

# Process Issues in the Diffusion of Performance Pay



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## INTRODUCTION

This paper uses case study findings to examine the reasons behind the uneven spread of performance pay within subsidiaries of a multinational industrial gases manufacturer. The research studied payment systems in one Irish site and two British sites of this organisation. In the Irish division, performance pay has not been mooted. Management at headquarters has described this site as being 'ten years behind' in pay practice. A *laissez-faire* approach has been shown towards this division, its buffer from change being its strong profit figures. In the first UK site studied, an ambitious plan drawn up to introduce performance pay never took extensive hold. Further, the non-financial or 'recognition' aspect of the scheme failed to materialise. This paper suggests that the scheme was overly dependent on a single individual within management ranks to 'champion' the scheme. This individual left the company and the initiative lost momentum. The third division saw performance pay go beyond the initial formulation to full acceptance by all employees. The success is attributed to both an inclusive process and a satisfactory outcome. In addition, the parameters of the performance system were clearly set by management and the trade union in advance. For management the system had to be 'results led', whilst the union insisted that it should not be 'appraisal driven'.

Deploying Kostova and Roth's (2002) perspective of institutional theory, this paper applies notions of ceremonial adoption to the data. The attempts at diffusion evidenced offer tentative support to notions of 'institutional duality' as defined by Kostova and Roth (2002: 216). The data suggest that the construct 'performance pay' may be prone to symbolic isomorphism, rendering measurement of its true diffusion and institutionalisation a complex task. In addition, process variables dictate the ease with which pay change is adopted and, perhaps more importantly, the longevity or robustness of a new system. However a caveat must accompany this. The detail of the system is not inconsequential. Both the principles and mechanics underpinning a performance pay scheme may be crucial to its efficacy.

## THE DIFFUSION AND 'CEREMONIAL ADOPTION' OF HR PRACTICES

Institutional theory has been used in the study of how organisational practices are adopted and diffused (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Tolbert and Zucker, 1983; Abrahamson, 1991; Scott, 1995). Drawing upon this theory, Kostova and Roth (2002) specify what they consider the two main influences on the uptake of organisational practices. First, there is the 'institutional profile' of the host country. This is defined as "the issue-specific set of regulatory, cognitive, and normative institutions in a given country" (2002: 217). Briefly, the regulatory element reflects the laws and rules in a given national environment. The cognitive component mirrors the widely shared social knowledge and cognitive schemata in that particular country. The final element of the institutional profile is the normative information that encapsulates the beliefs, assumptions and values held by the native population. The second factor influencing the adoption of a practice is the 'relational context' between the parent and the subsidiary. Kostova and Roth (2002: 218) define the relational context using three indices – dependence, trust and identity. The proposition is that compliance is greater where dependence is high, when there is intra-organisational trust and when the subsidiary employees experience a state of attachment to the parent organisation. Furthermore, according to these authors, where the subsidiary is in a foreign country there is 'institutional duality'. Not only are subsidiaries concerned with establishing legitimacy with both the external host country's institutional environment and the MNC's environment, but it must also reconcile these two institutional pressures. Tregaskis et al. (2001: 50) suggest that a 'hybrid localisation' occurs whereby macro-HR practices within a given corporation are standardised but that micro-HR activities are subject to local adaptation.

The 'convergence or divergence' debate (Berger and Dore, 1996; Weber et al., 2000) also informs the study of HR practice diffusion. The tendency among MNCs to introduce common HR practices across their international subsidiaries has been labelled 'company-based employment systems' (Marginson and Sisson, 1994). Ferner and Hyman (1998) have suggested that continuation of this trend would result in increasing 'corporate isomorphism' cross-nationally. If this were so, according to Geary and Roche it would suggest:

that patterns of employment relations respond to, and are being shaped by, a host of factors and are not simply being homogenized ... by common pressures arising from internationalisation. (2001: 113)

Ferner and Hyman (1998: xxii) believe that institutions mediate 'common external forces in a variety of ways and with greater or lesser degrees of success'. They may at times possess an inflexible 'sticky' aspect, especially when they have a legislative basis (Streeck, 1992). Locke and Thelen (1995) concur that comparative institutional analysis must take into account the fact that 'institutional sticking points' are likely to vary from country to country. According to Katz and Darbishire (2000), country-specific institutions matter in

that HR practices have complemented rather than replaced existing institutional arrangements.

Kostova (1999) argues that although implementation and internalisation are theoretically distinct, they are most probably interrelated. As Selznick (1957) implied, the more a practice is used the more likely it will become infused with value. However, implementation may not always result in such internalisation. Kostova and Roth (2002) contend that by studying the joint effects of institutional and relational factors, an understanding of the pattern of adoption can be gleaned. These authors are especially interested in cases where subsidiaries formally adopt a practice but have doubts about its real value. Such 'ceremonial adoption' seeks to boost the subsidiary's perceived legitimacy and bolster its chances of survival.

#### RESEARCH METHODOLOGY

Kostova and Roth's framework (2002) is adapted here for use with qualitative data. Practice implementation and internalisation is, according to their conception, swayed by the 'institutional profile' (regulatory, cognitive and normative dimensions) and the 'relational context' (inter-unit dependence, trust and identification). Three sites will be studied to see if the take-up of performance pay fits with Kostova and Roth's theory.

This present piece of research follows on foot of survey analysis in which two large-scale datasets, one British and one Irish, were compared (Grace, 2002). Comparison indicated similar underlying trends in the spread of performance pay, independent of geographical location. Whilst institutional differences may bias the timing and nature of performance pay adoption, the decision to use performance pay appears to ultimately hinge upon workplace circumstances. Country specific factors were crosscut by contingent variables such as occupational type, industrial sector, work process, company size and ownership. This follow-on qualitative piece of research looks at performance pay practice from closer quarters. Kostova and Roth (2002) contend that the implementation and internalisation of management practices vary across foreign subsidiaries as a result of both the institutional environment of the host country and the relational context within the MNC. This contention will be explored using the case study method. Of the three sites studied, two of the sites are British based and one is Irish. The proximity in 'cultural distance' between Britain and Ireland (Tregaskis et al., 2001) is useful for this present research, as comparison of sites across the two countries is subject to less 'noise', with unanticipated or outside variables less likely to feed into any divergences that do emerge. This research took the form of participant observation, archival trawls and in-depth interviews with human resource/compensation managers, with senior trade union personnel and with industry consultants.

#### CASE STUDY

A research site was chosen that is sufficiently large to accommodate comparison of sub-divisions. The organisation has British and Irish divisions so a sense of

national differences can emerge. Information of a longitudinal dimension was available via a PhD thesis completed on the organisation in the 1970s (Nightingale, 1976). In sum, we have an organisation within which both spatial and temporal effects on pay can be viewed. The site chosen was an industrial gases company that will be referred to as Gasco to preserve anonymity. This organisation is apposite for exploration as various attempts were made to introduce performance pay during the period of study (1997–1999). This study will look at three sub-businesses: the first is the cylinder or ‘fabrication’ business in the UK (GasCylinder); the second is the Irish gases business (GasIreland); the third unit provides compressed gases to the hospitality sector (GasCompressed).

### **GasCylinder**

GasCylinder, the main fabrication and cylinder business, has a history of paternalist management. GasCylinder managers in the UK also admitted to a culture that values task-focused behaviour, risk-aversion and caution. Notwithstanding management’s fondness for the lexicon of ‘employee empowerment’, GasCylinder’s decision-making continues to be directed from the top. According to the HR manager, the ‘culture is such that any change will be driven in once a target and milestones have been signed off’.

GasCylinder has a high level of union membership. The relations between management and unions are described as being of the ‘traditional adversarial’ style. The fragmented nature of its pay systems in 1997 reflected the *ad hoc* manner in which they had grown up. The variable portion of the payroll posed particular discomfort for managers. This component comprised a host of frequently obscure payments, bonuses and incentives. There was no direct or certain link between company profitability and variable pay. The spread between high performers’ and low performers’ pay was limited, with most clustered around a central median. As the HR manager dryly remarked, ‘All GasCylinder employees are above-average employees’.

The primary reason given for the adoption of performance pay was a push ‘to ensure reward supports [the] achievement of new business strategy ...’. The project sponsors wanted to send out ‘a very obvious statement to employees about our culture ... and ... move towards a more entrepreneurial business’. The managing director was confident that performance pay would create such an ‘entrepreneurial culture’. In turn, the HR manager describes the ‘stress’ he felt in the first few weeks on the job as he tried to persuade the MD to slow the process. The HR manager recalls that the MD, as a highly ambitious, ‘highly paid and highly bonused’ individual, assumed that all employees worked to the same motivation and tempo.

Although GasCylinder had achieved profitability throughout the 1990s, high labour costs were starting to pinch. Senior management tried to nip this trend through the creation of local cost centres that were answerable to headquarters. Traditionally, GasCylinder management had found both the measurement and management of performance a difficult and precarious task. However, more exactitude was possible from early 1997 as a result of the reorganisation of the

fabrication business. A tighter financial information system made possible the identification, measurement and attribution of profitability right down to individual functions and employees.

When GasCylinder managers selected the groups to whom performance pay would apply, they chose cohorts who were already receiving some form of incentive payment. They simply 'took and reworked the existing bonus money'. The HR manager described this tactical selection process as 'priming the pump'. Further, these groups of workers had a 'commercial element' to their work. Their work was linked explicitly to sales and the market, and could be measured. The initiative to introduce performance pay was launched on a phased basis. The profit figure was to be reserved. This was to allow scope for manipulation should 'winners' not be naturally forthcoming in the year of inception. Management was determined that the pilot group should be treated to a 'win' (or financial gain) in their first year of participation. This was a result that management would contrive to keep those affected agreeable. These early participants could then pass on 'strong positive feedback' to the wider workforce. At senior levels, however, the process was less certain. As alluded to earlier, incongruities and equivocation surfaced between the directors who ordered change and the managers charged with implementation. The human resource manager also cited the 'lack of absolute clarity of budget as a constraint'.

The pay elements related to performance were based on two aspects of profitability. The greatest proportion of an individual's performance pay would be determined by the achievement of targets in that part of the business over which the individual had most direct influence. In addition, there would be recognition of the attainment of broader business targets. By way of illustration, for sales representatives 70 per cent of their incentive pay would be driven by the profit figure within their territory, whilst 30 per cent would be based on the profitability of the wider area. GasCylinder was eager to move beyond the clustering tendency in the performance ratings and pay of groups of employees. Thus the upper limit or cap on payments was, in theory, removed. At the other end, for weaker performers, the non-achievement of targets would result in no performance-related payments. Pay matrices were constructed which allowed employees to see how different achievement levels triggered differential pay levels. A quarterly reporting mechanism was set up to allow employees to monitor how well they were doing relative to targets. Management believed that this, combined with frequent review meetings, would allow workers to 'adjust their effort or behaviour' on a 'timely' basis (Corkerton and Bevan, 1998: 42).

Five projects, encompassing 300 employees, were run initially. A tactical plan was sketched which created a reasonably achievable performance-to-pay link in the first year. The second year saw the inclusion of more demanding 'thresholds' of performance. In 1998, GasCylinder management began their first assessment of the scheme. Management's concern for the provision of feedback to employees was unnecessary. As the HR manager commented, the workers now 'know down to the pound' what they are owed from the scheme. The HR manager noted that individuals were intensely focused on their own goals and

performance measures. Their concern for wider business goals was less acute.

Management believed that the performance-pay scheme impacted positively on bottom line profits. The six-month profits in fabrication were above budget despite tight market conditions. Managers involved were also keen to claim that the workforce was refocused towards business goals. Certainly, employees had become significantly more profit orientated. On the other hand, the project failed to roll out as fully as planned. The HR manager most intimately involved in the project left the company and the task became jaded. One of the division's biggest regrets was that plans for a parallel 'recognition' or non-financial scheme never materialised. Thus only monetary reward was acknowledged.

### **GasIreland**

The Irish operation manufactures liquid oxygen, liquid nitrogen and liquid argon. It also maintains cylinder filling and distribution centres. Although there are nearly 350 people employed throughout Ireland, up until August 2001 human resource activities were dispersed among operational and administrative management. Despite Gasco's common branding and a single corporate mission, at the time of the study the Irish plant was firmly in the model of traditional industrial relations. The HR manager of the cylinder business in Gasco (UK) has described the Irish operation as being 'ten years behind' the UK in its personnel management style. As stated, there was no dedicated HR or personnel function.

GasIreland had developed a distinct culture. Management was fiercely independent. Pay was agreed with the unions within the national agreements framework. Indeed management balked at the mention of newer sophisticated HR techniques. Even managers at the headquarters noted management in Ireland's defensive, even suspicious, attitude toward them on their visits to the Irish plants. However, because the Irish operation was profitable, corporate headquarters was reluctant to push for changes such as the introduction of variable pay. In turn, Irish management cites the successful record of the business as a reason for their unwillingness to change the pay system:

It's against the background that we're trading very strongly ... it's much easier if the economy was in decline and wasn't maybe quite as healthy as it is, it would be easier in those circumstances to negotiate.

The local managers expressed ease with an industrial relations style of management. Indeed up until the mid-1990s most of the junior managers joined the union MSF. This, however, was changing. According to a local manager:

There were a number of junior managers joined MSF back in the early 80s and most of those have either been promoted and left the company or left the union. We've had no one opt to join MSF in recent years. So they're virtually not an issue anymore.

Management felt that 'because we were talking about new jobs' they had

successfully instigated a new work culture in sections of the Irish manufacturing plant such as the night shift. Also, for 25 new drivers taken on, neither they nor management had made requests for overtime working. Management suggestively commented that 'it's a different issue managing those guys'. However, the manager interviewed did fear that it might be difficult to keep the two work cultures discrete. For management 'the big prize would be getting people away from the overtime'. In relation to flexibility, this manager pointed out that 70 per cent of employees worked to 'rigid' structures, 'but ten years ago it was 100 per cent, so we're getting there'. The leap between the raw practicality of the Irish management and the rhetoric of aspiration and sophistication of the British managers was stark. When asked about developments in relation to performance management, the manager responded that not much has happened 'in recent years'.

There was a major job evaluation exercise carried out around about 1983 using the HayMSL system and there was some talk of introducing appraisals at that time and adding performance-related pay ...

But, according to management, efforts were stymied by 'the union philosophy'. However, events suggest that the *modus operandi*, and concomitant personnel practices, might be on the cusp of change. First, as indicated, the propensity of managers to join MSF has fallen off. Second, along with a global 'shared services' call centre service established by the UK division, new expertise might be expected to arrive with the establishment of a dedicated HR function. Industrial relations were to continue to be managed by the line management. The HR manager would, however, be expected to support and contribute to industrial relations policies.

In summary, the Irish practice remains both geographically and ideologically removed from its British counterpart. Strong profit figures traditionally had afforded it the luxury of 'splendid isolation'. However this appeared set to change.

### **GasCompressed**

The third division studied was the group within Gasco that supplies gas to the hospitality and leisure trade ('pubs 'n clubs'). This group has only been in existence since the early 1990s. Though wholly owned by Gasco, GasCompressed is run semi-autonomously. It has its own profit targets and also has freedom from the gases business pay structure. Another difference between GasCompressed and other gases is that the information systems in the other gases are more detailed. Thus, whilst the core factor determining the payment of bonuses in the scheme in GasCylinder was profit deriving from the actual product sales, in GasCompressed 'sales growth' is the metric deployed.

People within the GasCompressed division consider themselves first as 'GasCompressed people' and see their membership within Gasco as secondary. Employing 300 staff, this worksite originally began as a non-unionised venture. In 1994, however, one of the main trade unions entered negotiations with management. Around the same time, talks began for a 'brand new pay



agreement'. In the course of its ten years, GasCompressed has spawned a distinct culture. Demarcations that existed in Gasco's other gases have been collapsed in GasCompressed, for example drivers will engage in loading of products. However, mistrust lingering from previous variable systems had to be dealt with. Employees had reported their suspicion of the earlier bonus system, feeling that it was 'fixed by management'. Also, the due payout was not always forthcoming. Management for their part found the earlier system 'tremendously complicated'.

In the GasCompressed division there are two main categories of worker. These are the sales and driving staff, and the production staff who fill the containers. Both groups of worker are included in the new performance-pay scheme. This stands in contrast with the performance pay in GasCylinder where managers, sales staff and marketing people are included, but it stops short of industrial staff and drivers. In GasCompressed it was agreed that management and the trade union would jointly establish a workable performance pay system. Throughout the design, introduction and implementation stages a system of open and transparent joint working was created. Agreement was forthcoming on the stipulation from the union that management eschews 'appraisal driven pay'. Issues of behaviour, competency and staff development were left to the appraisal system. Training to equip line managers with staff appraisal skills has taken place. However, this is an area where deficiencies remain.

During preliminary discussion, management insisted that the planned pay system was 'driven by business objectives'. Matrices were drawn up linking results and payouts. The template was considered clear and upfront, and staff could work out for themselves what they were to receive. There was also cognisance of the interdependence between the individual employee and the group. The formulae linking performance to pay was signed off beforehand by management and the trade union. Fears that either party might manipulate the 'goal posts' during the process were thus allayed. It was agreed that staff appraisals should be a separate process. A consultant involved in the process described the new pay system as 'transparent and easy to understand'. The union endorses this with the comment that 'the scheme consists of straightforward key factors'. Similar to the GasCylinder division, managers have also noted increased demand from employees for business data. The scheme has been renegotiated several times. According to the union negotiator the most recent change has been to 'make it more sensitive to the actual performance of teams and individuals'. The union has been described as an 'advocate' of the system. For the parties concerned the distinction between 'joint working' and 'negotiation' is more than symbolism or semantics. It must also be noted that this situation represented a process which runs deeper than merely 'throwing money at' a problem. Indeed managers in other divisions watched enviously as the GasCompressed negotiations in 1998 yielded a pay increase below the rate of inflation. Such outcomes have become acceptable with the trade union within the framework of a broader more enduring pay and employment deal. The question then is why did both the process and the outcome emerge with such apparent success?

One individual close to the process attributed much of the success to the



personalities involved on both management and union sides. The director of GasCompressed was actively involved with the performance system. He displayed a more consultative style of management and this receptiveness to participation may have opened the door for the union representatives. An outside source has indicated that the actors involved were sufficiently enthusiastic and skilled to persuade their constituents to commit to the process. Participants argue that *joint working* is distinct from more familiar *negotiation* processes. First it demands a greater willingness to recognise mutual interests. Rather than putting forward ideas as indicative of 'stances' to be taken, ideas represented points for discussion and progression. Fewer 'break out' meetings occurred. Instead GasCompressed management and the union would remain *in situ* and, in the presence of the 'other side', discuss issues arising within their own cohort. The demise of the ritualistic 'bidding up' process was also noted. In brief, the atmosphere was different, no longer adversarial but constructive and 'solution producing'. Both management and the unions have independently noted the difference and admitted to finding the process worthwhile. This is not to suggest that there was not occasional reversion to 'type'. In particular, when issues unrelated to the pay process cropped up, friction could foment. For example, the question of a specific disciplinary case threatened the atmosphere in one meeting, until the chairperson urged that such matters be dealt with elsewhere.

Moreover, 'joint working' is seen to deliver results. As was mentioned earlier, this system has not resulted in a spiralling payroll. Roughly 2 per cent of profits are paid out as part of this scheme, but the trade union leader expressed contentment at payouts that can still 'mount up to an extra £1000 and sometimes more'. Further the trade union is satisfied that 'full and proper collective bargaining' remains intact. So in a 'bad' year for GasCompressed there might be no payouts for workers but there is still the collective bargaining to fall back on. According to the union negotiator 'the employees get the best of both worlds', that is, distributed profits plus negotiated increases. Challenges do remain. An anomalous pay progression system needs to be tackled. The second outstanding task, as mentioned, is the provision of appraisal skills to managers.

#### DISCUSSION

This research was instigated on foot of survey analysis that looked at variable pay usage. Factors such as occupation, ownership, industrial sector and the production system appeared influential. It is proposed, however, that such linkages (even predictors) shroud unevenness in both interpretation of PRP and its use *within* organisations. Thus the thrust of this paper has been to explore these complexities within a single organisation, but across three divisions. Although this organisation prides itself on having a strong global corporate identity it was seen that behind a common logo lie distinct sub-cultures, variable management styles and, importantly for this research, assorted pay systems.

As the case details the ambitious performance pay plan in GasCylinder never took hold as extensively as planned. The provision for a more rounded scheme and the inclusion of non-financial rewards never eventuated. The loss of the

'championing' manager might offer some explanation for this. The second site studied, which is based in Ireland, operates to 'clerk of the works' model of personnel (Tyson, 1995). A combination of economic buoyancy and lack of HR expertise have succeeded in dampening demands for an alternative pay system. Within the GasCompressed division, the success of the pay system is attributed to both an inclusive process and a satisfactory outcome. A robust process of joint working was deemed critical, as was the role of the personalities. It cannot be said that this site was immune to mistrust. Much of "the expectations, motivations, patterns of interrelationships, past history and understandings of the people in the systems" (Thorpe and Bowey, 1988: 23) had to be reconstructed. Significantly, the commitment and effort of all parties succeeded in creating a performance-pay system that incorporated consensus. Further, although there is a sense from process theory that these methods are worthy of greater consideration than the actual payment infrastructure, a qualification must ensue. If the GasCompressed site can be deemed an exemplar of process theory, it must be noted that the mechanics of the pay system are not immaterial. Both management and unions gave broad but immutable parameters at the outset. That the performance pay could be 'results-led' but 'not appraisal driven' was a crucial ground-rule. Although the scheme has needed 'tweaking' in light of new information and maturation, the parameters have remained intact.

A question then is can we call this pay system 'PRP' given its embedded consensus and reduced link to appraisals? Does the fact that both management and the trade union do so suggest that such nomenclature is permissible? Even within the one organisation we have seen that PRP is open to interpretation. Perhaps this is an example of 'symbolic isomorphism' (Glynn and Abzug, 2002: 267) where the conveyance of a message to stakeholders is equal in importance to its substance. This is a question for future consideration.

Returning to Kostova and Roth's (2002) explanation for variation in practice uptake, we must consider first the validity of 'institutional profile' as an influence. In other words, can the differences in practice between GasIreland and the two British subsidiaries be attributed to differences in the institutional profiles? Kostova and Roth (2002) see the institutional profile as consisting of the tripartite of regulatory, cognitive and normative elements. On each of these measures Britain and Ireland have much in common. First, in relation to legislation, preliminary fieldwork conducted suggested that whilst managers are wary of the fiscal implications of changes to their pay systems, they do not feel that employment or labour legislation has a direct impact. Further the regulation of employment in Britain and Ireland was quite similar at the time of the fieldwork. In relation to taxation, both governments had put in place incentives to encourage company-wide financial participation. Although the actions of the governments as employers sent signals that they encouraged individual performance measurement and pay, there was no move to create fiscal advantages for organisations doing so. Under the 'cognitive' heading, there is proximity between Ireland and Britain in relation to the body of social knowledge and stereotypes adopted. The role of performance evaluation and its acceptability is perhaps more

pervasive in the Britain. In Ireland, notions of performance monitoring and related rewards are still viewed sceptically in many areas of work. The third strand of the institutional profile is the 'normative' dimension. Management thought in Britain and Ireland is increasingly stressing the importance of recognising merit and the contribution of the individual. In contrast to many of the European partners, large differentials in salaries within organisations are culturally acceptable. In Ireland, however, the spread of individual performance pay is moderated by a stronger trade union body. Recently, the traditional stance in opposition to performance pay has morphed into a role monitoring the efficacy of the process. Further, individual pay systems may not require the usurping of collective bargaining, but may operate in parallel with it.

#### RELATIONAL CONTEXT

When the relationships between the three Gasco sites and Gasco headquarters are scrutinised, it becomes apparent that GasCylinder is the closest to the parent in employment practices. Using Kostova and Roth's (2002) taxonomy, we will consider the dependence of each site on the parent first (Table 7.1). The data suggest that the cylinder operation is the most dependent. This reliance stretches beyond the basic need for strategic direction and capital, to HR expertise. Kostova and Roth (2002) predict that such reliance bolsters the impetus to adopt centrally mandated practices. However, this does not necessarily imply that practices are internalised by the staff or local management.

The second site, GasCompressed, is quasi-autonomous within the Gasco organisation. As a result the need to implement parentally approved HR practices is not overwhelming. However, if pressure to adopt centrally endorsed practices means that practices are half-heartedly introduced then, by corollary, it is plausible that when adoption is at the discretion of the subsidiary, it could be linked to deeper internalisation. Certainly in the GasCompressed division local ownership of the performance-pay system is evident.

The third study site, the Irish division, has created a bulwark between it and the parent corporation. The strong profit figures it returns defend it from the intervention of headquarters. It does not have the ready recourse to HR expertise as with the GasCompressed division. However, managers in Ireland are sufficiently experienced to deal with operational issues. Perhaps more importantly they are accustomed to the industrial relations set-up that they inherited from GasIreland's previous incarnation under Irish ownership.

The second factor Roth and Kostova (2002) measure under the heading of 'relational context' is the trust the subsidiary places in the parent company. Looking first at the cylinder operation in Britain, this plant shares the longest common history with the parent corporation. This longevity of contact combined with geographical proximity appears to bolster the communication and general staff movement between headquarters and the cylinder operation. However, although managers allude to 'good working relations', there is no evidence that the division is content to trust that senior management will always make decisions in good faith.

**Table 7.1 Gasco: Adoption of Performance Pay**

	GasCylinder, UK	GasCompressed, UK	GasIreland
<i>Practice Adoption</i>			
<b>1. Implementation</b> <b>a) completeness of plan</b>	Financial aspect of plan implemented – but to limited extent. 'Recognition' element not implemented.	Performance pay introduced as 'PRP'. Dual proviso on system: 'results driven' and 'appraisal led'.	Performance pay not attempted.
<b>b) spread across employee groupings</b>	Pilot site. Limited to employees 'with commercial element'.	Performance pay extended to all employees.	N/A
<b>2. Internalisation</b>	Employees driven by tangibles. Evidence of internalisation less convincing.	Employees assume joint ownership of system. Willingness to tackle remaining problems.	N/A
<i>Institutional Profile</i>			
<b>3. Regulatory</b>	Fiscal legislation favours financial participation on a company-wide basis.		Fiscal legislation also favours group schemes
<b>4. Cognitive</b>	Social knowledge and stereotypes traditionally suggested that performance pay is unsuitable for certain types of worker but changing? (e.g. teaching, care working). Elsewhere growing expectation that performance pay is inevitable.		Stereotypes and schemata largely similar to UK. Introduction of notion of performance measurement more recent. GasIreland interpret performance pay practice in less sophisticated terms.
<b>5. Normative</b>	Anglo-saxon values elevate individualisation and notions of merit above belief in equality or narrow pay differentials.		Common management thinking across Ireland and UK. Strength of trade unions and collective reflected in partnership agreements.
<i>Relational Context</i>			
<b>6. Dependence</b>	GasCylinder reliant upon HQ for resources including capital and expertise. Could expect high levels of implementation (though not necessarily internalisation).	GasCompressed is quasi autonomous; less dependent on Gasco. Need to implement performance pay is not as great.	Economically successful subsidiary that eschews HQ interventions. Financial resources but not HR expertise. IR-style management skills.

<b>7. Trust</b>	Proximity of sites affected and corporate mgt. appears to bolster communication and trust.	Indifferent to parent organisation, but looks to local management who it sees as acting in good faith.	Distrust exists toward headquarters. Global not seen as relevant to daily operations.
<b>8. Identification</b>	Subsidiary staff derives identity from Gasco organisational membership – fuelled by proximity	Little attachment to the parent. Unit sees itself as distinct entity with separate culture and <i>modus operandi</i> .	Subsidiary feels limited attachment to HQ. Does not conform to global practice; economically self-sufficient unit.

Source: Adapted from Kostova and Roth (2002: 226).

For GasCompressed the importance of trust in the parent is diminished by the greater autonomy the plant enjoys. Instead there appears to be a solid relationship between local management and the trade union. This is fortified by the system of joint working in which the two sides partake. Conversely, managers at headquarters refer to the hostility they feel upon visiting the Irish office. Indeed they suggested that they limit visits partly due to this. It is possible that the geographical distance or brownfield nature of the site isolate the subsidiary. However, one may also note that corporation-wide communication, which is available electronically, is not considered immediately relevant. Local managers favour a *laissez-faire* approach and expect as much when they are performing well relative to other operations.

Finally, in relation to the identification criteria, employees of the GasCylinder operation see themselves as fully-fledged members of the Gasco organisation. This common identity may be aided by the shared history and close proximity between both. In strong contrast, the GasCompressed employees see themselves first and foremost as 'GasCompressed employees'. The unit views itself as a distinct entity with a separate culture and unique *modus operandi*. Similarly the Irish operation feels little attachment to the corporation. It trades under the standard global identity but has limited desire to conform to global practice, instead casting itself as an economically self-sufficient unit.

Considering these relational factors in totality, one would expect the cylinder operation to be first to implement, and possibly internalise, the new performance-pay system. That it was the pilot site is true, indeed the reasons it was selected to be the pilot site relate partly to its historical closeness. However, the internalisation process was hampered. Explanations for this may lie with the failure to launch the crucial second leg of the project, i.e. the non-financial reward system. Also, as the case material detailed, the departure of the manager championing the pay system may have contributed to the scaling back of the projects.

GasCompressed does not fit neatly into Kostova and Roth's (2002) taxonomy. Here is an example of a site that, according to the theory, has little reason to introduce a centrally mandated practice. However, it does so, and to great apparent success. The evidence shows not just blanket implementation, but

it suggests that there is deep internalisation of the system among employees. Why should this site adopt so fervently? The first explanation is that the nature of participation helped convince employees of the value of participation. A system of joint working provided incentive. Moreover the detail of the scheme was acceptable to all. Invoking the mantra of participants, this was that the system was 'results led' but 'not appraisal driven'. An inclusive decision-making forum (the joint working) thus had to be more than a 'talking shop'.

Finally, the Irish site does conform to the predictions of Kostova and Roth (2002). It demonstrates the feisty resistance that subsidiaries can present when they are not dependent on head office. The question is what happens if local resources at some point prove insufficient or, as in the case of the Irish plant, what happens if new expertise or knowledge is transplanted to the local operation? These eventualities are yet to unfold.

### CONCLUSIONS

First, as predicted by Kostova and Roth's (2002) theory, the cylinder operation was at the fore in implementing the new performance-pay system. However, the practice appears not to have been internalised by the employees. The dearth of non-financial goals may have been partly culpable. Another contributor was possibly the lack of continuity in the management team steering the project. The second site, GasCompressed, partially challenges Kostova and Roth's (2002) propositions. According to the theory, this site had little reason to mimic the centrally mandated practice. However, it did so, and with success. The evidence suggests that both implementation and internalisation of the practice occurred. Reasons proffered in the analysis for this include the involvement of employees in the adoption process, and the clarification of the systems parameters in advance of implementation. This later element is, it is contended here, vital and worthy of greater consideration by process theorists. The third of the Gasco sites studied matched the predictions of Kostova and Roth (2002). Based in Ireland, this site displayed the prophesised resistance of subsidiaries when they are independent of head-office. The lingering question is how the implantation of a HR function with its concomitant expertise and strategic focus might alter the *status quo*.

The findings within Gasco do not fully cohere with Kostova and Roth's (2002) thesis. However, they do echo the thrust of it. As predicted, the subsidiary with the most hostile relational context did not adopt the parent's practice. The institutional set-up of this subsidiary could also be deemed to be slower to recommend performance pay. The two subsidiaries that did adopt performance pay shared an institutional profile (Britain). However, variables extraneous to institutional and relational theory appeared to influence both the implementation and internalisation processes. In the pilot site, management discontinuity and incomplete implementation appear to be factors that thwart the internationalisation of new pay systems. The third site, GasCompressed, experienced an ownership and acceptance of the system closest to Kostova and Roth's construct of 'internalisation'. This outcome was aided by initial attention

to the mechanics of the system and a process of 'joint working' between management and the union.

In summary, the nexus between the subsidiary and the headquarters appears to sway the extent to which HR practices are adopted. Conversely where the sites are sufficiently independent, and not coerced by national institutions, they can spurn head office attempts to introduce change. This research adds moderators or conditions to Kostova and Roth's work. The earlier survey analysis that this research follows suggests that contingency factors such as work process and occupational composition affects the perceived appropriateness of performance pay. The case study work makes a number of further observations. First, the detail of the HR practice in question is not inconsequential. The principles and mechanics underpinning the new system may stymie or speed up both adoption and internalisation. Second, local trading conditions and the economic environment can either pose a bulwark or accelerate the implementation of performance pay. Finally, in relation to the longevity and internalisation of the system, commitment is inspired by the trust that stems from management continuity and staff involvement.

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