Chapter 7 Review questions and answers

1. **What are the advantages to MNCs of developing and publicising a reward philosophy?**

The advantages of a published reward philosophy are potentially:

1. To make clear to stakeholders and employees what the company’s approach to rewarding people is. This is important in order to shape practices in different countries so that employees receive a similar, although not necessarily identical, deal. Like so many aspects of MNC operations, a global template with local adaptation is often assumed to be the best approach.

2. A reward philosophy also sets out the company’s position on reward and can be used to steer discussions at subsidiary level about new practices or variations within existing practices. Proposals that are not within the spirit of the philosophy can be ruled-out at an early stage.

2. **In equity sensitivity theory, how would the equity sensitive, benevolent and entitled react differently if management asks them to raise their performance but does not offer any additional rewards?**

‘Entitleds’ typically want to get something out of the situations that they find themselves in. In any transaction, they want to feel that they have got a little extra from the deal. The entitled are therefore more likely to question what extra they will get if they have to work harder. How will they gain from raising their performance? A general reaction might be to withdraw input or cooperation in some area, e.g., something that does not seem to affect their performance but which, if withdrawn, gives them a feeling of restoring control over their situation. They may try to negotiate something unique to them that other employees do not get.

Equity sensitives are more likely to think that, if they raise their performance, they need to restore the balance between what they give and what they get. If they have to work harder, then they may reduce their inputs on some other work-related aspect. Perhaps they would be less interested in what the company is trying to achieve (show less commitment) or show less interest in team meetings when things are discussed.

The benevolent are more likely to raise their performance but without thinking that they need to adjust or alter any other aspect of their work. They may even do harm to themselves, e.g., working extra hours, without showing any concern about it.
3. Why does the gender wage gap exist and what measures can multinationals take to reduce the gap?

Gender wage gaps derive from a range of economic and cultural factors and vary from country to country. Local legislation on equal pay (if any) and levels of women's participation in the workforce will affect the gap. In regions where the gaps are highest (e.g., Africa), direct discrimination could be part of the reason, i.e., discrimination that prevents women from occupying better paid jobs such that women do not expect to achieve pay parity and self-select into lower paid work. Some cultures may have strong norms about the role of women as home-makers such that women are discouraged from making a career.

MNCs can monitor the relative earnings of men and women on their payroll, by age, length of service and occupation, to get some basic statistics on pay differentials. If gaps are identified, then approaches include ensuring that pay levels are the same (i.e., the equal pay for equal work philosophy). If pay rates are the same then the MNC could drill into explanations for pay differences which might include tenure (men working for more years), other barriers to promotion, or social norms that deter women from applying for higher paid jobs. Where the problem is cultural rather than managerial, it is difficult to address because the MNC has to be conscious of and sensitive to local norms about the sorts of work that men and women should do. A situation that would be seen as clearly discriminatory in Western Europe may be far more nuanced in the Middle East, for example. However, providing positive action such as career and personal development opportunities for women is one possible response.

The film *Made in Dagenham* gives an excellent portrayal of pay discrimination in Ford Motor Co. in 1960s England and the fight to overcome it. Some language in the film may offend.

4. Assuming that a workforce contains a balance of the three equity sensitive types - can an employer ever expect to have a workforce satisfied with its reward strategy?

There is no clear answer to this question but it is a good topic for debate. One proposition is that, given the unique mix of personalities that exist in any organization, achieving widespread satisfaction seems an unlikely outcome.

5. From 4 above, what features of a reward strategy would help to minimize pay dissatisfaction?

You could debate the proposition that most employees are more sensitive to pay equality (i.e., sensitive to inequality) rather than actual levels of pay, within reason, so openness and transparency about pay in relation to grading structures are important.
6. **In relation to a workplace that you are familiar with, what do you think is the dominant reward allocation rule; equality, equity or need?**

The likely answer is that the equity norm dominates reward systems but students may be able to identify individual cases where the equality or needs norm is used, perhaps to configure aspects of a reward package for an individual employee’s particular, and perhaps temporary, set of circumstances. Think about reward in the broadest sense here, not just pay. Can you think of examples where aspects of work have been configured to suit a particular employee’s needs? Wider reading around the notion of ‘idiosyncratic deals’ may be useful.

7. **If MNC activity continues to increase, are reward strategies and practices likely to converge on global scale? What are the barriers to convergence?**

There is already considerable convergence in MNCs regarding reward practices and Western-style approaches seem to be widely accepted. One factor behind this is, over the past 20-30 years, the main tenets of Western capitalism have been adopted more widely (e.g., the transition of the former Soviet block countries to capitalistic principles of market operation). This has been accompanied by less state intervention in business practices and greater acceptance of the principles that organizations need to be able to design their own systems if they are to be competitive and a stronger focus on the design of systems to suit individuals and greater acceptance of the principle that individual performance should be recognized, e.g., using performance-related pay schemes. Barriers to convergence are considered below.

8. **Reward is often portrayed as an HRM practice that is relatively immune to cultural influences. Why is this?**

Debate the extent to which human desires for material benefits are influenced by cultural norms and values. Might it be the case that while social and religious conventions are observed in private life, these same values play a smaller role in shaping individual behaviour when it comes to benefitting materially? Another point to note is that within a national culture there will be a large variation in how individuals plot on the various dimensions, like individualist-collectivist. Some Americans could be far more concerned about collectivist approaches than some Japanese, for instance.

We might also expect more hierarchical (e.g., high power distance) cultures to allocate rewards based on seniority whereas less hierarchical structures might prefer rewards based on equality rather than equity. So we can identify some reasons why reward strategies will diverge, but the increasing spread of Western business models and recognition of individual contribution look like they are sufficiently strong to outplay cultural culture.
9. In light of the recent international financial crisis and public concerns about executive pay, discuss the proposition that the pay and bonuses of bankers and other senior executives need to be much more closely controlled.

There are some ethical points to bring out here such as the level of pay relative to most workers and the level or reward in return for the benefits achieved (who is benefiting and how?). Some might argue that high pay levels are easily justified in light of the benefits to the company. If, for example, a trader produces a $10 million profit then why should they not have a 5% bonus of $10 million that year? It might also be argued that without the ‘carrot’ of large bonuses the organizations will never see big results in the first place as they will not attract people with the right talent.

Counter arguments are that the bonuses are disproportionate to the employee’s contribution to society. After all, who apart from those directly involved and the shareholders are actually benefiting? Where something is being produced that improves the lives of ordinary people (pharmaceuticals perhaps) then there might be more moral justification for high bonuses compared to situations when bonuses come from making money from money. Suggestions in February 2013 from the European Union to limit bankers’ bonuses to one year’s salary indicate that there is concern at the highest levels of government and are perhaps partly based on the idea that virtually unlimited bonuses in banking carry too much risk for institutional investors, and thus a large proportion of the general public.

The 2011 film Margin Call gives a strong insight into some of the moral issues around the recent banking collapse. Be advised however that the film contains language that some people will find offensive.

10. Why might large organizations be attracted to Broadbanding?

Broadbanding offers the advantage of flexibility and that is the main attraction. Employees at different levels can be located in the same band such that their pay can be varied without so much need for regarding and promotion. They are a better fit to ‘flatter’ organization structures and allow fast responses to employees who deserve pay increases. They also support faster decisions about career paths and employee development.