

Predicting Effective Compensation Practices in Emerging Asian Countries: A Comparison of the Fit between National Culture and Compensation Practices

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This study aims to find effective compensation practices for Korean multinational companies (MNCs) to fit the desires of local employees in the emerging Asian countries of Vietnam, Malaysia, and Indonesia. National culture and compensation practices are closely related to each other. Data were collected from interviews with the staff of three Korean MNCs stationed in each country and documents from the human resources department of each company. For cross-cultural comparisons, we used secondary data from Hofstede's indices. The results indicated that the match (fit) between compensation practices and national culture is essential to reducing the turnover rate in emerging markets. Vietnamese and Malaysian employees prefer compensation based on individual performance, whereas Indonesians do not. If performance-based rewards do not reflect the cultural characteristics of each country, the turnover rate will increase. Proper compensation practices are suggested to keep local high performers from seeking employment elsewhere.

Keywords: Hofstede, national culture, compensation, turnover rate, emerging Asian countries

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Introduction

In recent years, many multinational companies (MNCs) have begun to take an interest in emerging Asian countries as bases for production (Colakoglu, Allen, Miah, and Bird 2016; Nguyen and Rugman 2015). In the late 1970s and early 1980s, MNCs started to enter China in search of new markets (Kang and Shen 2015; Luo, Zhang, and Bu 2019; Pan and Chi 1999; Zheng and Lamond 2010; Zou and Lansbury 2009). In more recent decades, a growing number of MNCs have emerged in Asia and begun to compete with their Western counterparts in the Asian economy. Since Asian societies tend to be deeply influenced by their own cultures and traditions, MNCs that operate businesses in Asian regions are expected to adhere to their cultural values for better business performance. Some of the major issues confronting human resource management in Asia concern informalization of employment (non-standard employment), talent shortages, increased labor mobility, and rising levels of labor disputes, among others (Cooke and Kim 2018).

Confronting a war-like competition between global MNCs when it comes to securing local talent, South Korean (hereinafter Korean) MNCs' subsidiaries in host countries have gradually begun to encounter difficulties in retaining high-performing local employees. This is in part because of a relative disadvantage with respect to the pay level, brand recognition, and reputation of Korean companies in Southeast Asia as compared to those of global American or European companies. Therefore, Korean companies must find a way to overcome these disadvantages by adopting appropriate human resource (HR) practices to reflect the national culture of their host countries.

Existing research on international reward and compensation approaches has mostly focused on MNCs from major Western economies. Still, little research has been carried out on Korean MNCs doing business in other developing countries, except for a handful of studies (Kang and Shen 2015; Lansbury, Kwon, and Suh 2006; Paik, Parboteeah, and Shim 2007; Zou and Lansbury 2009). MNCs may either transfer or localize compensation practices in their international management. Compensation practices at the global level can be divided into two approaches: home-based and host-based (Bloom, Milkovich, and Mitra 2003; Kang and Shen 2015). The home-based approach follows the pay structure of the company's home country. In contrast, the host-based approach indicates a tendency to stick to local characteristics and native cultural norms when applying a reward and

compensation system to employees in a host country. For example, an essential question for MNCs is whether to use a seniority-based reward and compensation system, a performance-based system, or a proper combination of these two (Zou and Lansbury 2009). This study explores how Korean MNCs localize compensation practices and policies at their branches in developing Asian countries.

This study uses a cross-cultural perspective to investigate effective compensation practices for Korean MNCs in order to find methods to recruit and retain a high-quality workforce in three emerging Asian countries that serve as hosts for their international branches: Vietnam, Malaysia, and Indonesia. Our study also examines the feasibility of approaches to the transfer and localization of reward and compensation systems adopted by Korean MNCs in these countries. Given that very few studies have been devoted to MNCs in non-Western settings, this study contributes to the extant literature on global human resource management.

Literature Review

Dimensions of National Culture

Over the years, there has been extensive research on the implications of cross-cultural differences in values for human resource management (Chen, Uen, and Chen 2016; Hofstede 1980, 1993; Luthans, Welsh, and Rosenkrantz 1993; Ngo, Turban, Lau, and Lui 1998; Schneider 1986; Schneider and De Meyer 1991; Tenhiälä, Giluk, Kepes, Simón, Oh, and Kim 2016; Triandis 1982). Hofstede (1993) presented the most comprehensive, yet straightforward, dimensions of national culture (Chiang 2007; Shackleton and Ali, 1990). These were labeled power distance (large vs. small), uncertainty avoidance, individualism vs. collectivism, masculinity vs. femininity, and long-term orientation.

Power distance is defined as the extent to which the less powerful institutions and organizations within a country expect and accept that power is distributed unequally. The uncertainty avoidance dimension indicates how a society deals with the fact that the future can never be known. This ambiguity results in anxiety, and different cultures have learned to deal with this anxiety in different ways. The individualism-collectivism dimension is the degree of interdependence a society maintains among its members. This dimension has to do with whether people's self-image is defined in terms of

“I” or “we.” A high score in the masculinity-femininity dimension (masculine) indicates that a society will be driven by competition, achievement, and success, with success being defined by the winner in the field. A low score (feminine) in this dimension means that the dominant values in society are caring for others and maintaining quality of life. The long-term orientation dimension refers to the extent to which a society has a pragmatic future-oriented perspective rather than a conventional historical short-term point of view. Long-term orientation is a new dimension, so there is little to no information available on this for individual countries.

National Culture and Human Resources (HR) Practices

Since his early work on cultural differences in work-related values in the early 1980s, Hofstede's thesis has been extensively examined and applied to human resource management studies globally, focusing on cross-cultural variations in HR practices and policies (Hofstede 1980, 1993). For the managers of MNCs' global operations, the issue of whether they should apply specific compensation practice types universally or vary them by their host countries in order to gain a competitive advantage over competitors is critical (Aycan 2005; Bloom, Milkovich and Mitra 2003; Thite, Wilkinson, and Shah 2012).

Seeking to determine the extent to which Hofstede's four dimensions of culture affect specific compensation practices, Schuler and Rogovsky (1998) found that national culture is strongly associated with the dimensions of compensation practices differentially adopted in different countries. The components of compensation practices include: (1) based on status, (2) based on individual performance, (3) social benefits and programs, and (4) employee ownership plans. They presented nineteen propositions for empirical tests.

Some sample propositions are: “pay-for-performance compensation practices will be used more widely in countries with higher levels of individualism,” “a seniority-based compensation system is more likely to be found in countries with higher levels of uncertainty avoidance,” “flexible benefit plans will be less prevalent in countries with higher levels of masculinity,” and “employee share options/stock ownership plans will be less prevalent in countries with higher levels of power distance” (pp. 165-167). The full list of these propositions and the results of statistical analysis on each of them are shown in Table 1 in the form of the relationship between each of the four indicators of national culture and each compensation practice, as being either positive (+) or negative (-), along with their statistical

significance.

In this study, we examine how each dimension of culture favors a specific compensation practice by the components of compensation practices addressed by Schuler and Rogovsky (1998).

National Culture, Compensation Practices, and Turnover

Over the years, extensive research on turnover (voluntary turnover or intention to quit) has been carried out in the field of organizational studies. The determinants of employee turnover in MNCs are multifaceted (Hom and Griffeth 1995). Of course, there are multiple paths employees can go down in deciding to leave their jobs. Sturman, Shao, and Katz (2012) suggested that cultural attributes affect the mechanisms that operate along these paths and even make specific passages possible. It has also been shown that the relationship between job performance and voluntary turnover is curvilinear such that turnover is more likely among both low and high performers than among those in the middle (Jackofsky 1984; Sturman, Shao, and Katz 2012).

However, there have been relatively few studies on the antecedents of turnover at the societal/cultural level compared to those at the individual level (Griffeth, Hom, and Gaertner, 2000; Shaw, Delery, Jenkins, and Gupta 1998; Zheng and Lamond 2010). In a comparative study of turnover in individualistic and collectivistic cultures, Ramesh and Gelfand (2010) found that in a collectivistic country where organization and community links are prevalent, the probability of turnover will decrease. On the other hand, in an individualistic country where an individual's internal attributes and personal development are emphasized, a reverse pattern is likely to occur.

Raising the timely question of how congruence between national cultures and performance appraisal (PA) practices affects organizational outcomes, Peretz and Fried (2012) reported that the degree of congruence between societal cultural practices and particular PA practices tends to be associated with turnover. Therefore, incongruence between these societal cultures and PA practices is likely to increase the voluntary turnover rate. They further stated that "a disparity between organizational and societal culture could also be the result of a multinational company moving into a new country, or a new company modeling itself after the prevailing organizational practices in another country" (p. 450). If organizations adhere to their host country's societal culture when adopting compensation practices, local employees will approve of their employer's new policies. However, organizations that introduce HR practices deviated from their host

TABLE 1
SCHULER AND ROGOVSKY'S PROPOSITIONS ON THE EFFECT OF NATIONAL CULTURE ON COMPENSATION PRACTICE DIMENSIONS

Components of compensation practices		IDV	PDI	UAI	MAS
(1) Based on status	Seniority-based pay plans			+	
	Skill-based plans			+	
(2) Based on individual performance	Pay-for-performance	+		-	
	Focus on individual performance	+		-	
	Individual bonuses/ commission	+		-	
(3) Social benefits and programs	Flexible benefits			+	-
	Workplace child-care			+	-
	Career-break schemes			+	-
	Maternity leave			+	-
(4) Employee ownership plans	Employee share plans	+	-	-	

*p < .05.

Notes.—1) Signs indicate either a positive (+) or negative relationship (-).

2) IDV (individualism vs. collectivism); PDI (power distance); UAI (uncertainty avoidance); MAS (masculinity vs. femininity).

Source.—Schuler and Rogovsky (1998).

country's culture are likely to face resistance from employees, which will eventually contribute to higher turnover rates. Given that we know little about how societal cultures affect compensation practices in the global economy, we attempt to fill this research gap. To this end, we examine the level of congruence between the idiosyncratic features of the host country's national culture and the particular compensation practices adopted by MNCs in these host countries and their interactive effects on turnover.

Research Questions

Stated in this way, we expand on earlier studies by focusing explicitly on HR compensation practices. We present two research questions. First, what are the preferred compensation practices in each emerging Asian country based on their national culture? Second, how does the fit of compensation practices to the dimensions of national culture affect the turnover rate? We hypothesize that as the level of congruence between the compensation practices and national culture of individual countries becomes higher, the turnover rate will become lower.

Data

For data collection, we contacted three representative Korean MNCs. These top-tier companies produce electronics (Samsung), steel (POSCO), and cables and systems (LS Cable), respectively. This study was intended to be cross-cultural research. Thus, we attempted to reduce the bias that may be caused by the company's employment brand, corporate culture, and other factors applicable to each company. For this purpose, we used the data from the foreign branches of each MNC. The data were collected via in-depth interviews with HR staff dispatched and stationed in one of the three Asian countries included in our study. In order to ascertain information on the company's specific compensation practices, we examined introductory materials that cover each company's HR practices when we visited each firm.

Two types of data on turnover rates were collected: the turnover rate of each company, and the average turnover rate of each of the individual countries. The turnover rate of each company was gathered from interviews and HR materials. For countrywide turnover rates, we referred to reports published by the global HR consulting firm Mercer Consulting Company, which operates in each country included in our study.

For the information on national culture, we used the Hofstede index of each country, i.e., Vietnam, Malaysia, and Indonesia. In this study, we used only four of his proposed dimensions: individualism-collectivism, power distance, uncertainty avoidance, and masculinity-femininity. Unfortunately, we were unable to incorporate the long-term versus short-term orientation dimension because no relevant information was available on Malaysia and Indonesia at the time of our study. For analytic purposes, we categorized the scores of the Hofstede indices into three groups: low (1~40), moderate

TABLE 2
CULTURAL DIFFERENCES BETWEEN COUNTRIES IN THE GLOBAL SUBSIDIARIES

Country	Individualism-collectivism (IDV)	Power distance (PDI)	Uncertainty avoidance (UAI)	Masculinity-femininity (MAS)
Korea- Host	Low (18)	Moderate (60)	High (85)	Feminine (39)
Vietnam	Low (20)	High (70)	Low (30)	Feminine (40)
Malaysia	Low (26)	High (104)	Low (36)	Moderate (50)
Indonesia	Low (14)	High (78)	Moderate (48)	Moderate (46)
Japan	Moderate (46)	Moderate (53)	High (91)	Masculine (95)

Note.—IDV indicates the level of individualism.

Source.—Geert-Hofstede.com (2013).

(41~60), and high (over 60). Ratings for individualism vs. collectivism indicate the level of individualism. Cultural differences between countries in the global subsidiaries are presented in Table 2. Data on Korea and Japan are also included as a reference for comparison.

Results

Based on the propositions of Schuler and Rogovsky (1998), we set up the criteria of whether or not each compensation practice is recommended for individual countries as viewed from the four dimensions of national culture: individual performance, status, social benefits, and employee ownership plans. In Table 3, in the R column, ○ indicates that a specific compensation practice is recommended, while × indicates that it is not. In columns marked A, B, and C for each of the companies, ○ means that the element of compensation practice is currently being implemented, while × means that the practice is not being implemented. It should be noted that Company C does not operate in Indonesia.

The first component considered is compensation based on individual performance. As presented in Table 1, the uncertainty avoidance index (UAI) shows a negative relationship with pay-for-performance, focus on individual performance, and individual bonuses. Therefore, in Vietnam and Malaysia, where the UAI is low, compensation based on individual performance (pay-for-performance, focus on individual performance, and individual bonuses/commission) is prevalent, and thus it is recommended as a pertinent compensation practice for MNC operating these two countries. But in Indonesia, where the UAI is moderate, only the practice of individual bonuses/commission was prevalent. The second component is compensation based on status (i.e., seniority, skill, and job). For Vietnam and Malaysia, only job-based compensation is prevalent due to low UAI. On the other hand, compensation based on seniority and skill is found in Indonesia due to its UAI. The third component examined is social benefits. For Vietnam, which leans towards femininity, all three components of social benefits (flexible benefits, workplace childcare, and maternity leave) are prevalent. However, for Malaysia and Indonesia, which lean towards masculinity, only maternity leave is noteworthy. Finally, the fourth dimension is ownership, i.e., employee share plans. Since all three countries had high scores on the power distance index (PDI), the MNCs were not in favor of employee share plans.

We next looked at the discrepancy between the prevalent (i.e.,

TABLE 3
KOREAN MNC COMPANIES COMPENSATION PRACTICES IN EACH COUNTRY

Components of compensation practices		Vietnam				Malaysia				Indonesia		
		R	A	B	C	R	A	B	C	R	A	B
(1) Based on status	Seniority-based pay plans	×	×	×	○	×	×	×	○	○	○	×
	Skill-based plans	×	○	×	○	×	○	○	×	○	×	○
	Job-based plans	○	×	○	×	○	○	○	×	×	×	×
(2) Based on individual performance	Pay-for-Performance	○	○	○	○	○	○	○	○	×	×	×
	Focus on individual performance	○	○	○	○	○	○	○	○	×	×	○
	Individual bonus/commission	○	○	○	○	○	○	○	○	○	×	○
(3) Social benefits and programs	Flexible benefits	○	×	×	×	×	×	×	×	×	×	×
	Workplace child-care	○	×	×	×	×	×	×	×	×	×	×
	Maternity leave	○	×	○	○	○	○	○	○	○	×	○
(4) Employee ownership plans	Employee share plans	×	×	×	×	×	×	×	×	×	×	

Notes.—R: Recommend practices; A/B/C refer to individual company; ○ Implemented; × Not implemented.

recommended) practices and the practices that are currently being implemented by each of the MNCs in each country. As seen in Table 3, no discrepancy was found in any of the three companies with regard to pay-for-performance. However, concerning the focus on individual performance, while there exists congruence between them in Vietnam and Malaysia, one discrepancy was found in Company C’s branch in Indonesia. Looked at in this way, we can tally up the number of alignments between the recommended compensation practices in each country and the practices implemented by each MNC. Table 4 shows the number of alignments by individual companies in each country. It also shows the turnover rate of each company and the average national turnover rate for each country.

Overall, Vietnamese branches had fewer congruence in components of practices with a higher turnover rate than Malaysia. Indonesia exhibited lower levels of congruence with a higher turnover rate than Malaysia. Comparing Vietnam and Indonesia, both countries show about the same degree of congruence (i.e., for Company A, Indonesia is higher, while for Company B, Malaysia is higher), but the turnover rate is much higher for both companies in Indonesia than in Vietnam. In particular, Company B’s

TABLE 4
FIT RECOMMENDED COMPENSATION PRACTICES FOR EACH COMPANY

Fit between recommended practices and cases	Vietnam			Malaysia			Indonesia	
	A	B	C	A	B	C	A	B
(1) Based on status	1	3	0	2	2	1	2	2
(2) Based on individual performance	3	3	3	3	3	3	2	1
(3) Social benefits and programs	0	1	1	3	3	3	2	3
(4) Employee ownership plans	1	1	1	1	1	1	1	1
Total	5	8	5	9	9	8	7	7
Number of practices implemented	4	5	6	5	6	5	1	4
Turnover rate	9%	9%	8%	7%	6%	7%	12%	14%
Average turnover rate in country	14.0%			8.3%			4.0%	

branch in Indonesia demonstrates a lower congruence with individual performance than all the other companies in any of the three countries. Company B in Indonesia also has the highest turnover rate. As for the total number of local practices implemented, the two companies stationed in Indonesia had the lowest numbers of all the branches in the countries examined. The turnover rate of all three MNCs stationed in Vietnam and Malaysia is lower than that of each country's national average. Still, the turnover rates of the two companies in Indonesia are much higher than the national average. Taken all together, we may reasonably argue that the higher the level of fit between compensation practices and national culture, the lower the turnover rate will be.

Discussion

Using the national culture indices, we identified that employees in Vietnam and Malaysia prefer compensation based on individual performance, but Indonesians do not. In Indonesia, Korean staff stated that it is essential to respect the family or group-centered culture of local Indonesians. On the other hand, the Korean staff stationed in Vietnam emphasized that since Vietnam experienced rapid economic growth similar to that of Korea in the past, an acceptance of competition and differential rewards for individual performances has become prevalent. In Malaysia's case, local employees have grown accustomed to compensation based on individual performance

because Western global companies have long utilized Malaysia as an Asian base of operation for their data and call centers.

As the fit between the prevalent compensation practices and the companies' actual practices, especially individual performance components, decreases, the turnover rate increases. In this case study, we found that if performance-based rewards do not reflect each country's cultural characteristics, turnover rates will increase. Prior research on cross-national compensation practices has shown that culture significantly affects pay systems, since compensation patterns are culture-bound practices (Frank, Wertenbroch, and Maddux 2015; Mamman, Sulaiman, and Fadel 1996; Townsend, Scott, and Markham 1990).

The match (fit) of the components that link individual performance to compensation is an essential factor in emerging markets. Hofstede's analysis was based on the case of a single company, IBM, but we analyzed data from three Korean MNCs and attempted to identify the main components of compensation that might reduce the turnover rate.

However, it is not easy to define the dominant HR practices in emerging markets because there is a lack of precise statistical information readily available. Many MNCs are eager to find strategies to retain local employees to fit HR practices. This study is significant in that it can become a helpful reference for MNCs when developing a compensation strategy for their offices in emerging Asian countries. Despite the fact that the head office should offer guidelines for managing foreign branches, there are no clear standards on whether they should push forward with integration policies or pursue local strategies. In emerging Asian countries, the head office controls performance-based compensation according to each country's cultural characteristics.

Our findings can also help MNCs decide whether HR practices should be standardized or differentiated in Southeast Asia. In general, HR practices can be divided into various criteria such as job/position structure, compensation, performance evaluation, promotion, training, and recruitment. Although all HR practices have factors that should be standardized or differentiated based on cultural context, our findings suggest that compensation has many differentiating factors, especially when considering local culture. This research outcome will prove helpful in the design and operation of more sophisticated HR practices by Korean MNCs operating in Southeast Asia. Our findings are helpful not just for ensuring smooth business operation, but also for securing the workforce competitiveness of Korean MNCs, which are still struggling to secure

excellent talent in Southeast Asia.

Limitations and Suggestions for Future Research

The findings of the present study are subject to some limitations that should be kept in mind when interpreting them. First, the Hofstede's formulation of national culture indices can be said to be slightly outdated. The world business environment has changed so rapidly that the effect of national culture on human resource management should be reevaluated in the present era. As the world community becomes closer, local people tend to be more receptive to global standards than they used to be, and these attitudes are not static. As Zheng and Lamond (2010, p.439) noted, "as the world is moving towards becoming like a global village, the HR philosophy and practices of the Confucian-dominated businesses may also gradually converge with those of mainstream Western practices." Future studies must consider other indices such as the nine dimensions of national cultures proposed by the Global Leadership and Organizational Behavior Effectiveness (GLOBE) research program for cross-cultural investigation (House, Robert, Mansour Javidan, Paul Hanges, and Peter Dorfman 2002).

Second, Hofstede's thesis raises the question of an "ecological fallacy" that has long been debated in the literature. Robinson (1950), a pioneer in this line of reasoning, argued that ecological correlations (i.e., at the national level) could not be used as substitutes for individual correlations. The Hofstede culture dimensions were created at the national level by aggregating individuals' responses to cultural items in each country. As Hofstede himself acknowledged, cultural patterns observed on the national level do not appear in the same manner at the individual or organizational level (Brewer and Venaik 2014; Hofstede, Bond, and Luk 1993). That is, the characteristics of national culture are not replicated at the individual level. Thus, inferences made based on national-level characteristics may turn out to be false for explaining individual-level phenomena. We also should not overlook the risk of neglecting intra-country cultural variations. A more elaborate research strategy will be needed to articulate the individual- and national-level cultural dimensions for cross-cultural comparisons in future studies.

Third, the factors that affect the turnover rate are multifaceted beyond compensation practices, and the turnover itself is both voluntary and involuntary depending on the socioeconomic situation of each country. Therefore, further cross-cultural comparative research should be carried out

regarding other HR practices including training and result-based appraisal systems in order to recruit and retain a high-quality local workforce.

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