it is well-recognised that the geographic location of Australia has resulted in the Asia-Pacific region assuming increasing strategic importance for Australian participation in international business (Australian Bureau of Statistics, 1994a), trade statistics indicate that the European region continues to represent a major international business focus for Australia (Department of Foreign Affairs and Trade, (DFAT) 1994).

The European Union is Australia's largest economic partner when merchandise trade, trade in services, and investment levels are added together (DFAT, 1994). In services, the European Union is Australia's largest trading partner (Austrade, 1994).<sup>1</sup> Two-way trade in 1993 totalled \$A8.3 billion, or just over 23% of Australia's total trade in services. Australia's merchandise exports to the European Union in 1993 were \$A7.2 billion. Growth in exports has been concentrated in elaborately transformed manufactures (Department of Foreign Affairs and Trade, 1994). In 1993, 54 per cent of Australian foreign direct investment was located in the United Kingdom and the United States, compared with 32 per cent in Association of South East Asian Nations (ASEAN)<sup>2</sup> locations, other Pacific countries and Hong Kong (ABIE, 1995b).

As Elg and Johansson (1995) have suggested, the removal of internal trade barriers and integration of national markets in the European Union offers a new range of potential inter-organizational relationships. For MNEs based outside the European Union, the establishment of relationships with local organizations can be expected to provide significant opportunities. An increasing proportion of Australian-based MNEs are building upon exporting activities to develop network arrangements involving an overseas partner, including partnerships with European organizations (ABIE, 1995a). For example, Australian bio-technology firms, such as Agen Industries and PanBio, have strong networks including European manufacturers, particularly in relation to research and development activities, and distributors (ABIE, 1995a). Indeed, networks and strategic alliances are arguably the most effective way for service exporters to develop international presence (Austrade, 1994). In a recent study of Australian manufacturing subsidiaries in the UK (Fenwick and Edwards, 1994), reliance on interpersonal networks, both internal and external to the organization, appeared to be important at a strategic level. Amcor Fibre Packaging provides an example of this approach (*Amcor Pty. Ltd. Annual Report*, 1994).

### 3. INTERNATIONALIZATION AND NEW ORGANIZATIONAL FORMS

Opportunities and challenges presented by growth in international trade and investment have led to the proliferation of organizational forms which transcend national borders (Bartlett & Ghoshal, 1992; Czinkota, Ronkainen & Moffett, 1994; Lorange, 1986). Included in these organizational forms are inter-organizational networks (Jarillo, 1993; Thorelli, 1986). Early research on inter-organizational networks focused largely on non-profit organizations (Thorelli, 1986). Networks have been defined as cooperative alliances, "special relationships between at least two firms that are beyond normal market transactions and have some permanence. Cooperating firms work together for a common aim and share information and resources and/or jointly undertake tasks" (ABIE, 1995a, p. xiv). Jarillo defines a strategic network as "an arrangement by which companies set up a web of close relationships that form a veritable *system* geared to providing product of (sic) services in a coordinated way" (1995, p. 7).

From an Australian perspective, there has been an historical dependence on primary industry and commodity trading, supported by protectionist government policies which have restricted the building of organizational networks (Australian Manufacturing Council (AMC), 1991). Emphasis on adding value by moving to elaborately transformed manufacture and knowledge-based industries (Austrade, 1994) and on the recognition that international competitiveness is instrumental to Australia's economic growth and development, has resulted in networking guides and support initiatives by government and industry. One such guide defines networking as:

<sup>1</sup> The service sector currently accounts for around 70% of Australia's Gross Domestic Product and employs 80% of Australia's part-time workforce (Austrade, 1994).

<sup>2</sup> ASEAN, founded in 1967, includes: Indonesia, the Philippines, Malaysia, Thailand, Singapore, Vietnam and Brunei. It is anticipated that Burma and Cambodia will join within the next two years (Garnaut, Drysdale & Kunkel, 1994).

...the coming together of a group of enterprises of whatever size, to use their combined talents and resources to achieve results which would not be possible for the enterprises operating individually (NIES & AMC, 1993, p. 1).

Limerick (1992) reiterates the "eight dimensions of the corporate future" outlined by Hickman and Silva (1988). Those related most directly to the themes in this paper are: "global markets;... collaboration with erstwhile competitors; new approaches to attracting capital; social responsibility and ethics; new forms of organization; integrating sub-cultures and, individual fulfilment". He suggests that the strategic network, or "disorganization", is one way by which western organizations might resolve the enduring centralisation - decentralisation dilemma that has resulted in "an irreconcilable conflict between efficiency and responsiveness" (Limerick, 1992, p. 40). Recent Australian research supports claims by Jarillo (1995) that strategic networks feature in an increasing number of industries, and the statement by Limerick (1992) that such networks would characterise Australian business, both domestic and international, in the future.

Such international alliances differ from traditional multinational corporation-host joint ventures as they are more likely to be "partnerships among equals" rather than strong-weak relationships. Such partnerships also often involve entire networks of alliances (Cauley De La Sierra, 1995).

Networks and strategic alliances between enterprises to combine complementary assets and integrated strategies are becoming increasingly important. The competitive advantages of cooperative behaviour among firms are that they facilitate strategies of globalisation and the associated pressures for innovation through pooling risk, sharing expertise, combining technology and accessing markets. Naturally there are constraints to networking and alliance activities (such as stealing technology or the threat of acquisition) which temper their allure, but if properly conceived and managed their potential is enormous (DFAT, 1995: 81).

The extant literature related to inter-organizational networks recognises the need for effective management, or more specifically, effective SIHRM (Hendry, 1994; Limerick & Cunningham, 1993). Considering the importance of collaboration and trust in networks (ABIE, 1995a; Cauley De La Sierra, 1995; Jarillo, 1995; Thorelli, 1986), it seems that the maintenance of concerns such as equity need attention. Perceived fairness of rewards, along with perceived legitimacy of criteria used in distributing rewards, have been found to be highly instrumental in determining employee loyalty to the organization (Wallace, 1995). Equity is central to the compensation activity and the design of international compensation systems (Black, Gregersen and Mendenhall, 1992). The concept of equity assumes a comparison is made between one's contribution-to-reward ratio relative to that of others. "Complex equity issues arise when employees of various nationalities work together, and the resolution of these issues remains one of the major challenges in the international HRM field" (Dowling, Schuler and Welch, 1994, p.7). The focus on the compensation activity in this paper reflects the view that the issue of equity is perhaps most visible with regard to employee compensation in inter-organizational networks.

#### 4. INTER-ORGANIZATIONAL VARIABLES AND THEIR RELATIONSHIPS

Inter-organizational networks involve relationships between a broad array of variables across a number of levels, both external and internal to each network partner. Figure 1 shows the categories, range and examples of the variables: exogenous; endogenous; network; network management team; and compensation. These are shown in some detail in Figure 1. This list, drawn from the extant literature and past research, is not intended as an exhaustive list, rather as an attempt to focus current and future research directions.

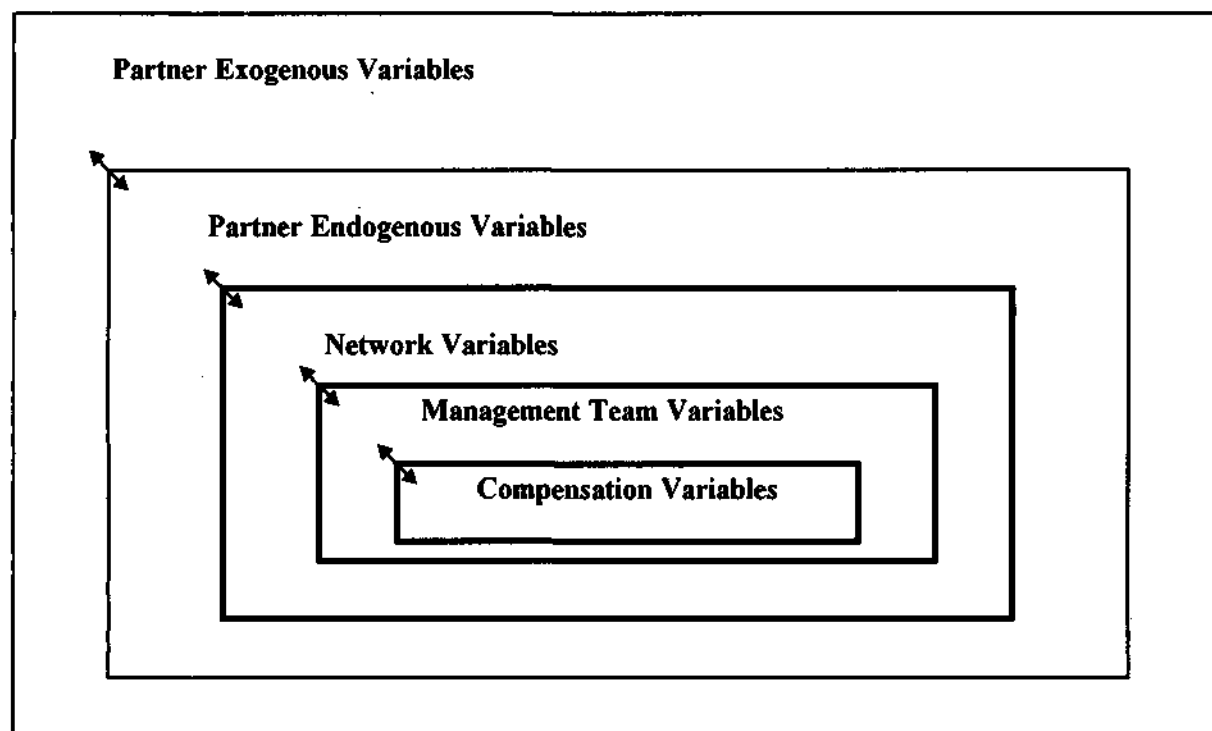
**Figure 1. Variables in the Inter-Organisational Network**

<p><b>1. <u>Partner Exogenous Variables</u></b>          Industry environment/base          Economic environment          Legal environment          Political/government environment          Socio-cultural environment          Workforce characteristics (eg.education)</p>	<p><b>2. <u>Partner Endogenous Variables</u></b>          Product/service          Clientele served          Functions/operating mode      <b>Misson</b>          Territory          Time            IHRM          Structure          Culture          International experience          Differentiation/integration          Technology</p>
<p><b>3. <u>Network Variables</u></b>          Intensity (eg. 'arms length')          Quality (eg. nature of exchanges)            Trust          Type of relationship (eg. supplier)          Quantity of relationships          Interdependencies          Formality          Overlap          Locus (organisational vs individual)          Geographic Dispersion          Importance to organisation          Network life cycle (establishment, launching operations, building long term relationships<sup>3</sup> including contingencies for separation)</p>	<p><b>4. <u>Network Mgmt Team variables</u></b>          Senior management team (commitment)          Origin of team members          (HCN,TCN,PCN)          Position in hierarchy          Nature of position          Stage of career life cycle          Stage of family life cycle          International experience</p>
<p><b>5. <u>Compensation Variables</u></b>          Strategy -Domestic/international ,Competitive strategy          Structure - base salary and performance/merit component;base and overseas service allowances (Balance Sheet, Going Rate etc)          Delivery - timing of payment          Components - Tax, variable 'at risk' component, benefits, perquisites, services</p>	

<sup>3</sup> Cauley De La Sierra(1995) outlines the phases involved in developing such forms of cooperation as networks. In addition, it seems important to build in ways of dealing with partner separation and new partner entry.

These categories of variables are inter-related, as shown in Figure 2. As the specific focus of our paper is on the key issue of compensation, Figure 2 highlights the centrality of compensation to the inter-relationships of variables involved in inter-organizational networks. Each of these variables and their inter-relationships will be discussed below.

**Figure 2. Relationships between Contextual Variables and Compensation in Networks**



Key:  $\longleftrightarrow$  Indicates direct & indirect through -flows

#### **4.1 Partner Exogenous Variables**

This category includes: industry (Porter, 1990); socio-cultural characteristics (Hofstede, 1994); economic, political/government, legal, environments (Begin, 1992; Ring, Lenway, & Govekar, 1990; Porter, 1990; Schuler et al., 1993; Sundaram & Black, 1992); and work force characteristics such as education levels and labour costs (Johnston, 1993).

A survey was recently conducted in 1300 Australian firms across five industries; clothing and footwear; information technology and telecommunications; engineering; processed foods and beverages, and scientific and medical (ABIE, 1995a). The industries can be considered broadly representative of Australian industry. Findings indicated that most cooperation occurs for strategic reasons; approximately one third of responding firms cooperate in "core" (preferred customer and supplier agreements; joint ventures) while two thirds are involved in "marginal" forms (feedback and forecasting). Most cooperation involves just two firms, yet the majority of firms are involved in two or more arrangements (over 80%). The 75% of firms cooperating indicate they benefited from both market-related gains and efficiency improvements. Larger organizations have a greater propensity to cooperate, but the average age of organizations in this study did not vary greatly between those cooperating and non-cooperating. Firms with an international focus (30% of those surveyed) were more likely to receive large benefits from business cooperation. Also, the scale of benefits increases with the intensity of the cooperation. Lack of trust and control were cited as the two major reasons for cooperation failure across all industries.

The report concluded that inter-organizational and international cooperation in Australian organizations is beneficial and effective for most firms that participate and that such cooperation is likely to grow. Due to the relatively small Australian economy, entering the global economy through cooperative arrangements significantly magnifies the opportunities to learn (ABIE, 1995a; Hendry, 1994). Such exogenous variables may hold significance for and be influenced by endogenous variables such as SIHRM, as shown by the uppermost arrow in Figure 2.

#### **4.2 Partner Endogenous Variables**

Within each partner organization, the variables of product/service, clientele served, functions/operating mode, territory and time comprise and define the organization's mission or "domain" (Thorelli, 1986). The variables of structure, culture, international experience, differentiation/integration and technology have been explored in other integrative approaches such as that of Schuler et al. (1993). Their integrative framework recognises the complexity of interaction between exogenous and endogenous factors which inform the strategic choices and the practices within MNEs, and ultimately influence the realisation of MNE goals. Schuler et al. (1993) identify typical MNE goals as including: competitiveness, efficiency, local responsiveness, flexibility, and learning and transfer. It is recognised that these concerns and goals will vary across specific MNEs (Bartlett & Ghoshal, 1992; Porter, 1986, 1990).

Evidence indicates that the majority of Australian firms are currently pursuing strategies emphasising quality and innovation (Collins, 1994). New organizational forms such as cooperative, inter-organizational networks appear to be one way in which such strategies are being implemented. In the ABIE (1995a) survey, single partner arrangements (67% of those surveyed) were more likely to provide improvements in quality. Multiple partnership arrangements (43% of those surveyed) were more likely to facilitate access to technology.

Recent reviews of international business research (eg., Wright & Ricks, (1994)) have argued in support of integrative approach to investigation of strategic international human resource management (SIHRM). This would necessitate an understanding of international compensation policy and practice in the context of factors endogenous to the MNE, such as organizational strategy and structure, and exogenous factors, such as national or regional developments. The significance of such factors in MNE operations has been well recognised in the international management literature (Kobrin, 1994; Porter, 1990; Prahalad & Doz, 1987; Schuler et al., 1993).

Research in SIHRM has emerged from the field of human resource management literature (Dowling et al., 1994). The foundation of HRM is a philosophy that, among other things, views people as organizational assets rather than costs. This embodies comprehensive policies which govern HR programs and practices (Schuler, 1992). The focus of HRM research literature has, in the main, been on the organization as the unit of analysis, with particular attention to specific functions and activities related to attracting, motivating and retaining employees (Beer, Spector, Lawrence, Mills & Walton, 1984.)

A conceptual framework of HRM offered by Beer et al. (1984) has become known as the Harvard Framework, and has received much attention (Guest, 1987; Hendry & Pettigrew, 1990; Poole, 1990; Storey & Sisson, 1993). This framework recognised a wide range of stakeholder interests and contextual factors which influence HRM and HRM policy choices. These policy choices result in outcomes such as organizational commitment and cost effectiveness, and in turn have long-term consequences for individuals, organizations and society.

The Harvard framework and the concepts included in it have been discussed and debated to some extent (Blyton & Turnbull, 1992; Storey, 1995). For example, Hendry & Pettigrew (1990) extended the analytical elements of this framework and emphasised the need for approaches to HRM which recognise contextual and processual elements, rather than attempting to provide prescription for research and practice. This has particular significance for discussion of the relationship and reciprocity between organizational strategy and human resource strategy, which has received much attention in recent years (Butler, Ferris & Napier, 1991; Dyer, 1984; Lengnick-Hall & Lengnick-Hall, 1988; Tichy, Fombrun & Devanna, 1982; Wright & McMahan, 1992). Comprehensive and critical reviews of the developments in this literature have been provided by writers such as Boxall and Dowling (1990) and Purcell and Ahlstrand (1994).

Another important development in the field of HRM research and practice has emerged with the increasing attention focused on the role of HRM in international management (Dowling et al., 1994; Kochan, Batt & Dyer, 1992). In essence, this focus has been on aspects of HRM, or SIHRM, in MNEs (Ferner, 1994). There is general agreement that activities such as training, performance management, compensation management can contribute to competitive advantage and organizational effectiveness (Florkowski & Schuler, 1994; Gomez-Mejia & Welbourne, 1991; Vance, McClaine, Boje & Stage, 1992). This agreement is *etic* (culture-common), or a force for coordination across an MNE. However, the specific practices or implementation will vary across cultures, and is *emic* (culture-specific), that is, locally responsive. There are complex requirements for SIHRM due to diversity of national operational contexts and the inclusion of different national categories of workers (Dowling et al., 1994). An intra-organizational focus has been reflected in most research in this area. The present study aims, with its attention on international compensation in inter-organizational networks, to extend the focus across organizations.

In determining structure, MNEs have some degree of latitude in choosing the organizational form which will best enable strategic goals to be met. An imperative for the realisation of MNE goals is the balance of often conflicting needs of global coordination (integration) and local responsiveness (differentiation) (Bartlett & Ghoshal, 1992; Doz & Prahalad, 1991; Nohria & Ghoshal, 1994). Issues of integration and differentiation may be extremely complex in a global context which embodies a greater diversity of endogenous (internal to the organization) and exogenous (external to the organization) factors which have significance for MNE operations. Such factors have been well recognised in the international management literature (Kobrin, 1994; Porter, 1986; Prahalad & Doz, 1987; Schuler et al., 1993). As mentioned earlier, collaborative strategies such as inter-organization networks have the potential to resolve this centralisation-decentralisation dilemma (Limerick, 1992). Consistent across all organization forms, however, is the recognition that effective SIHRM is critical to success (Schuler et al., 1993).

Endogenous integration in the MNE may be achieved through a variety of mechanisms, including bureaucratic control, centralisation, normative integration, and critical flows. Bureaucratic control is reflected in the systematic rules and procedures utilised in decision-making (Ghoshal & Nohria, 1989). Centralisation is the extent to which the locus of decision-making lies in the higher levels of the organizational hierarchy (Child, 1973; Galbraith & Kazanjian, 1986). Normative integration refers to the building of common perspectives, purposes and values amongst managers across different units (Edström & Galbraith, 1977; Ghoshal & Nohria, 1989, 1993; Martinez & Jarillo, 1991). Such mechanisms contribute to and in turn are influenced by organizational culture. As suggested in Figures 1 and 2, national and organizational cultures interact and are important partner endogenous variables (Hofstede, 1994). Finally, there are critical flows of capital, technology and people (Bartlett & Ghoshal, 1989). The flow of people, or expatriation, within and between MNE units will also have an impact on the MNE organizational culture and disseminate knowledge, skills and ideas (Welch, Fenwick & De Cieri, 1994). The strategic and operational importance of effective management of expatriation has become a significant dimension of IHRM research (Black et al., 1992; Dowling et al., 1994). Critical flows of people, possibly including,



expatriates, between networking partner organizations, further complicate the issue of MNE control and coordination.

#### 4.3 Network Variables

While the forms of linkage may vary, implicit in these alliances is the development and maintenance of information and interpersonal networks. As shown in Figure 1, it appears that networks vary in terms of intensity, quality, trust, type and quantity of relationships, interdependencies, formality (Thorelli, 1986), locus, and geographic dispersion (Limerick and Cunningham, 1993).

Networks, according to Thorelli (1986, p. 39-40), imply "at least partial overlap in domain (eg. synchronization in terms of time)". An organization's "domain" is defined as its mission. The position of a network, that is, the locus of power to establish and/or influence networks, is such that it tends to correspond with a firm, or a profit centre. Problems of joint costs and common production or distribution facilities complicate the process of defining the network position in other than environmental terms. This approach is similar to Doz and Prahalad's (1991) notion of 'fuzzy boundaries' in which inter- and intra-organizational relationships are poorly delineated. We suggest this notion of shared or overlapping of facilities may be extended to management activities. Each organization over time contributes aspects such as culture, technology and HRM of its own. In summary, as those authors indicate, the features of managing diversified multinational enterprises such as the need for integrative optimisation and recognition of structural multidimensionality, apply equally well to inter-organizational networks.

According to Welch and Welch (1993, p. 157), the interaction model has greatly enhanced our understanding of the role of relationships in the functioning of business markets by stressing the importance of different types of exchange activities between organizations. The way in which various exchange activities link resources and operations of one party with another are identified in the model:

The development of these interdependent activities links the actors (individual and firm) into a network, and the survival of the network depends on continuing exchange activities.

It has been suggested that modes of networking may include "production", "lead firm" and "service" networks. The production network involves organizations co-operating in the production process by combining resources and skills, including people, production capability, technology and information. Lead firm networks have the objective of ensuring that suppliers meet quality, quantity and delivery time standards dictated by the lead, usually large, firm. Naturally, it is possible to extend this concept to other organizations with which the firm is vertically integrated. Service networks result from the combination of organizations seeking to enhance their competitive capabilities in service provision (NIES & AMC, 1993). Organizations may simultaneously engage in multiple networking modes. A network allows for close cooperation while maintaining the organizational identity and market place independence of each partner. The type of network structure and phases of network development (the Network Life Cycle) are exemplified in Figure 1. It seems that the nature and benefits of networking activity apply equally well to SMEs and to large MNEs. Recent research suggests that small-and-medium enterprises are as effectively participating in international activities as large enterprises (DFAT, 1995).

Over time, convergence within networks may generate contradiction and conflict because often disparate SIHRM policies and practices may be pulled into the network. As Fombrun has suggested, "Any convergence of the levels of structure itself builds up social tensions through contradiction that destabilize or negate the convergence". Network formation may provide an example of the way this

nullifying effect might result in "periodic revolutions and a forced shift to a new configuration" (Fombrun, 1986, p. 414). Fombrun (1986, p. 404) further argues that:

Structuring is therefore interpreted as a resolution of forces favoring convergence with forces provoking contradiction that tends to propel episodic, punctuational, and metamorphic transformations in the social relations within and between organizations.

Thus, over time the network itself becomes a structural element, perhaps a hybrid of its partners (Hendry, 1994).

Increasing attention has been paid to the structure, purpose, benefits and problems of such new organizational forms (see for example, Jarillo, 1995; ABIE, 1995a). However, attention to the significant management implications of these forms seems again, as was evident during the evolution of international business research and practice, lagging strategic business decisions. For example, SIHRM activities seem to reflect first generation forms. In particular, the issues of performance-related pay seems to have received little attention with regard to expatriate management (Dowling, et al., 1994). Drawing on Jarillo's (1995) description of a network as a system, Figure 2 may be considered as an open system, highlighting the dynamic interaction of network variables with all other variables.

#### **4.4 Network Management Team Variables**

This category includes the senior management team; the nationality of members (host country national (HCN), third country national (TCN), parent country national (PCN) and their positions in the hierarchy; the nature of their positions; stage of family life cycle; extent of international experience, and stage of career life cycle (ABIE, 1995A; Cauley De La Sierra, 1995; Jarillo, 1995).

A key factor in successful collaborations is the active involvement of effective managers, beginning with the alliance leaders. "The CEO has the unenviable task of building a management and employee team around the alliance's mission. He or she must set the direction, then communicate it to the work force" (Cauley De La Sierra, 1995, p. 123). Naturally, we recognise that this process must be duplicated across alliance partners. An holistic focus on "mission" reflects the superordinate goal of successfully coupling competitive entities. Thorelli (1986) highlighted that, at the core of network management, is a new emphasis on personnel which must recognise that power, perceived trustworthiness, expertise and social bonds are often person-specific rather than organization-specific within network management teams.

Given that the use of expatriates is a feature in the internationalization of Australian firms (Arthur Andersen, 1995), some of which are involved in strategic networks (ABIE, 1995a; Fenwick and Edwards, 1994) it is relevant to highlight a number of complexities related to compensation presented by expatriation. Considerations include financial, legal, and customary standards and practices in each of the locations in which the MNE operates. International compensation policies are required to meet several organizational objectives, including: fairness and equity for all categories of employees; ability to attract, motivate and retain desired personnel; facilitation of transfer of employees in the most cost-effective manner; and consistency with organizational strategy, structure and needs (Black et al., 1992; Dowling et al., 1994).

The expatriation process involves three major phases: pre-departure, expatriation, and repatriation (De Cieri, McGaughey & Dowling, 1995). The issues in each of the three phases require consideration of organizational and individual needs, which are influenced through endogenous and exogenous factors. For example, reward systems and compensation practices will be influenced by exogenous factors such as host government requirements national cultural preferences (Gomez-Mejia and Welbourne, 1991; Lei, Slocum &

Slater, 1990) and endogenous factors, such as concerns for equity across employee groups (Crandall & Phelps, 1991; Dowling et al., 1994).

The perspective of parent and host country units (including the perspective of each partner organization within networks), host governments, and expatriates and their families need to be taken into account. Expatriate compensation packages may include: base salary, expatriate premium, cost-of-living allowances, and additional fringe benefits. Taxation advice is also of prime consideration in expatriation. For example, according to Arthur Andersen data (1992; 1995), tax equalisation policies have increased in popularity from 53% in 1992 to 66% in 1994. However, there is a marked decline in provision of incentives and expatriate premiums on an after-tax basis.

Limerick (1992) focused attention on the general implications and role for HRM in new, collaborative, forms of organization. Recognising the need for decentralisation of decision-making in complex organizations (Child, 1972; Child & Kieser, 1979; Donaldson, 1995), it appears feasible to suggest that in the network organization:

human resource management is likely to be dispersed to empowered employees and problem-solving teams. Prior research has shown that when activities of team members become highly interdependent and interwoven, only the team itself has enough knowledge of how the actions taken by the members relate to the results they have produced to carry out the team member development and evaluation activity (Jarvenpaa and Ives, 1994, p. 42).

Jarvenpaa and Ives (1994) suggest that as HRM decisions are delegated to teams, human resource management information systems can be used to help make decisions about and to minimise bias in salary allocations. With respect to networks, however, little appears to have been written concerning specific SIHRM activities such as compensation.

Changes in internal and external contextual factors have highlighted the need to recognise and utilise human resources as a source of international competitive advantage. In particular, compensation management is seen as a driver of organizational culture and as a supporting mechanism for broader organizational change necessary to adopt new organizational forms.

#### **4.5 Compensation Variables**

The compensation strategy is embedded (Granovetter, 1985) in the organization's macro endogenous and exogenous factors context. With traditional MNEs, compensation management is embedded in one organizational context across multiple national contexts. In network organizations, compensation management is embedded in several organizational and national contexts.

MNEs have the choice of a home-based, host-based or region-based policy. The home-based approach is the most common and comprises the elements of base salary, benefits, allowances and taxes (Arthur Andersen, 1992, 1994, 1995; Dowling et al., 1994). The host-country approach is based on local salary levels and usually involves paying the expatriate in the local currency, and the expectation that the assignment will be a lengthy one (more than five years). Expatriates are expected to live on the local economy, rather than attempt to replicate their previous standard of living (Dowling et al., 1994). The third approach is to pay expatriates working in their local regions, for example, Australians working in South East Asia, at relatively lower levels than those working in other geographic regions. This approach can also reduce compensation costs, while providing equitable compensation to all employees.

SIHRM has been said to differ from domestic HRM in terms of perspective, scope and activities, and risk exposure (Morgan, 1987; Schuler et al., 1993). The scope and activities of HRM are not only broader in MNEs, but different. For example, Morgan (1987) suggests that the compensation activity has the added dimensions of external variables such as differences in personal income taxation systems and foreign currency exchange rates. These differences were defined in order to reflect the development of IHRM. Differences between SIHRM in traditional MNEs and in network organizations could also be considered in terms of these three dimensions. In inter-organization networks, perspective, scope and activities and risk exposure are again extended to encapsulate the crossing of organizational boundaries between collaborating partners.

As previously mentioned, compensation is one of the most visible, contentious and challenging SIHRM activities. This seems mostly due to the need to establish and maintain internal and external equity. The equity principle underlies enduring issues identified in designing an international compensation package and reflects in an international context the difficulty in achieving equity across national and organizational boundaries: 1) discrepancies between expatriates, foreign nationals and third country nationals; 2) ensuring enough motivational elements to sustain performance over time; 3) obtaining current, accurate "local" market data as the foundation of compensation policy; coordination of international compensation with business unit performance; 4) providing long-term rewards such as share options to international employees; 5) maintaining consistency among international managers in very different environments while keeping parity with their domestic counterparts; and, 7) providing enough flexibility to accommodate different environmental elements (Harvey, 1993a). These issues highlight recurring problems arising from a lack of alignment of SIHRM activities with factors endogenous and exogenous to the enterprise. For the network organization, these problems may extend across multiple organizational contexts.

Compensation issues are complex and volatile (Brown, 1993). "No one factor can retard the development of global business more than the lack of qualified and/or satisfied international managers" (Harvey, 1993b, p.57). Compensation for international managers in multinational enterprises can directly effect the strategic bearing, and to some extent, the successful realisation of strategies (Harvey, 1993b). Also, as De Cieri et al. (1995) suggest, compensation management may contribute to the performance of the enterprise by acting as an integrative device for the alignment of individual and organizational goals. Such control and coordination issues, along with that of strategic flexibility are important in network organizations (Hendry, 1994). Kessler and Purcell (1995, p.17) have demonstrated "the centrality of pay to the structure and operation of the employment relationship" and suggest that the introduction of new compensation systems has the potential to result in major organizational disruption, due to unforeseen and unintended consequences. Compensation needs to be aligned with organizational strategy (Brown, 1993) and with other SIHRM policies and practices (Dowling et al., 1994; Schuler et al., 1993).

Little research has been conducted on international compensation policies and practices in Australian organizations. However, annual surveys of Australian expatriate employers are conducted by Arthur Andersen (1992, 1994, 1995). The survey respondents are representative of major Australian industries and a range of organizational sizes. Over the three years of their data collection, a broader mix of expatriate assignment is evident, ranging from short, 90 day assignments to indefinite stays. However, expatriation of two to three years remains the norm. Repatriation of expatriate employees to Australia has remained the practice for most employers. Thus, the home-based, balance sheet approach has consistently been the system practised by the majority of Australian MNEs. Further, as noted earlier, tax equalisation has been increasingly applied. Perhaps some justification for this approach is to be found in significant tax savings for expatriates and the employer when tax equalisation is applied to expatriate assignments longer than two years.

The results indicate that elements of the traditional, first generation, approach to expatriate compensation are prevalent. For example, the balance sheet approach is most popular and tax equalisation applies increasingly. In the most recent survey, while 18% of respondents indicated they provided cash compensation or renegotiated other elements of the compensation package to compensate for spousal loss of earnings, the majority did nothing (Arthur Andersen, 1995). Response to this emergent SIHRM issue may be indicative of the conservative nature of current practice. Evidence from other countries shows that :

Employers are increasingly looking to alternatives beyond the 'balance sheet' to improve employee choice and flexibility in their pay programs, whilst containing costs. Time will tell whether Australian employers embrace these new developments (Arthur Andersen, 1995, p. 4).

## 5. CONCLUSION

Australian organizations have extensive and enduring international business relationships with the EU. The extant literature and research indicate:

The international economy is increasingly characterized by diverse, complex, multiple network relationships. Far from being a step between export and foreign direct investment, large multinationals increasingly make use of alliances as an extension of their international operations. Alliances are not an alternative, but add to the range of their international strategies (Hendry, 1994, p. 66).

Evidence is emerging that inter-organizational networks are being developed Australian organizations in the EU and in other geographic regions. These new organizational forms present many challenges to SIHRM, integral to these challenges is the need to develop third generation SIHRM policies and practices. Issues of legitimacy and fairness of reward distribution have been found to be highly instrumental in professional employees' organizational loyalty. In third generation organizational forms such as inter-organizational networking, loyalty issues may be further complicated by conflicting loyalties to the employer organization and to the network management function and partner organizations. The competitive risk of losing key employees to the competition may be much higher when these individuals are working in competitive inter-organizational networks. Perceived equity and adequacy of international compensation may be a critical determinant of employee retention in such organizational forms. Compensation is at once visible and complex. This complexity is evidenced in enduring issues and problems in designing and implementing a global compensation management system. We suggest that these existing issues and problems, in which equity concerns are elemental, will be intensified in the multiple-organization and cultural context of an international network.

The purpose of this paper was to highlight the implications for compensation management of cooperative inter-organizational forms such as international networks. Extant literature, and qualitative and quantitative data related to the international compensation policies and practices of Australian-based MNEs have been discussed. A conceptual framework is presented which aims to facilitate understanding and application of international compensation management in the context of the interdependent variables affecting networking organizations. Further research is required to explore and test these variables and to develop appropriate compensation management systems.

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