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IN SEARCH OF "BEST" STRATEGIC PAY PRACTICES:

AN EXPLORATORY STUDY OF JAPAN, KOREA, TAIWAN, AND THE UNITED STATES

John Milliman, Stephen Nason, Mary Ann Von Glinow, Paul Huo, Kevin Lowe, and Nam Kim

INTRODUCTION

In today's increasingly turbulent and competitive global environment, effective human resource management (HRM) practices are needed to enhance organizational adaptability and capability (Lengnick-Hall & Lengnick-Hall, 1988; Ulrich & Lake, 1990) and to help position corporations into their strategic niches (Butler, Ferris, & Napier, 1991; Milliman, Von Glinow, & Nathan, 1991). In order to compete within the global economy many organizations have begun to search for best international HRM (IHRM) practices by examining the relationships between specific practices and various measures of organizational effectiveness in different countries (Von Glinow, 1993). There are several reasons for this trend in cross-cultural research.

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First, it allows organizations to learn more about best practices in other countries, information which is often not readily available (Butler, Ferris, & Napier, 1991). This is particularly important for the United States, where researchers have often inappropriately assumed that U.S. theories apply equally outside the country (Von Glinow, 1993). Such an ethnocentric perspective has fostered a parochial view of organizational science that mistakenly assumes universalism (Boyacigiller & Adler, 1991). It is important to stop asking does culture make a difference, but instead focus on when and under what conditions culture has an impact on organizations and their management practices (Adler & Ghadar, 1990).

Second, studying best international practices can provide important insights into the needs that all multinational corporations (MNCs) have in seeking an appropriate balance between global integration and local responsiveness. Global integration implies a situation in which one set of management practices (usually those of the home country) are used to unify and effectively control its various foreign operations. In contrast, local responsiveness refers to management practices that are adapted to the specific cultural and environmental contexts of the overseas business units (Doz & Prahalad, 1986; Schuler, Dowling, & De Cieri, 1993). The data on U.S. expatriate failure rates (Black, Mendenhall, & Oddou, 1991; Tung, 1987) support the need to develop IHRM practices that increase the fit with the overseas business units. Analyzing IHRM practices across a wide variety of countries can enable an MNC to empirically determine which practices are most effective in each country and thereby enable the MNC to gain the appropriate balance between centralized control and the needed sensitivities associated with a local focus (Von Glinow, 1993).

Third, the number of foreign-born employees in the United States and in other countries has increased significantly in the past two decades. As such, research on cross-cultural HRM practices can provide important insights into how to manage a multicultural work force even in domestic settings (Butler et al., 1991). In turn, better management of a multicultural work force can provide a distinctive competitive advantage through a deeper understanding of multicultural customers, a greater diversity of views and creative ideas, and better decision making (Caudron, 1994; Loden & Rosener, 1991).

In this paper we study one important aspect of best IHRM practices, compensation, in Japan, Taiwan, South Korea, and the United States. Each of these Pacific Rim countries are important world economic powers and have developed unique compensation systems. While there is a large literature on pay practices in the United States and Japan, there is relatively little research on compensation in South Korea (Milliman, Kim, & Von Glinow, 1993) and Taiwan (Farh, in press). Further, there has been even less systematic empirical research comparing pay practices between these countries (Von Glinow, 1993). Accordingly, there are two major purposes of this exploratory study. First,

to determine to what extent each of the following strategic compensation practices, pay incentives, pay based on long-term goals, seniority based pay, and having a strong benefits policy are currently utilized in these four countries. Second, to determine how these four pay practices are related to employee job satisfaction and organizational effectiveness.

In examining "best practices" we do not intend to find practices that are universally preferable or even equally desirable across the four countries. The wording "best" is used in a cultural and organizational specific sense and does not imply universalism. Nonetheless, the similarities and dissimilarities of pay practices in these four countries may shed some light on how culture affects pay practices and in turn how these practices impact organizational effectiveness. We will first briefly review the literature on compensation practices in these four countries and how Confucianism would be expected to create a unique cultural context for pay in the three Asian countries.

PAY PRACTICES IN SOUTH KOREA, TAIWAN, JAPAN, AND THE UNITED STATES

Japan, South Korea, and Taiwan have all been strongly influenced by Confucian philosophy and share, to a certain degree, a similar cultural heritage (Chang, 1989a). Confucianism emphasizes harmonious living and holds the family as the model for all social relationships (Helms, 1991; Kim, 1985). Harmony in relationships is maintained through protecting each person's face and thus his or her dignity, self respect, and prestige (Chang, 1989a). Partly due to the importance of face and their collectivist orientation (Hofstede, 1980, 1984), Koreans, Japanese, and Chinese are motivated to a greater extent by social and group factors than is common in the highly individualistic United States (Chang, 1989a; Steers, Sin, & Ungson, 1989).

Confucianism also emphasizes "filial piety" which places a high value on the family and respect in society. The primary relationship is between father and son and the son should show love and respect to the father in return for guidance and protection (Crane, 1978; Shin-yong, 1982). The organizational analog is the employer providing job security, care, and affection to employees and in return employees showing respect, obedience, and dedication to the company (Steers et al., 1989; Von Glinow & Chung, 1989). These Confucian values help explain why Japan, South Korea, and Taiwan emphasize seniority in pay decisions to a much larger degree than in the United States (Chang, 1989a). Nonetheless, there are some important cultural differences between these three countries and the degree to which they embrace the various Confucian values (Chang, 1989a, Hofstede, 1991) as will be shown in the following literature review of each country.

South Korea

The pay system in Korea is complex. Most Korean employees receive allowances and bonuses on a semi-annual or annual basis in addition to their base salary. In many cases these bonuses exceed the base salary. This system increases the flexibility of Korean organizations and keeps fixed costs low (Chang, 1989b).

Korean employees are managed and paid according to their membership in four groups: (1) *core* or high-level managers with close ties to owners, (2) *permanent* employees who are college educated managers and technical staff, (3) *temporary* employees that include clerical and blue-collar workers, and (4) *women* who usually hold clerical and assembly line positions (Shin, Steers, Ungson, & Nam, 1990; Steers et al., 1989). The amount of pay in Korea is tightly linked to the employee's rank in the organizational hierarchy with the highest salaries reserved for the core employees, and to a lesser extent the permanent workers (Steers et al., 1989).

For permanent employees, seniority virtually dictates compensation at lower to middle levels of the organization (Milliman et al., 1993). Promotions occur almost automatically every few years (Von Glinow & Chung, 1989), so pay tends to remain uniform across employees at the same level (Steers et al., 1989). The objective of the seniority system is to minimize interpersonal competition, protect face, and encourage company loyalty. However, though seniority remains an important variable at upper levels of the organization, individual performance, family ties, and other connections tend to have a greater weight in promotion and pay decisions. The intent of using ties and connections is to develop a greater sense of cohesion and teamwork in the organization (Milliman et al., 1993).

The concept of face is another important factor affecting compensation in Korea. Koreans tend to closely compare their promotions and pay to that of their peers, and any negative discrepancy can entail a loss of face. Thus, the amount of pay is very important to Koreans, though more for social comparison reasons than for personal aspirations (Milliman et al., 1993).

In comparison to the United States, benefits are not well developed in Korea (Von Glinow & Chung, 1989). For example, retirement benefits are usually less generous than in the United States. A general rule is that one month's salary is set aside for each year of service in the company (Chang, 1989b). Shin (1984) observes that most Korean organizations are more concerned with reducing employee dissatisfaction than with developing a strong motivating benefit policy.

Taiwan

Taiwan shares many of the same characteristics of compensation systems as South Korea, including the importance of face. Face tends to restrict the

use of merit-based pay as any pay differences between peers can entail a serious loss of face and decrease the motivation of all concerned (Huo & Von Glinow, 1993; Leppert, 1984). When determining pay scales, Taiwanese managers tend to either consult with other firms in the local area or pay the prevailing rate. Once employees join a company their pay tends to be based on seniority and hierarchical advancement proceeds at uniform levels (Galenson, 1979). Taiwanese firms are more likely than U.S. organizations to value group over individual level performance with factors such as age and attitudes toward supervisors as important determinants of pay (McEvoy & Cascio, 1990).

Like Korea, well developed benefit packages are rare. For workers, the fringe benefits most commonly given are subsidized meals and work clothes (Galenson, 1979). The most valued rewards for professionals and managers in Taiwan revolve not around pay and benefits, but around intrinsic factors like job challenge and responsibility (Huo & Von Glinow, 1993).

Bonuses can be a significant portion of the total compensation, although their magnitude tends to vary drastically from one year to another (Farh, in press). In a highly profitable year, for instance, the year-end bonus could equal the regular yearly salary. Such bonuses are usually granted across the board as a percentage of the employees' regular pay and are rarely based on individual performance.

Japan

Like Korea and Taiwan, reward systems in Japan have traditionally been related to age (Dowling & Schuler, 1990), seniority (Abegglen & Stalk, 1985), and rank (Von Glinow & Chung, 1989). However, recently seniority has been deemphasized to some degree and the importance of merit pay increased (Mroczkowski & Hanaoka, 1989; Schlender, 1994; Williams & Kanabayashi, 1994). In addition, job-related skills and educational attainment play an increasingly important role in pay decisions. Furthermore, outstanding employees are typically now being provided with greater training opportunities and important work assignments that eventually lead to promotions to a higher level than their peers (Mroczkowski & Hanaoka, 1989).

Essentially Japan, and to a lesser extent, Taiwan (Atchison, 1990) and Korea (Milliman et al., 1993), have employed pay grades for their employees based on a combination of seniority, education, experience, and performance related factors. Employees move up the different grades slowly over time at a fairly uniform rate (Ouchi, 1981). In Japan the use of such pay grades illustrates the importance of long-term employment and a deemphasis on "I work in this job" (as is the case in the United States) and a greater emphasis on "I work for this organization" (Atchison, 1990).

Bonuses are one of the most important aspects of reward systems in Japan, and often comprise one-third of the total compensation for employees

(Abegglen & Stalk, 1985). As in Korea, the payment of a large portion of employees' income in bonuses allows Japanese firms to reduce their fixed costs and minimizes the possibility of layoffs (Von Glinow, 1993). These bonuses are paid to employees at all levels of the firm and when reductions occur the decreases are shared by all employees (Mroczkowski & Hanaoka, 1989). Thus, bonuses are paid largely on group or organizational level performance which is indicative of the emphasis placed on cohesion and teamwork in Japanese organizations. Further, Japanese employees tend to share more equally in the profits of their company than employees in most other countries (Abegglen & Stalk, 1985). Finally, it should also be noted that performance is often defined in terms of meeting long-term objectives in contrast to the United States which tends to emphasize short-term goals (Davis, Kerr, & Von Glinow, 1985; Von Glinow & Chung, 1989).

Benefit packages tend to be more developed in Japan than in Korea or Taiwan, but still less so than in the United States. Professional or regular employees are eligible for more benefits than temporary workers (Von Glinow & Chung, 1989). Many Japanese organizations use a defined contribution plan that pays employees a lump sum when they retire (Atchison, 1990).

A number of studies indicate that Japanese employees are more dissatisfied with their wages relative to other countries such as the United States (Hodgetts & Luthans, 1989). Instead, security is seen as a more important factor in creating job satisfaction in Japan (Von Glinow, 1993).

United States

One important prevailing assumption in the United States is that organizations get what they reward (Kerr, 1975, 1988) and thus pay should be contingent on performance (Von Glinow, 1988; Von Glinow & Chung, 1989). Despite the importance of this pay-for-performance ethic, most U.S. employees and managers (excluding executives) do not receive a large portion of their pay in incentives (Kerr, 1988; Lawler, 1987) and in fact receive less of their compensation in the form of bonuses than their counterparts in countries such as Japan (Abegglen & Stalk, 1985). In further contrast to these three countries, the United States and its management systems are characterized by high individualism, impersonality in relationships, emphasis on pay as a main motivator, and high intra-firm mobility (Chang, 1989a).

Another central feature of the U.S. pay system is the concept of pay equity for all employees. To create equity, U.S. organizations have developed sophisticated job evaluation, salary surveys, and other compensation tools (Gomez-Mejia & Balkin, 1992). This orientation stands in contrast to the three Asian countries which for a variety of reasons do not employ pay equity tools as extensively as the United States. The application of these pay tools may differ as well. For example, when job evaluation is used in Taiwan it tends

to be oriented more to the person rather than to the job category as is customary in the United States (Atchison, 1990).

Benefit practices are extensive in the United States, but are often less salient to employees than pay or other rewards. In fact, U.S. employees now generally consider most benefits as entitlements (Von Glinow & Chung, 1989) and thus benefits cease to act as motivating factors. Health care, life insurance, and disability comprise a much larger portion of benefits in the United States than in the Asian countries (Atchison, 1990).

It is important to realize that compensation practices in all four countries are in a state of flux. For example, the United States is beginning to emphasize to a greater degree pay based on longer-term objectives and on group goals (Von Glinow, 1993). U.S. firms are also beginning to relate pay practices to the organization's business strategy and external environment (Gomez-Mejia & Balkin, 1992; Schuler & Jackson, 1987). As mentioned earlier, Korea and Japan are starting to emphasize more performance based rewards with greater risk and less job security for employees.

Given the multitude of differences and similarities between the four countries on pay practices and the paucity of empirical cross-cultural research, it is important to sample managers from these countries regarding compensation practices. No formal hypotheses are offered at this point as this is one of the first studies to empirically assess pay strategies in these four countries. However, the brief literature review suggests four exploratory relationships that are listed below.

In these exploratory relationships we have placed the three Asian countries together because they share a similar emphasis on Confucianism and collectivism and thus are more likely to be similar to each other than to the United States (Hofstede & Bond, 1988). Nonetheless, we still anticipate some important differences between these three countries as well. Owing in large part to the lack of prior data on HRM practices in Pacific Rim countries, particularly South Korea and Taiwan, however, we are reluctant to make specific predications on these differences. Instead, we chose to treat such differences as an empirical issue and discuss them at the end of the paper.

The exploratory relationships are as follows:

1. Employees in the three Asian countries (Japan, Taiwan, and Korea) will perceive existing pay incentives to be more prevalent than in the United States. However, in light of U.S. managers' beliefs in pay-for-performance, we believe pay incentives will be more closely related to organizational effectiveness and employee job satisfaction in the United States than in the three Asian countries.
2. Pay based on long-term goals will currently be emphasized to a greater degree and related more closely to job satisfaction and organizational effectiveness in the Asian countries, especially Japan, than in the United States.

3. Seniority will be viewed as a more important factor in pay decisions and will be more closely related to employee satisfaction and organizational effectiveness in the Asian countries than in the United States.
4. U.S. employees will perceive American firms as having stronger or more generous benefits policies currently than the other three countries. However, because U.S. employees tend to view benefits as entitlements, we would not expect any differences in employee perceptions between the United States and the three Asian countries on the relationship between a strong benefits policy and job satisfaction and organization effectiveness.

METHODS

Subjects

The participants in this four-country study are primarily managers and engineers. The surveys were either administered in person or returned to co-authors and their contacts by mail. The surveys were originally developed in English. The Chinese and Japanese surveys went through a translation and back translation process by native born professors. The Korea survey was translated by a Korean academic expert in translations. This translation was then reviewed by a number of Korean academics in the United States.

South Korea

The Korean sample consists of 237 managers. The respondents include one to three managers from over fifty organizations representing both the manufacturing and service sectors.

Taiwan

The Taiwan sample consists of 241 employees from thirty medium and large manufacturing companies. The sample is approximately 50 percent managers, 40 percent engineering employees, and 10 percent administrative or unknown types of personnel.

Japan

Data from Japan include 223 respondents who are mainly from three large manufacturing companies. About 60 percent of these respondents have

managerial responsibility, 30 percent are engineers, and 10 percent are from other functional areas.

United States

The U.S. sample includes 144 managers. About 50 percent of the sample are managers from a diverse set of organizations who participated in two executive business education programs associated with a large southwestern university. The other half of the sample is from a large defense corporation also located in the southwestern United States.

Instruments

This study is part of a larger research program that also includes questions on a number of other HRM practices and organizational contextual factors. The present study focuses on three major groups of variables: strategic pay practices, job satisfaction, and organizational effectiveness.

Pay Practices

The nine strategic pay questions are adapted from Balkin and Gomez-Mejia (1990). The respondents were asked two types of questions concerning each strategic pay practice. First, they were asked to what extent the items describe the way pay practices *currently* are conducted ("Is Now"). Second, the employees were asked to what extent the pay practices *ought* to be conducted to promote organizational effectiveness ("Should Be"). The employees responded on a Likert type scale ranging from 1 (Not at all) to 5 (To a very great extent). This scale is slightly different from the one originally used by Balkin and Gomez-Mejia.

We group most of the pay items in a fashion similar to Balkin and Gomez-Mejia (1990), but to adapt the pay variables from a U.S. to a cross-cultural perspective we made the following two changes. First, Balkin and Gomez-Mejia considered seniority a reverse scored item on pay incentives. However, because seniority systems are often heavily used in Asia along with incentives, we decided to assess seniority separately. Second, since the nature and meaning of pay incentives and bonuses varies between the countries, we decided to analyze all of the incentive questions (including individual and group based incentives) together. By doing this we would be able to examine patterns in the data on all related incentive questions.

With these two changes, we analyze the following four groups of strategic pay variables whose abbreviations and numbering are shown in Table 1 (the complete list of items is shown in the Appendix): (1) Four items on *incentive pay* (#1, 3, 6, and 9). An example is "Pay incentives are designed to provide

a significant amount of an employee's total earning in this organization." (#6) (2) Two items on whether pay is based on *long-term goals* rather than short-term goals (#4 and 8). For instance, item #4 is "Our pay policies recognize that long-term results are more important than short-term results." (3) Two items on having a *strong benefits policy* (#2 and 7). For example, item #7 is "The employee benefits package is very generous compared to what it could be." (4) One item on *seniority* based pay (#5): "An employee's seniority does enter into pay decisions." The sample size, means, and standard deviations of the pay practices, organizational effectiveness, and job satisfaction variables are shown in Table 1.

Job Satisfaction

Given the differences in cultures we chose to use a number of measures to capture a wide variety of views on job satisfaction and organizational effectiveness. Based on the major aspects of job satisfaction we include six single-item measures of employee satisfaction with job, supervisor, organization, pay, promotion, and job security. The Likert-type scale used is the same as the one for the pay practices.

Organizational Effectiveness

For the organizational effectiveness items the respondents were asked how accurately the following items describe their company on a scale from 1 (Very false) to 5 (Very true). The six items, which are based largely on the work of Porter (1990), are also shown in Table 1 and include whether the organization produces high quality goods/service, manages its people well, has high quality people working here, is very effective overall, has a very productive work force, and is seen as a leader in its industry.

Data Analysis

Because the various items were originally developed in the United States, the responses must be evaluated with caution. In particular we do not make direct comparisons of the differences in mean scores between the four countries since the respondents from different cultures may have different frames of reference in assessing their work experience (Cox, Lobel, & McLeod, 1991; Meindl, Hunt & Lee, 1989). Instead, we analyze the four groups of pay practices to determine the patterns of results within each country and then make general comparisons to the other countries.

Our primary means of analysis is an assessment of how strongly the four groups of "Is Now" strategic pay practices are significantly correlated with the two sets of dependent variables on job satisfaction and organizational

Table 1. Descriptive Statistics Pay Practices, Job Satisfaction, and Organizational Effectiveness Taiwan, Japan, Korea, and the U.S.¹

Variable	Taiwan ²		Japan ³		Korea ⁴		U.S. ⁵	
	Mean	S.D.	Mean	S.D.	Mean	S.D.	Mean	S.D.
Strategic Pay Items ⁶								
1 Bonus/profit sharing	IN 3.05	1.04	3.31	0.94	2.44	1.13	2.77	1.25
1 Bonus/profit sharing	SB 4.05	0.71	3.59	0.80	3.90	0.88	4.14	0.85
2 Benefits important	IN 2.98	0.93	2.60	0.79	2.82	1.08	3.72	0.98
2 Benefits important	SB 3.84	0.79	3.12	0.76	3.74	0.93	4.17	0.75
3 Group/Company Goals	IN 3.12	0.95	2.20	1.07	2.31	1.17	2.40	1.25
3 Group/Company Goals	SB 3.95	0.63	2.91	1.07	3.49	1.07	4.01	0.89
4 Long-term important	IN 3.47	0.86	2.93	0.92	2.39	1.12	2.00	1.00
4 Long-term important	SB 4.01	0.64	3.41	0.75	3.64	0.96	4.01	0.82
5 Pay based seniority	IN 3.48	0.87	3.39	0.78	2.92	1.13	2.96	1.17
5 Pay based seniority	SB 3.59	0.72	2.97	0.72	3.50	0.90	2.45	1.13
6 Incentives-important	IN 2.48	0.91	2.47	1.04	3.266	1.04	2.20	1.11
6 Incentives-important	SB 3.24	0.93	2.76	0.88	2.76	0.83	3.56	0.92
7 Benefits-generous	IN 3.21	0.92	2.72	1.00	2.56	1.01	3.17	1.17
7 Benefits-generous	SB 4.18	0.57	3.46	0.78	3.71	0.81	3.58	0.84
8 Pay: long-term/2 yrs	IN 2.81	0.96	2.47	0.86	2.35	1.08	1.73	0.86
8 Pay: long-term/2 yrs	SB 4.10	0.63	3.34	0.71	3.92	0.80	3.85	0.84
9 Performance based pay	IN 2.95	1.07	2.66	0.94	1.83	0.93	2.42	1.01
9 Performance based pay	SB 4.14	0.69	3.37	0.88	3.27	1.04	4.23	0.69

(continued)

Table 1. (Continued)

Variable	Taiwan ²		Japan ³		Korea ⁴		U.S. ⁵	
	Mean	S.D.	Mean	S.D.	Mean	S.D.	Mean	S.D.
<i>Job Satisfaction Items</i>								
Job Satisfaction	3.30	0.82	3.67	0.88	2.96	0.83	3.88	0.93
Manager Satisfaction	2.32	1.38	3.38	0.91	2.73	0.85	3.67	1.03
Company Satisfaction	3.14	1.67	2.98	0.90	2.83	0.82	3.56	1.02
Pay Satisfaction	3.40	0.96	3.09	0.87	2.39	0.91	3.49	0.96
Promotion Satisfaction	3.05	0.99	3.04	0.82	2.36	0.89	3.22	1.12
Security Satisfaction	3.50	0.91	3.13	0.73	2.78	0.92	3.25	1.17
<i>Organization Effectiveness Items</i>								
High quality goods/services	3.78	0.76	3.92	0.78	3.52	0.90	4.16	0.81
Manages its people well	3.06	0.91	2.99	0.79	3.01	0.95	3.03	0.90
Has High quality people	3.62	0.82	3.75	0.74	3.31	0.87	3.99	0.81
It is svery effective overall	3.40	0.87	3.49	0.84	3.03	0.92	3.38	0.91
Has very productive workers	3.27	0.89	3.24	0.77	3.13	0.91	3.37	0.81
Seen as leader in industry	3.60	1.00	4.17	0.85	3.54	1.04	3.92	0.90

Notes: ¹ All questions are on a 5-point Likert Scale.

² The Taiwan sample size ranges from 218 to 241 except for the Pay Practice #4 items where the data sample is 117.

³ The Japan sample size is 222.

⁴ The Korea sample size ranges from 221 to 237.

⁵ The U.S. sample size ranges from 137 to 144, except for the Organizational Effectiveness item on "Seen as a leader in its industry" which has a sample size of 93.

⁶ The IN stands for the Is Now Pay practice questions and the SB stands for the Should Be Pay practice questions

Table 2. Zero Order Correlations of "Is Now"
Nine Pay Practices with Six Job Satisfaction Measures

Job Satisfaction Measures	Nine Pay Practices ¹								
	1	2	3	4	5	6	7	8	9
<i>Taiwan</i> ²									
Job	.07	.12	.03	-.03	.04	.02	.06	.05	.04
Manager	.01	.05	-.06	-.05	-.03	-.04	-.02	-.03	-.11
Company	.04	.09	.00	-.10	.10	.01	.11	.07	.03
Pay	-.03	.17*	.06	.06	.13*	.06	.21*	.22*	.17*
Promotion	.09	.13*	.16*	-.07	.13*	.16*	.26*	.18*	.19*
Security	.06*	.23*	.18*	-.01	.14*	.03	.31*	.23*	.21
<i>Japan</i> ³									
Job	.05	.01	.11	.10	-.01	-.06	.08	.06	.22*
Manager	-.03	.09	.15*	.18*	.01	-.06	.19*	.08	.21*
Company	.10	-.01	.09	.21*	-.16*	-.06	.007	.18*	.24*
Pay	.20*	.04	-.07	.09	-.12	-.01	.16*	.16*	.20*
Promotion	.12	.09	.15*	.06	-.14*	.04	.20*	.18*	.21*
Security	.20*	.14*	.13*	.22*	-.00	.12*	.27*	.27*	.20*
<i>Korea</i> ⁴									
Job	.27*	.22*	.25*	.28*	.18*	.12	.31*	.26*	.04
Manager	.21*	.28*	.23*	.21*	.14*	.15*	.32*	.25*	.03
Company	.35*	.33*	.29*	.30*	.13*	.25*	.45*	.39*	.12
Pay	.33*	.37*	.12	.19*	.21*	.20*	.53*	.38*	.07
Promotion	.34*	.31*	.20*	.20*	.16*	.22*	.44*	.25*	.04
Security	.27*	.26	.10	.17*	.24*	.26*	.45*	.25*	-.01
<i>U.S.</i> ⁵									
Job	.14	.25*	.21*	.26*	-.17*	.13	.23*	.27*	.12
Manager	.12	.18*	.09	.25*	-.16	.17	.07	.22*	.30*
Company	.15	.32*	.06	.28*	-.21*	.05	.19*	.23*	.13
Pay	.24*	.36*	.33*	.21*	-.14	.11	.36*	.27*	.03
Promotion	.15	.16	.12	.18*	-.03	.06	.16	.15	.00
Security	.18*	.31	.24	.28*	-.12	.14	.29*	.20*	.07

Notes: ¹ Abbreviated versions of the nine pay practices "Is Now" items:

- 1) Bonus/Profit Sharing Are Important
- 2) Benefits Are Important Part of Pay
- 3) Group/Organizational Goals After Pay
- 4) Long Term Results More Important
- 5) Seniority Affects Pay Decisions
- 6) Pay Incentives Are Significant
- 7) Benefits Are Generous
- 8) Pay Is Future Oriented (two years or more)
- 9) Pay is Based on Employee Performance

² The Taiwan data samples size is from 217 to 240, except for Pay practice #4 where the sample size is 108 to 118.

³ The Japanese data sample size is 222.

⁴ The Korean data sample size is from 226 to 236.

⁵ The U.S. data sample size is from 136 to 140, except for Pay Practice #10 where the sample size is 87.

* P < .05, Two tailed

Table 3. Zero Order Correlations of "Is Now" Nine Pay Practices with Six Organizational Effectiveness Measures

Organizational Effectiveness Measures	Nine Pay Practices ¹								
	1	2	3	4	5	6	7	8	9
<i>Taiwan</i> ²									
High Quality Goods	.41*	.36*	.24*	.27*	.18*	.30*	.46*	.47*	.39*
Manage People Well	.46*	.38*	.34*	.49*	.12	.43*	.51*	.6*	.56*
High Quality People	.28*	.35*	.09	.38*	.25*	.13*	.43*	.39*	.54*
Effective Overall	.45*	.37*	.25*	.39*	.28*	.30*	.42*	.56*	.49*
Productive Workers	.45*	.34*	.23*	.35*	.19*	.31*	.41*	.53*	.50*
Leader in Industry	.36*	.26*	.22*	.34*	.27*	.21*	.38*	.48*	.43*
<i>Japan</i> ³									
High Quality Goods	.15*	.01	-.04	.13	.01	.06	.14*	.12	.06
Manage People Well	.12	.08	.02	.13	.13*	-.02	.16*	.15*	.18*
High Quality People	.09	.08	.05	.03	.01	-.00	.13	.12	.21*
Effective Overall	.27*	-.16	-.17*	-.00	-.12	.12	-.07	.02	.03
Productive Workers	.15	-.10	-.10	-.03	-.03	.09	-.03	.02	.05
Leader in Industry	.22*	-.22*	-.20*	-.01	-.03	.03	-.14*	-.04	.02
<i>Korea</i> ⁴									
High Quality Goods	.37*	.37*	.24*	.31*	.18*	.20*	.35*	.34*	.12
Manage People Well	.51*	.40*	.32*	.43*	.26*	.18*	.46*	.53*	.26*
High Quality People	.42*	.31*	.26*	.33*	.19*	.26*	.43*	.43*	.23*
Effective Overall	.31*	.28*	.31*	.43*	.22*	.09*	.42*	.50*	.25*
Productive Workers	.31*	.23*	.28*	.34*	.12	.07	.31*	.45*	.26*
Leader in Industry	.22*	.16*	.12	.19*	.12	.14	.19*	.24*	.04
<i>U.S.</i> ⁵									
High Quality Goods	.21*	.41*	.17*	.19*	-.08*	.01	.31*	.17	-.00
Manage People Well	.29*	.28*	.27*	.46*	-.21*	.19*	.14	.37*	.35*
High Quality People	.08	.27*	.04	-.04	-.02	.09	.13	.04	.06
Effective Overall	.22*	.32*	.35*	-.09	.00	.23*	.22*	.17	.01
Productive Workers	.21*	.27*	.15	.26*	-.19*	.10*	.11	.25*	.13
Leader in Industry	-.09	.06	-.15	.10	.07	-.09	.09	-.07	-.02

Notes: ¹ Abbreviated versions of the nine pay practices "Is Now" items:

- 1) Bonus/Profit Sharing Are Important
- 2) Benefits Are Important Part of Pay
- 3) Group/Organizational Goals After Pay
- 4) Long Term Results More Important
- 5) Seniority Affects Pay Decisions
- 6) Pay Incentives Are Significant
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² The Taiwan data samples size is from 217 to 240, except for Pay practice #4 where the sample size is 108 to 118.

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⁵ The U.S. data sample size is from 136 to 140, except for Pay Practice #10 where the sample size is 87.

* $P < .05$, Two tailed

effectiveness. The zero-order correlations between the "Is Now" pay practices and the job satisfaction items are shown in Table 2. Zero-order correlations between the "Is Now" pay items and organizational effectiveness measures are illustrated in Table 3.

With four countries there is a large amount of data. Thus, to simplify the analysis we tabulate the number of significant correlations ($p < .05$) between each group of pay practices and the six employee job satisfaction and six organizational effectiveness measures. For each set of six criterion variables we depict a pay practice with zero to two significant positive correlations as a low relationship, three or four significant correlations as a moderate relationship, and five to six significant correlations for each set of dependent variables as a strong relationship. We aggregate the responses for three of the four groups of pay practices that have multiple items. We also examined both the size and sign of the correlation coefficients in making our determination of the strength of the relationship.

A summary of our analysis of the relationships between the four groups of pay practices and the two sets of dependent variables for the four countries is shown in Tables 4 through 7. In the following section we discuss how we derive these analyses. In some instances we also supplement the correlational analyses by commenting on the mean scores for the "Is Now" and "Should Be" pay practices to draw further inferences.

Table 4. Incentive Pay Practices Relationships Strength to Job Satisfaction and Organization Effectiveness

Country	Taiwan	Japan	Korea	U.S.
Job Satisfaction	Low	Low to Moderate	Moderate to High	Low
Organization Effectiveness	High	Low	Moderate to High	Low to Moderate

Table 5. Generous Benefits Practices Relationship Strength to Job Satisfaction and Organization Effectiveness

Country	Taiwan	Japan	Korea	U.S.
Job Satisfaction	Low	Low to Moderate	High	Moderate
Organization Effectiveness	High	Low: Some Negative	High	Moderate

Table 6. Pay Based on Long-term Goals Relationships Strength to Job Satisfaction and Organization Effectiveness

Country	Taiwan	Japan	Korea	U.S.
Job Satisfaction	Low	Moderate	High	Moderate to High
Organization Effectiveness	High	Low	High	Low to Moderate

Table 7. Seniority Affecting Pay Relationships Strength to Job Satisfaction and Organization Effectiveness

Country	Taiwan	Japan	Korea	U.S.
Job Satisfaction	Low to Moderate	Low: Some Negative	Moderate	Low: Some Negative
Organization Effectiveness	Moderate	Low	Moderate to High	Low: Some Negative

RESULTS

Pay Incentives

A summary of the strength of the relationship between the four pay incentive questions (#1, 3, 6, and 9) and the job satisfaction and organizational effectiveness measures are shown in Table 4.

Taiwan

As shown in Table 2, there are few significant correlations between the four pay incentive items and the six individual job satisfaction measures. Therefore, we assess the strength of this relationship as being low as indicated in Table 4. However, the data from Table 3 reveal that there are many significant correlations between the pay incentives items and the six organizational effectiveness measures, with some of the zero-order correlations ranging up to .54. Thus, we categorize the strength of this relationship as being high.

Japan

The four pay incentive items have few significant correlations with either the job satisfaction or organization effectiveness measures. For these reasons we depict the overall strength of the relationships as being low for organizational effectiveness. However, we suggest a low to moderate for pay

incentives to job satisfaction, because item #9 ("Pay raises are determined mainly by an employee's job performance") is significantly correlated with all six individual job satisfaction items. This finding is interesting given that pay incentive item #9 strongly emphasizes pay based on individual job performance. As such, it may indicate a growing interest among Japanese employees in individual incentive practices, a finding that will be discussed in greater detail later.

South Korea

The results in this area are largely opposite to those of Japan as three of the four pay incentive items are significantly correlated with many of the job satisfaction items. The only pay item which is not related to job satisfaction in Korea is #9 ("Pay raises are determined mainly by an employee's job performance"), the item most strongly related to job satisfaction in Japan.

Two of the four pay incentive questions, #1 "Pay incentives such as bonus or profit sharing" and #3 "Earnings contingent on group or organization goals," are significantly correlated with nearly all of the organization effectiveness measures. The other two items, #6 "Pay incentives are a significant amount of an employee's earnings" and #9 "Pay raises are determined by an employee's performance," are significantly correlated with more than half of the six organizational effectiveness measures. Overall, we characterize the strength of the relationship between pay incentives with job satisfaction and organizational effectiveness as being moderate to high.

United States

In general, there are few significant correlations between the pay incentives and job satisfaction or organizational effectiveness. These results are surprising in light of the traditional pay-for-performance concept advocated by American firms as mentioned earlier. Based on these results, we characterize the strength of the relationship between incentive pay and the two sets of dependent variables as being low in the U.S. sample.

Benefits

The summary analysis of relationships of the benefit practice items, #2 "Benefits are an important part of the total pay" package and #7 "The employee benefits is very generous compared to what it could be," with the criterion variables are shown in Table 5.

Taiwan

Both benefit questions are significantly correlated with all six organizational effectiveness items, indicating a strong relationship. In addition, each benefit item had three significant correlations with the six employee job satisfaction items, showing a moderate relationship.

Japan

Overall, there are not many significant correlations between the benefit items with either set of dependent variables. In fact, both benefit questions are significantly negatively correlated with the organizational effectiveness item #6 "The company is seen as leader in its industry." These results imply that having a strong benefit policy is not a critical aspect of organizational effectiveness or employee satisfaction in Japan.

South Korea

Both benefit items are significantly correlated with all of the job satisfaction and organization effectiveness measures with many of the correlations ranging from .25 to .50. These results indicate that emphasizing a strong benefit policy may have very positive effects on employees and organizations in Korea.

United States

In the U.S. sample, the benefit items are significantly correlated with more than half of each set of dependent variables. These results indicate a moderate relationship between having a strong benefits policy and employee job satisfaction and organizational effectiveness in the United States.

Pay Based on Long-Term Goals

Our conclusions on the relationships between long-term pay, #4 "Pay policies recognize long-term results are more important" and #8 "The pay system has a futuristic orientation," and the two groups of dependent measures are shown in Table 6.

Taiwan

Both long-term pay practice questions are significantly correlated with all of the organizational effectiveness measures with many of the correlations ranging from .35 to .60. These data indicate a strong relationship between long-term pay and organizational productivity. However, only a few significant

correlations were found with the employee satisfaction items, a finding consistent throughout the Taiwanese data.

Japan

There are some significant correlations between the long-term pay items and job satisfaction, indicating a moderate relationship. However, there are few significant correlations with the organizational effectiveness items. These results are surprising given that Japanese firms have been characterized as emphasizing long-term goals.

South Korea

Both long-term pay questions are significantly correlated with all of the job satisfaction and organizational effectiveness items. Many of the correlations are in the moderate to high range from .20 to .50. These results indicate a strong relationship between long-term pay and the two groups of criterion variables in Korea.

United States

The two long-term pay items are correlated with nearly all of the job satisfaction items and almost half of the organizational effectiveness measures. Based on these data we assess the strength of the relationships as being moderate to high for job satisfaction and low to moderate for organization effectiveness.

Seniority

The summary analysis of the relationships between whether seniority enters into pay decisions (#5) and the two sets of dependent variables is shown in Table 7.

Taiwan

The seniority item is significantly correlated with three of the six job satisfaction measures and four of the six organization effectiveness measures, although the magnitude of the job satisfaction correlations are relatively low ($r < .14$). These data indicate that seniority based pay is moderately related to employee satisfaction and organizational productivity in Taiwan.

Japan

The seniority pay practice question has few positive significant correlations with either set of dependent variables. In fact, it is significantly negatively correlated with two of the six job satisfaction items. In addition, the seniority item is the only pay practice question whose "Should Be" mean is lower than the "Is Now" mean (see Table 1). These results suggest that Japanese employees desire to have less emphasis on seniority-based pay practices.

South Korea

Seniority is significantly correlated with four of the six organizational effectiveness items and all of the job satisfaction items, though the correlations are not high ($r < .26$). These data indicate that seniority has a moderate to strong relationship with employee satisfaction and organizational effectiveness.

United States

The seniority item is significantly negatively correlated with two of the job satisfaction items and two of the organizational effectiveness items. As with Japan, the U.S. sample's seniority pay item is the only pay practice which has a lower mean for "Should Be" than for "Is Now." These results indicate that U.S. employees would prefer to reduce the emphasis on seniority based pay practices.

DISCUSSION AND CONCLUSION

Pay practices play a critical role in motivating employees to work toward the organization's strategy and goals (Gomez-Mejia & Balkin, 1992; Schuler & Jackson, 1987). Our exploratory study of strategic pay practices in four countries supports some of the findings of previous research while also revealing some counter-intuitive results. The most general finding is that the pay practices have different effects on organizational effectiveness and job satisfaction in each of the four countries studied. An implication is that a single set of compensation practices, even across countries where the "cultural distance" is thought to be small, could result in many locations performing poorly. Some of the more specific findings are discussed below.

First, the correlational analyses indicate that the current ("Is Now") U.S. and Japanese incentive pay practices have little positive impact on employee satisfaction or organizational effectiveness. These findings are in contrast to our analyses on Korea and Taiwan, in which the pay incentives were positively related to organizational effectiveness. However, it should be noted that the U.S. sample

has very high "Should Be" mean scores for the four pay incentive practices, indicating U.S. employees' belief that incentive based pay systems should be developed to a greater degree in the future. The lack of significant relationships found in our U.S. sample supports the contentions of Kerr (1988) and Lawler (1987) that most current incentive pay practices in the United States are not effectively designed or implemented. In other words, the lack of a significant relationship may be due more to problems in execution rather than policy.

A second interesting finding, is that of the four countries, Japan has the fewest significant correlations between all four groups of pay practices and both sets of dependent variables. It is particularly surprising that neither seniority based nor long-term based pay are related to employee satisfaction or organizational effectiveness. One possible explanation is that Japanese employees tend to have a low level of job satisfaction (Hodgetts & Luthans, 1989) and do not consider compensation to be as important to their job satisfaction as American employees (Von Glinow, 1993). A second possibility is that these results (which are based on data collected in the past year) may signal important changes in Japan toward more short-term results and away from seniority based systems (Williams & Kanabayashi, 1994).

Third, we found that in Taiwan, pay incentives, pay based on long-term goals, and having a strong benefit policy were all strongly related to organizational effectiveness, but none were highly related to job satisfaction. These results appear to support earlier research (Huo & Von Glinow, 1993) that pay is not the most highly valued reward in Taiwan. Similarly, Hofstede (1980) found that the Taiwanese scored on the feminist side of his masculinity-femininity scale, reflecting a higher preference for intrinsic factors and lesser focus on extrinsic rewards such as pay. Another possible explanation is that the Taiwanese economy has been growing at a rapid pace (Farh, in press) resulting in large annual pay increases for employees (Leppert, 1984). Such regular pay increases may be viewed as routine in a high-growth economy. Employee attitudes could very well change as the economy matures in the future and the pay raises subsequently become smaller.

A surprising result for Taiwan was that pay based on seniority was not strongly related to employee job satisfaction. We speculate that this result is due to the fact that while Taiwan is still a highly collectivist country (Hofstede, 1980), it may be moving away from paternalistic management practices towards more individualistic systems (McEvoy & Cascio, 1990).

Fourth, the results indicate that the U.S. and Korean employees believe that a strong benefits policy and pay based on long-term performance are the compensation practices most conducive to employee satisfaction and organizational effectiveness. These findings are particularly surprising for the United States in light of previous research which indicates that benefits are mainly viewed as an entitlement by U.S. employees (Von Glinow & Chung, 1989). Perhaps the recent trend of downsizing and retrenchment of benefit

policies (due in part to rising health care costs) has made benefits a more salient reward to the U.S. employees.

Fifth, of the four countries, the Korean sample had the greatest number of significant correlations between all four pay practices and the dependent measures of employee satisfaction and organizational effectiveness. In fact, Korea was the only country which has a moderate to strong relationship between seniority based pay and the two sets of criterion variables. In both the United States and Japan, seniority based pay actually had some negative correlations with employee job satisfaction. The similarity of these two countries in this respect is interesting since Japanese firms are typically seen as having strong seniority based pay systems while U.S. companies are generally viewed as placing a lower value on seniority (Chang, 1989a; Von Glinow & Chung, 1989).

Caution must be exercised in interpreting these data since this study is exploratory and primarily based on the analysis of zero-order correlations with single item measures. In addition, some of the different patterns of results raise some concerns. For example, in the Taiwanese data there are very few significant correlations between the pay practices and the job satisfaction items, but many significant correlations between pay and the organizational effectiveness measures. In contrast, in the Japanese sample overall had very few significant correlations between pay practices and the two sets of dependent variables, while Korea had many with both groups of criterion measures. It is not entirely clear whether these patterns represent valid findings or typical problems encountered in cross-cultural research. Finally, there are some significant differences in samples between the four countries. In particular, the data from Japan is based primarily on only three organizations while the data from the other countries represents a much larger number of corporations.

Despite these caveats, this exploratory study does provide some interesting implications for research and practice. First, since no pay practice affected all the countries in the same way, some degree of local responsiveness in compensation is clearly necessary for MNCs. For example, these results indicate that while generous benefits might promote organizational effectiveness in Taiwan and South Korea, but have little impact in Japan. The results presented in Tables 4 through 7 can be used to develop a large number of similar implications for the other pay practices. In terms of developing local responsiveness it should be noted that there is little systemic empirical research on HRM practices in many countries (including Taiwan and South Korea). As such, MNCs which rely on local managers in their overseas business units do not know if these managers are truly adopting best practices in the local context, again indicating the need for solid empirical research.

Second, studies such as these not only provide more information about best practices in individual countries, but also can provide insights to MNCs on how to better balance the needs of global integration and local responsiveness

through systematic examination of a common set of practices across many nations.

These findings suggest replication is needed with a new set of firms. Such future studies should consider the following ideas. One, the importance of long-term pay and a strong benefits policy to effectiveness in the United States and the lack of impact of long-term pay and seniority in Japan deserve attention. Do these results indicate some important changes in U.S. and Japanese management that have been taking place in the last few years or a finding particular to the firms in this study? Two, further investigation is needed of the response patterns of the Asian managers in relation to both employee and organizational level survey variables. Three, when possible researchers should collect quantifiable measures of performance along with employee attitudinal data.

Future empirical studies can also assist in the development of theories that are functional in multiple cultural and organizational settings by further examining how contextual variables, such as national culture, business strategy, industry classification, and environmental characteristics, affect pay practices and their impact on employee attitudes and organizational performance. Such research is essential for organizations to develop effective pay practices both in managing a global labor force and a multicultural workforce in a domestic setting.

APPENDIX

Pay Practice Questions (Balkin & Gomez-Mejia, 1990)

The respondents answered the following questions on a scale from 1 (not at all) to 5 (To a very great extent) to (a) describe the way pay practices currently are conducted (Is Now) (b) describe the way pay practices ought to be conducted to promote organizational effectiveness (Should Be).

Incentive Pay Practice Items

#1 Pay incentives such as bonus or profit sharing are an important part of the compensation strategy in this organization.

#3 In this organization a portion of an employee's earnings is contingent on group or organization performance goals being achieved.

#6 Pay incentives are designed to provide a significant amount of an employee's total earnings in this organization.

#9 In this organization pay raises are determined mainly by an employee's job performance. There is a large pay spread between low performers and high performers in a given job.

Pay Based on Long-Term

#4 Our pay policies recognize that long-term results are more important than short-term results.

#8 The pay system in this organization has a futuristic orientation. It focuses employee's attention on long-term (2 or more years) goals.

Seniority Based Pay

#5 An employee's seniority does enter into pay decisions.

Strong Benefits Policy

#2 The benefits are an important part of the total pay package.

#7 The employee benefits package is very generous compared to what it could be.

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